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INFF | Integrated National Financing Frameworks

Development Finance Integration in Cabo Verde

An Evolving Institutional Framework Enabling Sustainable Economic Recovery and Poverty Eradication

CABO VERDE
Development Finance Assessment (DFA) and INFF Roadmap

Edições Uni-CV

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DEVELOPMENT FINANCE INTEGRATION IN CABO VERDE

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ACRONYMS:

AAAA	Addis Ababa Action Agenda
AF	Adaptation Fund
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank Group
AFRICAT	African Regional Technical Assistance Centre
AFROSAI	African Organization of Supreme Audit Institutions
AGMVM	Auditoria Geral do Mercado de Valores Mobiliários
AGOA	African Growth and Opportunity Act
AMC	Asset Management Company
AMEXCID	Mexico's Development Co-operation Agency
ANMCV	National Association of Municipalities in Cabo Verde
APIMEF	Association of Professionals of Micro Finance Institutions
ASA	National Airport and Air Safety Company
ASD	Debt Sustainability Analysis
ASEAN	Association of Southeast Asian Nations
ATM	Automated Teller Machine
ATR	Regional Transport Airplanes
AU	African Union
BAI	Banco Africano de Investimentos
BAPA	Buenos Aires Plan of Action
BAU	Business as Usual
BCA	Banco Comercial do Atlântico
BCN	Banco Cabo-verdiano de Negócios
BCV	Banco de Cabo Verde
BRICS	Brazil, Russia, India, China and South Africa
BVC	Bolsa de Valores de Cabo Verde
BwB	Bankers without Boundaries
CAADP	Comprehensive Africa Agriculture Development Program
CAFTA	Central American Free Trade Agreement
CDP	Committee for Development Policy
CEN-SAD	Community of Sahel–Saharan States
CEO	Chief Executive Officer
CERMI	Centro de Energias Renováveis e Manutenção Industrial
CIT	Corporate Income Tax
CO2	Carbon Dioxide
COFOG	Classification of the Functions of Government
COVID	Coronavirus
CPIA	Country Policy and Institutional Assessment
CPLP	Comunidade dos Países de Língua Portuguesa

CRW Crisis Response Window
CSOs Civil Society Organizations
CSS Coordination System Secretariat
CSSU Coordination System Secretariat Unit
CV Cabo Verde
CVA 2030 Cabo Verde Ambition 2030
CVE Cape Verde Escudo
CVIF Cabo Verde Investment Forums
DAC Development Assistance Committee
DERP Documento Estratégico de Redução da Pobreza
DFA Development Finance Assessment
DFES Debt-for-environment Swaps
DFI Development Finance Institution
DGALF Direção-Geral da Administração e do Emprego Público
DGCI Direção Geral das Contribuições e Impostos
DGRM Direção Geral de Recursos Naturais, Segurança e Serviços Marítimos
DGT General Treasury Directorate
DNAPEC National Directorate for Political, Economic and Cultural Affairs
DNOCP Direção Nacional do Orçamento e Contabilidade Pública
DNP Directorate for National Planning
DNRE Direção Nacional das Receitas de Estado
DRR Disaster Risk Reduction
DSSI Debt Service Suspension Initiative
EAC East African Community
ECA Economic Commission for Africa.
ECOWAP Economic Community of West Africa Agricultural Policy
ECOWAS Economic Community of West African States
ECREE Centre for Renewable Energy and Energy Efficiency
EEZ Exclusive Economic Zone
EIB European Investment Bank
ELECTRA Empresa de Eletricidade e Águas
ENAPOR Empresa Nacional de Administração dos Portos
ENDE National Strategy for Statistical Development
ESG Environmental, Social, and Governance
EU European Union
EVI Economic and Environmental Vulnerability Index
FAHD Fund for African Health Delivery
FAMI Associação de Apoio as Iniciativas de Autopromoção Familiar
FAO Food and Agriculture Organization of the United Nations
FASE Fund for African Secondary Education
FBOs Faith-based organizations
FDI Foreign Direct Investment
FDs Financing Dialogues

FIP	Forest Investment Program
G7/8	The Group of Seven/Eight
GAO	Grupo de Apoio Orçamental
GAVI	Global Alliance for Vaccines and Immunizations
GCF	Green Climate Fund
GDP	Domestic Product Gross
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFATM	Global Fund to Fight AIDS, TB, and Malaria
GFCF	Gross Fixed Capital Formation
GHG	Greenhouse Gases
GNI	Gross National Income
GPEDC	Global Partnership for Effective Development Co-operation
GSP	Generalized Scheme of Preferences
HIV/AIDS	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
ICMA	International Capital Market Association
ICT	Information and Communication Technology
IDA	International Development Association
IDC	Inclusive Data Charter
IEFP	Institute of Employment and Vocational Training
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFH	Imobiliária, Fundiária e Habitat
IFI	International Financial Institutions
IFMMS	Integrated Financial Management Information System
IGF	Inspeção Geral das Finanças
IIED	International Institute for Environment and Development
IIF	Institute of International Finance
IMF	International Monetary Fund
IMF -TADAT	International Monetary Fund -Tax administration Diagnostic Assessment Tool
IMO	International Maritime Organization
INE	National Institute of Statistics
INFF	Integrated National Financing Frameworks
INTOSAI	Development Initiative supports capacity development of supreme audit institutions
IPOs	Initial Public Offerings
IRPC	Imposto sobre o Rendimento das Pessoas Coletivas
IRPS	Imposto sobre o Rendimento das Pessoas Singulares
IT	Information Technology
IUCN	International Union for Conservation of Nature
IWG	International Working Group
JO	Joint Office
JUCE	Single Window for International Trade

JUP	Port Management Information System
LDC	Least Developed Countries
LDCF	Least Developed Countries Fund
LGX	Luxembourg Green Exchange
LMIC	Low- and Middle-Income Countries
LU	Luxembourg
M&E	Monitoring and Evaluation
MAPS	Mainstreaming Acceleration and Policy Support
MDGs	Millennium Development Goals
MERCOSUR	Common Market of the South
MF	Minister of Finance
MFIS	Microfinance Institutions
MIC	Middle - Income Country
MNEC	Ministério dos Negócios Estrangeiros e das Comunidades
MPAs	Marine Protected Areas
MPI	Multidimensional Poverty Index
MSMEs	Micro, Small, and Medium Enterprises
MTDF	Medium-term Debt Framework
MTEF	Medium Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
MVI	Multidimensional Vulnerability Index
NAFTA	North American Free Trade Agreement
NAVEX	Cabo Verde Agência de navegação lda.
NBS	Nature-based Solutions
NCSD	National Committee on Sustainable Development
NDC- FF	Nationally Determined Contributions Financing Framework
NDC	Nationally Determined Contributions
NGO ADAD	Association for the Defense of Environment and Development
NGOs	Non-governmental Organization
NPLs	Non-performing Loans
NPOs	Nonprofit Organization
NSC	North-South Cooperation
NSI	National System of Innovation
ODA	Official Development Assistance
ODF	Official Development Finance
ODINE	Órgãos Delegados do INE
OECD	Organization for Economic Co-operation and Development
OECD-DAC	Organization for Economic Co-operation and Development- Development Assistance Committee
OOF	Other Official Flows
OPEC	Organization of the Petroleum Exporting Countries
PALOP	Países Africanos de Língua Oficial Portuguesa
PALOP-TL	Portuguese Speaking Countries and Timor Leste

PCNA	Post-Crisis Needs Assessment
PCSD	Policy Coherence for Sustainable Development
PDB	Public Development Banks
PEDS	Plano Estratégico de Desevolvimento Sustentável
PEFA	Strategic Plan for Sustainable Development
PEMDS	Planos Estratégicos Municipais de Desenvolvimento Sustentável
PFM	Public Financial Management
PLATONGs	Plataforma das ONG´s de Cabo Verde
PNIEA	Plano Nacional de Investimentos em Economia Azul
PPCR	Pilot Program form Climate Resilience
PPG	Public and Publicly Guaranteed
PPP	Purchasing Power Parity
PPS	Public-Private Partnerships
PRO/PALOP-TL	Programme for Consolidating Economic Governance and Public Finance Management Systems in the PALOP -TL
PT	Portugal
PV	Present Value
QDLP	Quadro de Despesas a Longo Prazo
QDMP	Quadro de Despesas a Médio Prazo
QDSLP	Quadro da Despesa Setorial de Longo Prazo
QDSMP	Quadro da Despesa Setorial de Médio Prazo
R&D	Research and Development
QEMP	Quadro de Endevidamento a Médio Prazo
QDMP	Quadro Despesas a Médio Prazo
QFMP	Quadro Fiscal a Médio Prazo
RB	Rectified Budget
RCF	Rapid Credit Facility
RCO	Resident Coordinator Office
RE	Renewable Energy
REMPE	Regime Jurídico Especial das Micro e Pequenas Empresas
RFF	Rapid Finance Facility
RMTF	Revenue Mobilization Trust Fund
SADC	Southern African Development Community
SAMOA	Sids Accelerated Modalities of Action
SCCF	Special Climate Change Fund
SCR	Sovereign Credit Ratings
SCS	Strategic Coordination System
SDG	Sustainable Development Goals
SEFA	Sustainable Energy Fund for Africa
SeyCCAT	Seychelles Conservation and Climate Adaptation Trust
SIDS	Small Island Developing States
SIDSAM	Small Island Developing States and Madagascar
SIEE	Small Island Economies Exception

SIGOF	Integrated Budgetary and Financial Management System
SMEs	Small and Medium-Sized Enterprises
SNE	National Statistics System
SOEs	State-Owned Enterprises
SS(T)C	South- South (and triangular) Cooperation
SSC	South South Cooperation
STEM	Science, Technology, Engineering and Mathematics
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TACV	Transportes Aéreos de Cabo Verde
TADAT	Tax Administration Diagnostic Assessment Tool
TCC	Technical Coordination Council
TCE	Título do Comércio Externo
TCMF	Títulos Consolidados de Mobilização Financeira
TDC	Supreme Audit Institution
TFP	Total Factor Productivity
TICV	Transportes Interilhas de Cabo Verde
TNC	The Nature Conservancy
TSA	Treasury Single Account
UASE	Unidade de Acompanhamento do Setor Empresarial do Estado
UIF	Financial Information Unit
UK	United Kingdom
UMIC	Upper middle-income countries
UN	United Nations
UN MAPS	United Nations Mainstreaming Acceleration and Policy Support
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNDP CO	United Nations Development Programme Country Office
UNECA	United Nations Economic Commission for Africa
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations sexual and reproductive health agency
UNICEF	United Nations Children's Fund
UNRCO	United Nations Resident Coordinator Office
UNSSEI	United Nations Sustainable Stock Exchange Initiative
US	United States
USD	United States Dollar
VAT	Value-Added Tax
VNR	Voluntary National Review
WB	World Bank
WHO	World Health Organization
WHT	Withholding of Tax
WITS	World Integrated Trade Solution
WTO	World Trade Organization
ZDTI	Integrated Tourism Development Zones

ZDTI	Zonas de Desenvolvimento Turístico Integral
ZTE	Special Touristic Areas (Zonas Turísticas Especiais)

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This DFA flagship report, including the INFF Roadmap, is the result of a consultative and collaborative process involving governmental, civil society, private sector, and international stakeholders, led by a team of policy and academic experts with responsibilities assigned as follows:

Editors: Christopher Lilyblad and Reinhard Engl

Part I: Introduction and Methodology

Introduction: Christopher Lilyblad

Methodology: Christopher Lilyblad

Part II: Analysis of the Development Financing Trajectory

Structural Challenges: Christopher Lilyblad

Public Finance: Reinhard Engl and Francisco Lima Fortes

Private Finance: Francisco Lima Fortes, Carlos Graça, and Reinhard Engl

Part III: Key Financing Enablers and Accelerators

Blue Economy: João Pedro Cunha Gonçalves

Regional Integration and Trade: João Pedro Cunha Gonçalves

Sustainable Finance: Christopher Lilyblad

Innovation and Human Capital: Olugbenga Adesida and Elisabeth Gonçalves

South-South Cooperation: Harlan Koff, Suzy Graham, Vicky Graham, and Sandra Häbel

Part IV: INFF Roadmap and Financing Strategy

Pillar 1: Reinhard Engl and Francisco Lima Fortes

Pillar 2: João Pedro Cunha Gonçalves, Harlan Koff, Suzy Graham, Vicky Graham, Sandra Häbel, and Christopher Lilyblad

Pillar 3: Reinhard Engl, Francisco Lima Fortes, Olugbenga Adesida, and Christopher Lilyblad

Pillar 4: Reinhard Engl

Pillar 5: Christopher Lilyblad

Pillar 6: Christopher Lilyblad

Pillar 7: Christopher Lilyblad

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EXECUTIVE SUMMARY

Following the COVID-19-induced upheaval, the 2021 elections marked a new beginning for Cabo Verde as it seeks to emerge stronger from a socioeconomic crisis triggered by the global health pandemic. Boosted with a renewed mandate reflective of the aspirations of its people and the confidence vested in the government, the opportunity has now arisen for establishing the institutional foundations necessary to overcome the country's financing challenges and return towards a path of prosperity that serves both people and planet. To this end, the Integrated National Financing Framework (INFF) offers an assemblage of tools and instruments that, by convening all relevant stakeholders under the government's leadership, can establish the institutions, policies, and structures necessary not only for COVID-19 recovery but to achieve Cabo Verde's Ambition 2030 and, in turn, the global SDGs.

One of these INFF tools is the Development Finance Assessment (DFA) process, with the objective of producing and INFF Roadmap. The purpose of the initial report and roadmap presented in this volume is to offer a comprehensive analysis of the present state of financing for sustainable development in Cabo Verde, covering a diverse range of domestic and foreign, public and private financing, and charting a better path forward. The first step in this process was the formal launch of the Development Finance Assessment (DFA) process in February 2021 in the form of the Financing Dialogues (FDs). Under the *leitmotif* "development is everyone's business", the Ministry of Finance, with UNDP support, convened a wide range of stakeholders operating within a sustainable development process that remains inherently diffuse and a corresponding financing system that is beyond the control of any one actor. Herein, the five SDG accelerators identified within the context of a UN MAPS mission – blue economy, sustainable tourism, green transition, human capital, digitalization – as well as cross-cutting issues such as sustainable finance, NGOs and civil society, regional integration and trade, and South-South Cooperation emerged as key elements. Beyond offering prospects for financing solutions, these accelerators and cross-cutting issues show promise for bridging the local and global dimensions of financing sustainable development in Cabo Verde.

Based on this analysis, the key challenge for Cabo Verde lies not in governing or managing extant resources or finance flows but in the mobilization of new financial resources. This can be achieved by generating new sources of revenues and income through economic diversification and decentralization as well as reducing dependence on foreign aid to strengthen the autonomy of the country and its citizens. In a context of severe strains on public finances, the role of the state in the sustainable development process, subject to much debate in political economy discourses and during the FDs, ceases to be a normative question and re-emerges as an empirical one. Indeed, constrained by high public debt levels exacerbated by the COVID-19 crisis, governmental authorities alone are not in a position to mobilize the resources and investments necessary to

achieve Ambition 2030. Rather, to accomplish this feat, the country must identify a wide range of financial instruments that could address the aforementioned needs systemically, via a focus on institutions, policies, and the incentive environments they create for stakeholders within a rule-based system, as opposed to discretionary or piecemeal financing approaches. The goal, in this sense, is to offer a framework within which all people, including those furthest left behind, acquire the requisite capacity and incentives to take responsibility for their own fortunes. Herein, sustainable development emerges as a participatory and collective, yet pluralist and decentralized, endeavour to achieve shared objectives – that is, development is everyone's business!

This flagship report, therefore, offers a roadmap for the institutionalization of an INFF that can contribute to Cabo Verde's efforts in meeting this ambitious agenda through seven key pillars of integration across the INFF's four building blocks – 1) Assessment, 2) Financing Strategy, 3) Monitoring and Evaluation, and 4) Governance and Coordination –each with specific policy recommendations and priorities:

Pillar 1 – Public and Private Integration

Within the context of the INFF Financing Strategy, the first pillar's objective is to integrate public and private financing for sustainable development. On the public side, this notably entails closing the circuit between the planning, budgeting, and monitoring dimensions of the strategic development process. The successful completion of this public resource feedback loop will permit the country to address the inherent challenges of sustainable development in the context of high sovereign debt and more efficiently operate within the constraints imposed by existing and future burdens on public finances. Within this context, particular attention should be devoted to resources invested in Public Private Partnerships and State-Owned Enterprises that perennially incur high losses and rely on government subsidies to cover their operating costs. In addition to this, the identification of possible fiscal savings through public administration reforms and support for debt relief, deferment, swaps and efficiency gains should be explored to reduce the burden on public debt and make resources available for key strategic investments in blue and/or green economy. However, debt is only one side of the debt-to-GDP ratio and increased integration of private sector gains derived from a diversified and consolidated market economy will help address the GDP side of the equation.

Particular emphasis of the integration of private financing into the sustainable development process must therefore focus on market consolidation through Intra-sectorial diversification within the tourism sector and through consolidation across islands and a transition towards sustainability embedded within private sector operations at the outset. When it comes to private-public integration, the promotion of bottom-up innovation and entrepreneurship, especially the incorporation and development of SMEs and start-ups, are also essential aspects for the sustainable development process to unfold through various forms of private Investment and productivity spurred by real savings from a combination of domestic and diaspora sources, among others. To avoid additional burdens on fiscal situation and public debt, the short to mid-term focus must be on private sector-based financing (e.g. corporate bonds and equity) alternatives for sustainable development finance. This can include provision of public guarantees of domestic or foreign origin for sustainable financial instruments to reduce risk perceptions and thus make interest rates competitive vis-à-vis international markets in established global financial centres.

Pillar 2 – Domestic and Foreign Integration

Under the second pillar, the INFF seeks to strengthen Cabo Verde's capacities to engage with a variety of foreign partners to build global partnerships and help address the financing challenges for its domestic sustainable development agenda. This foreign engagement for integrated development finance can be further categorized into three main areas: 1) Regional Integration, 2) Trade, Commerce and other cross-border economic activities, and 3) South-South (and triangular) Cooperation (SS(t)C).

While there is some degree of overlap between them, regional integration can be seen as a political process concerning the institutionalization of relations between states that consider themselves to have common characteristics based on geography, language, or other affinities and commonalities. In the case of Cabo Verde, the main forms of regional integration include African Union / AfCFTA, ECOWAS, PALOP, and SIDSAM, though a strong case can be made for Cabo Verde to act as an inter-regional 'pivot point' between Africa and other regions, notably Europe and the Americas, due to its positioning in the mid-Atlantic.

Closely intertwined to the question of regionalization is the economic dimension of cross-border trade and commerce, which requires a closer look at the policy framework within which foreign and domestic private sector operators interact and thereby generate resources for sustainable development in terms of the value that they produce either (1) directly in terms of people's material well-being and (2) the tax and customs revenues that these generate for the state. Given the importance of trade, especially imports, for a SIDS like Cabo Verde, understanding the trade-offs between trade liberalization versus the revenues derived from customs policies is essential for ensuring policies are appropriate for the country's sustainable development, notably given its blue economy-focused strategy.

Finally, South-South Cooperation offers a further dimension of domestic-foreign integration within the sustainable development agenda that can not only generate shared value and resources but also provide for common policy positions within key multilateral forums on sustainable development, e.g. articulating common SIDS positions in climate change debates that can result in additional climate finance concessions or debt relief. Cabo Verde is well-placed to be a leader in SSTC due to its participation in SSTC at three levels, through multilateralism, bilateral cooperation and triangular relationships.

To mainstream these external dimensions within internal development finance discourses, the INFF provides a forum, especially in conjunction with activities under pillars 6 & 7 (see below), for multi-stakeholder engagement on issues/obstacles in terms of (1) regional integration (African Union, PALOP, SIDS), (2) cross-border trade (especially within the frameworks of AfCFTA, ECOWAS, PALOPS and SIDS), and (3) SSTC that can act as a bridge between domestic policymakers (notably development finance policy and new diplomatic paradigm) as well as at regional and global level to promote responsiveness to financing needs and challenges.

Pillar 3 – Global-Local Nexus in Sustainable Development Strategies

The third pillar builds on the substantial progress that has already been achieved in integrating the 2030 Agenda for sustainable development within Cabo Verde's strategic vision for sustainable development, Ambition 2030, and the next strategic plan for sustainable development (PEDS 2022-27). Adopting the SDG accelerators derived from the 2019 UN MAPS mission and Rapid Integrated Assessment as a basis, it recommends further refining and targeting the strategic approach outlined in the SDG Roadmap to account for the impact of COVID-19 and corresponding debt levels. This requires even more focused prioritization and sequencing to achieve catalytic and multiplier effects to allocate ever scarcer resources more efficiently with the full panoply of sustainable development objectives in mind. Herein, focus on investment in blue economy as the second pillar (after tourism) of sustainable and inclusive growth can act as a catalyst for complementary areas like digitalization, human capital, and greening to emerge as cross-cutting dimensions permeating these activities.

This approach also entails continuing the transition away from ODA through a focus on sustainable finance and impact investment (i.e. green, blue, sustainable, social, etc.), especially oriented to the blue economy, and the establishment of a comprehensive and consolidated pipeline of projects, as outlined in the financing roadmap below and to be further developed through the thematic deep dives. In terms of climate change (NDC) and social protection financing, focus should be on revenue generating activities (e.g. renewable energy) or investment in key inputs for such activities (e.g. health and education to promote human capital as well as digitalization and IT services). As such, innovative sustainable finance / impact investment instruments emerge as financing alternatives to address the debt-GDP ratio and diversify not only the domestic market but also its financing streams. This approach also seeks to position

Cabo Verde as a leader in this emerging frontier market, especially in Africa and among SIDS and PALOP countries, which will require the development of local capacities (human capital) to not only cater to domestic capital needs but export financial services to other countries. With a view towards eventually reconciling the gap between these top-down financing structures and the real economy predominantly comprising micro, small, and medium enterprises, the INFF envisages the scaling up of instruments like the *Fundo Lavanta* in order to incentivize more bottom-up innovation and entrepreneurial activity, especially with respect to the SDG accelerators.

Pillar 4 – Monitoring and Evaluation via the INFF Dashboard

The current Cabo Verdean public finance M&E system already links performance information concerning budgetary programmes and results of policy implementation to the Strategic Plan for Sustainable Development (PEDS) and the SDGs of the Agenda 2030 through the Cabo Verdean Ambition 2030 strategy. Nevertheless, for the achievement of sustainable development goals, Cabo Verde relies on further financing flows that are only partly identified in the present M&E system or not at all. These include, most notably, project-type official development aid, remittances, as well as foreign and domestic investment, including sustainable finance of public and private origin. Therefore, the government and development partners alike, need to be aware of progress in policy- and programme implementation, budget execution, revenue and financing flows forecasts, as well as several types of risks to policy implementation, including those beyond the spectrum of direct public intervention or interaction.

To this end, the INFF seeks to aggregate various sources of information and provide the foundation for joint decision-making through a common basis of information offered via the INFF dashboard. The INFF dashboard coordinates the data collection process by identifying key indicators and variables concerning public and private, foreign and domestic financing flows. Via joint monitoring and evaluation mechanisms, including joint data analysis and systemic planning exercise, joint reviews, joint mobilization, or joint assessment missions the alignment of the contribution of national and international sources of funding (public and private) to implementation of PEDS and Ambition 2030 will be strengthened. Also, the design of flagship initiatives within the already defined SDG accelerators will thereby be facilitated and promoted, including the development of country-specific impact criteria and labelling requirements for sustainable finance. The creation of an information platform under INFF Block 3 aims to reinforce the coordination system (pillar 6) through the provision of regularly updated technical and financial information throughout the implementation process and programming cycles.

Pillar 5 – Development Finance Impact Analysis

It is not possible to separate financing from the actual outcomes and impact it generates. This includes the way in which these outputs establish new synergies, multiplier effects, externalities, and other recursive effects that can either reinforce financing (i.e. generation / attraction of new or additional resources) through value gains or undermine financing as a result of losses or mal-investment with high unseen costs (opportunity costs, transaction costs, or inadequate understanding of potentially increasingly marginal returns on additional investments). For this reason, the INFF in Cabo Verde should aim to push development cooperation beyond its focus on inputs and delivery rates, focusing instead on how strategic application of finite resources 'at the margin' can engender transformational outcomes and impacts coherent with the strategic frameworks at local, country, regional, and global levels. Accordingly, capabilities must be developed that go beyond the mere generation and cataloguing of statistical data that assumes a linear relationship between inputs and outputs but complements these with qualitative analyses that recognize the immeasurable aspects of human interaction and sustainability.

Ultimately, these processes and our understandings of them should lead to better insights regarding implications for coherence, effectiveness, and impact in terms of sustainable development. Herein, it is essential to consider the effects of integration at various scales in relation to the institutional economic, social, and environmental dimensions of sustainable development and how all of these are interconnected. While global, regional, and national frameworks for sustainable development – in the form of Ambition 2030, AU Agenda 2063, and the SDGs respectively – continue to orient our objectives, these approaches must also include an understanding of the broader measurable and immeasurable, including subjective, dimensions of human development within and across communities and societies. To this end, we must venture beyond the traditional 'north-south' donor-client relationship centred around Official Development Assistance as determined by the OECD development assistance committee (DAC) to look into the effectiveness and impact of genuinely global development processes, wherein measures of multidimensional vulnerability, multidimensional poverty, and harmonized indicators for impact investments can play a substantial role.[1]

Pillar 6 – Strategic Coordination System

Each of the aforementioned strategic frameworks – Ambition 2030, PEDS and INFF – foresee the establishment of governance structures that offer strategic and policy guidance,

1 APC Colômbia, "Action Area 2.3: 'Supporting Country-Led Development Effectiveness of South-South Co--Operation,'" Global Partnership for Effective Development Co-operation , 2020, https://www.effectivecooperation.org/system/files/2020-07/2.3%20One%20Pager%20EN_final_0.pdf.

oversee the technical work that leads to the implementation of these policies, as well as coordinate between the various partners and stakeholders within this pluralistic and inclusive sustainable development landscape comprising domestic and foreign, public and private actors. As such, drawing on insights gained from the Financing Dialogues as well as feedback from key stakeholder, the DFA proposes a consolidated, streamlined, and agile strategic policy dialogue, aligning financing in a coordination system (SCS) that merges these disparate structures within a systemic whole. Importantly, this coordination system does not seek to displace existing structures (e.g. the government's tripartite social concertation council or the budget support group) but seeks to integrate them within this comprehensive coordination landscape under joint leadership between the Ministry of Finance (responsible for the sustainable development strategy) and the Ministry of Foreign Affairs and Regional Integration (responsible for the external dimension via the new diplomatic paradigm).

The overarching purpose of this system is to offer an enabling environment for policy and strategic financing alignment in a coordination platform, both at policy and a technical level, among national and international development partners to ensure coherent policy dialogue for attaining Cabo Verde's SDG commitments, identify and mobilize complementary support, avoid duplication, while also reducing financial and transaction costs associated with multiple structures with overlapping responsibilities. Installing an institutionalized framework for the strategic coordination for sustainable development will therefore ensure that an appropriate structure for dialogue between the government, key international partners, the private sector and civil society organizations, including academia, is established. This is expected to bolster the impact of existing strategic partnerships and facilitate the mobilization of new partnerships, especially with the private sector, that will produce synergies for meeting shared objectives.

Pillar 7 – Institutional Change and Legal Reforms

Finance is not a static, zero-sum game wherein a finite resource pool is divided across competing priorities set off against one another. Rather, it is about a dynamic and cyclical process of generating value and recursively allocating the resources derived from this towards productive purposes, thus generating greater resources to meet people's demands and objectives. Herein, the focus for the INFF/DFA lies in establishing a framework conducive to this value-generation process through cooperation, trade, and exchange of goods, services, capital, and ideas. This can only be achieved by creating an institutional framework with appropriate incentive structures for all actors involved, leading to a vibrant, dynamic and interactive marketplace that works for sustainable development.

Accordingly, structural transformation addressing these challenges will require institutional change and reforms – both internally and in multilateral settings – to produce a vibrant economic and decentralized framework that is open, dynamic, and innovative. Since markets have shown to produce variegated outcomes, especially in early phases of liberalization, it is essential to ensure open access to encourage widespread participation through enabling and inclusive structures promoting initiative and offering corresponding rewards that ensure no one is left behind. In this sense, it is important to recall that innovation and creative destruction are inherently decentralized processes. Good ideas can come from anywhere and they usually arise from real-world, practical problems that people face within their daily and local situations, requiring institutions capable of bridging local and global goals.

PART I – INTRODUCTION AND METHODOLOGY

1. THE STRATEGIC ORIENTATION OF AN INFF IN CABO VERDE

In the aftermath of COVID-19, sustainable development discourses renewed their focus on vulnerability, especially in Small-Island Developing States (SIDS). Following a series of global crisis response measures to avert unimpeded contagion and high death tolls, the ensuing disruptions to global flows of goods, people, and capital crossing state borders adversely affected SIDS. Owing to their scarce natural resource endowments and limited internal factors of production that inherently circumscribe potential for largescale industry, SIDS tend to rely on external sources of revenue through the provision of services like tourism or logistics hubs that require open borders. Production within the domestic market, meanwhile, tends to be concentrated in the downstream processing and 'last-mile' assembly of imported intermediary goods to bring finished consumer products to local retail markets. Since these economic processes form part of markets and supply chains that necessitate trade, financial flows, human mobility, and other forms of exchange that transcend boundaries, SIDS are particularly vulnerable to global or regional disruptions and exogenous shocks. Compared to their mainland peers, furthermore, SIDS remain particularly dependent on foreign aid, remittances, and tourism revenues for investment in internal markets and as key sources of direct and indirect revenues for both private households and public institutions.

Precisely with these challenges in mind, UNDP recently proposed a revised Multidimensional Vulnerability Index (MVI) methodology to gain a better analytical grasp of the vulnerabilities that SIDS like Cabo Verde are exposed to compared to their mainland peers.[2] This MVI concluded that a vast majority of SIDS, including Cabo Verde, are more vulnerable than their income level suggests and that non-LDC SIDS like Cabo Verde, which was elevated to Middle-Income Country (MIC) status in 2007, could potentially save 1.5% of GDP if offered the same concessional lending conditions as LDCs.[3] When viewing the case of Cabo Verde from the lens of this MVI, it is apparent that the country's vulnerability is much more acute than its MIC designation predominantly reflecting gross national income as well as its reputation for high governance standards based on a number of internationally recognized indices[4] might suggest. While certainly a significant step in the right direction, even this MVI only tells part of Cabo Verde's story.

Comprising an archipelago of nine inhabited islands in the mid-Atlantic, Cabo Verde is characterized by its inherent variegation and disparities. This can be observed across a number of dimensions: Biological, topographic, geographic, meteorologic, economic, social, cultural,

2 Jacob Assa and Riad Meddeb, *Towards a Multidimensional Vulnerability Index: Discussion Paper*, 2021, New York: UNDP.

3 Idem.

4 For example, the Mo Ibrahim Index.

linguistic, etc. Shaped by African, European, and American influences, the country's diversity emerges in many shapes, forms, sizes, colours, and ideas that cannot be adequately encapsulated in any quantitative index that looks at the archipelago as a singular aggregate entity without accounting for its internal complexity. The rich environmental, social, economic, and institutional tapestry does not easily lend itself to generalization and decontextualized numerical sums.

This observation is particularly pertinent in the context of poverty. Several decades of impressive growth rates prior to COVID-19 impelled a drastic reduction in extreme poverty as a percentage of the population, with the latest World Bank data from 2015 estimating that 3.4% of the population remain in extreme poverty, compared to 16.6% in 2001.[5] Lacking precise recent data on poverty beyond national-level aggregates, however, poverty remains acutely visible through direct observation in many concentrated urban areas as well as remote rural areas. Contrasts between islands and even within neighbourhoods appear to have sharpened, with wealthier oceanfront residences and commercial establishments overlooking informal shantytown dwellings that flout urban zoning regulations and building codes (often referred to as 'favelas' in Portuguese-speaking contexts). Indeed, while the country has made significant economic strides in terms of growth and material resources, it has simultaneously witnessed the corresponding growing pains of economic development and modernization. These include inequality, an exacerbated rural-urban divide, and bourgeoning urbanization processes as people migrate in search of greater opportunities to meet mounting expectations.

While these shantytown dwellers are often portrayed as those 'being left behind', evidence tends to suggest that, despite divergence on the surface, these processes are inextricably linked within an evolving socioeconomic system. Similar to historical patterns already evident in the context of urbanization during rapid industrialization in today's high-income countries in Europe, these manifestations of territorially concentrated poverty tend to appear as a form of inevitable effect of developmental processes inducing sudden changes in demographic composition and socioeconomic structure of a society.[6] Though perhaps not unpredictable, these are the unintended consequences of migratory pressures in both rural and urban areas resulting from desirable advances in medicine, lower child mortality rates, new economic opportunities in urban areas (both formal and informal), accessibility to transportation, as well as other demographic, social, and economic factors that previous decades of development occasioned.

5 World Bank, "Country profile," Data Bank, December 16, 2021, https://databank.worldbank.org/views/reports/reportwidget.aspx?Report_Name=CountryProfile&Id=b450fd57&tbar=y&dd=y&inf=n&zm=n&country=-CPV.

6 Relevant literature on these phenomena include F. A. Hayek, *The Constitution of Liberty* (London, UK: Routledge & Kegan Paul, 1960); Anthony Giddens, *The Constitution of Society: Outline of the Theory of Structuration* (Berkeley, University of California Press: Polity, 1984); Mike Davis, *Planet of Slums* (London, UK: Verso, 2013).

These multidirectional and recursive relationships between causes and effects, in turn, are all part of diffuse and interdependent development processes that remain beyond the control of any one actor or organization. In the face of this vastly complex system of disparate social, economic, and political interactions, simultaneously tackling the challenges of poverty, environmental protection, governance, health, and education, among other vulnerability factors, can become an insurmountable task even for an entire system of organizations. In search of achieving common goals for sustainable development then, individuals and organizations spanning government, civil society, private sector, and international partners may aspire to enhanced coordination and closer cooperation to enhance their impact relative to espoused ends like transcending vulnerability and ending poverty. More portentously, through a decisive and unambiguous collective push, the eradication of extreme poverty appears to be within grasping reach in Cabo Verde.

However, as in any complex social or economic system wherein dealing with a multitude of actors simultaneously is the norm, prevailing structural and institutional conditions may not easily lend themselves to collective action due to, *inter alia*, conflicting organizational interests, competing priorities, knowledge asymmetries, lacking trust and confidence, etc. In absence of effective institutions and norms conducive to cooperation, a variety of factors at macro or micro levels can entrench persistent "coordination problems" that may not simply lead to undesirable or suboptimal outcomes but produce a "tragedy of the commons".[7]

OVERCOMING COORDINATION AND COLLECTIVE ACTION PROBLEMS

In the first instance, the purpose of the INFF is to help overcome coordination problems in the areas of development finance to achieve shared objectives, such as the eradication of extreme poverty. This is to be achieved not by imposing policies or agendas but through the creation of an institutional platform permitting the aggregation of diverse and decentralized, yet coordinated and mutually reinforcing actions in pursuit of common goals.[8] In Cabo Verde, these goals are encapsulated in the Ambition 2030 strategic vision and the forthcoming PEDS II, which this Development Finance Assessment (DFA) helps inform from a financing perspective. These frameworks are the manifestation of Cabo Verde's commitment to the SDGs and other global and regional policy frameworks such as the Paris Agreement on climate change, the African Union Agenda 2063, and the Addis Ababa Action Agenda (AAAA).

Adapted to this overarching context, the Cabo Verde DFA analyzes financing through a holistic and polycentric lens adapted to and contextualized within the broader Cabo Verde

7 For a theoretical overview of the problem of collective action and overcoming coordination problems with respect to the commons, please see: Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (Cambridge: Cambridge University Press, 1990).

8 Ibid.

development process briefly sketched above. The culmination of this process purports to offer knowledge and coordination resources for current and prospective stakeholders – meaning both those with a thorough familiarity with the Cabo Verde developmental context and those who may be new entrants to this system – to orient and situate themselves within development finance processes pertinent to Cabo Verde and their pursuant role within the broader landscape of sustainable development at all levels, ranging from local to global.

While special attention is devoted to the domestic financing landscape and the recursive or cyclical character of development financing between public and private spheres, any understanding of integrated financing pertaining to a SIDS with limited domestic resources like Cabo Verde can be conducted neither in a geographic or historical vacuum, nor in economic or geopolitical isolation. For this reason, from the outset, the researchers and analysts involved in the studies comprising this DFA adopted analytical lenses attuned to both regional and global perspectives, including various forms of cross-border integration with other SIDS, the African Union, ECOWAS, PALOP, and other regional or international institutions, without neglecting that, ultimately, 'all development is local'. What matters most, in this respect, are the impacts and results for the people that the myriad, intertwining institutions and interdependent organizations, including the sovereign state itself, ultimately seek to serve.

By adopting this comprehensive analytical lens for development finance, the present report pinpoints where development finance and the specific actors operating in this sphere might maximize their opportunities to impact the wider constellation of economic, social, environmental, and institutional processes in Cabo Verde, consistent with the broader logic and reference frameworks of sustainable development. Building on the principles and methodology of the DFA Guidebook, these entry points will be outlined as part of an INFF roadmap (see Part IV) organized in accordance with the four building blocks of an INFF:

1) Assessment and Analysis,
2) Financing Strategy,
3) Monitoring and Evaluation, and
4) Governance and Coordination.

Figure 1: The Four INFF Blocks
Source: DFA Guidebook v3.0

When arrived at concomitantly, the establishment of these four building blocks signals the foundation of an INFF in Cabo Verde aimed at providing the institutional scaffolding – subject to further refinement, adaptation, and radial expansion over time – to ensure that the financial means are adequate to meet Cabo Verde's sustainable development goals, as determined in the Ambition 2030 strategic vision.

As such, the INFF in Cabo Verde should be viewed not as an end-product but as a continuous process convening relevant stakeholders to participate in development financing within a framework that offers a shared understanding and common language, promotes accessible and inclusive spaces for non-specialists, and engenders consensus-building dialogues between organizations to help overcome coordination and collective action problems. In this sense, the INFF does not set out to become an authoritative monopole over development finance resources but offers a catalytic instrument situated as a central node within a much broader development system linking Cabo Verde to the global panoply of financial resources, public or private, that can further strategic development and economic objectives in Cabo Verde and beyond.

In the short term, this approach offers a tool to help overcome the structural constraints imposed by COVID-19 and the pandemic response, especially in terms of public debt. Over time, however, this basic foundational structure, acting as a catalyst, can be further developed via modular extensions, especially from a strategic coordination perspective within key sectors and themes (see pillar 6).

Indeed, it would be mistaken to equate integration with an aspiration of comprehensive or all-encompassing control of financial resources for sustainable development. Rather, the integration of financing is intended to act as an instrument to facilitate the identification of common interests and align agendas in development finance to maximize value and impact, while reducing unnecessary costs. By lowering the transaction costs involved in coordination and sharing of knowledge resources, the aim is a framework conducive to voluntary and mutually beneficial collective action towards common development finance objectives, while maintaining the autonomy of the respective agents' own decision-making processes. This can be achieved by creating an institutional framework comprising an assemblage of norms, rules, and laws as well as corresponding incentive structures among disparate and autonomous actors across the financing landscape that incentivize engagement and interaction.

BEYOND ODA AND PUBLIC EXPENDITURES

In the aftermath of the Addis Ababa Financing for Development Conference in 2015, the World Bank and IMF estimated that achieving the SDGs would require some US$ 135 billion in ODA at the outset. Though necessary, ODA would not prove sufficient to achieve the global goals. International development cooperation funds would have to be complemented by philanthropy, remittances, South-South flows, the private sector and foreign direct investment. Indeed, while the most substantial development spending was concentrated at the national level in the form of public resources, the largest potential resides with private sector business, finance and investment. Precisely for this reason, the outcome of the Addis conference outlined action agendas in the areas of:

1) Domestic Public Resources
2) Domestic and International Private Business and Finance
3) International Development Cooperation
4) International Trade as an Engine for Development
5) Debt and Debt Sustainability
6) Systemic Issues, including institutions, regulatory gaps and incentive structures
7) Science, Technology and Innovation

Collectively, these various forms of financing would have to be augmented more than US$ 1 trillion. This was referred to as the *trajectory from billions to trillions*.[9] Indeed, during the World

9 Bassam Sebti, "From Billions to Trillions: Converting Billions of Official Assistance to Trillions in Total Financing," World Bank Blogs, October 5, 2016, https://blogs.worldbank.org/voices/from-billions-to-trillions.

Bank Group/IMF Annual Meetings 2016, the CEO of IFC's Asset Management Company (AMC) poignantly suggested:[10]

> *A year ago, we all signed up to the Sustainable Development Goals. The only way to achieve these goals is if private capital funds them and private business implements them. That's why we came up with the phrase* ***'Billions to Trillions'*** *last year with our multilateral institutions in the run-up to the Addis conference on financing for development.*

With well over a third of the way to 2030 behind us, the world has arrived at a critical juncture in the post-2015 agenda. What started out as a promising decade of action has been jeopardized by the global COVID-19 pandemic. COVID-19 has exposed the fragility of a small-island developing state that derives about a third of its GDP from tourism and ancillary sectors like transport and services, including the informal sector.

The global pandemic and the pursuant socioeconomic crisis have evidently rendered prior financing assumptions and calculations obsolete. It has also served as a stark reminder of the country's dependence on its links to the outer world, whether in the form of tourism or international public finance flows, whether in the form of ODA or other official flows (OOF). Seeing how public resources accounted for over half of the economy before COVID (see Part II below) and, despite being designated a middle-income status in 2007, much of Cabo Verde's population remains poor (35% of the population remain below the national poverty line, according to the most recent World Bank estimate in 2015).[11]

In this context, diversifying and restructuring the makeup of Cabo Verde's financial resources is imperative. The Cabo Verde INFF will focus on restructuring the proportion of private enterprise and investment in the Cabo Verdean economy. This diversification is at least as important as the diversification of the economy itself and the two should be understood as mutually reinforcing and interdependent.

The conclusions derived from these regional and global discourses around development financing are therefore equally applicable to the country-level context. Herein, the INFF offers an instrument aimed at fulfilling Cabo Verde's Ambition 2030 – as the encapsulation of country's commitment to the SDGs – by adapting the principles and norms collectively determined in Addis within the Cabo Verde financing for development system. As such, it is a tool that will be owned and led by the government in a collective and concerted effort together with its partners to unlock financing but must venture beyond the limitations imposed by the traditional

10 Idem.

11 World Bank, "Poverty Headcount Ratio at National Poverty Lines (% of Population) - Cabo Verde," The World Bank, 2015, https://data.worldbank.org/indicator/SI.POV.NAHC?locations=CV.

development focus on ODA, public finance, and domestic socioeconomic systems. While these remain important, they must be complemented by FDI and other forms of private investment, including those derived from capital markets, and financial transactions that can only be accessed via integration with the regional and global economic structures.

This INFF/DFA exercise must therefore account for the changes in terms of global, regional and domestic financing flows imposed by COVID-19 as well as the panoply of evolving institutional frameworks addressing these challenges, of which the INFF is a part. In the aftermath of these disruptions, key strategic investments will be necessary to enhance Cabo Verde's resilience to exogenous shocks and allow it to build forward, especially via economic diversification. The DFA therefore holistically and comprehensively considers all financing sources available to achieve Cabo Verde's Ambition 2030 and the SDGs, including but not limited to the following12:

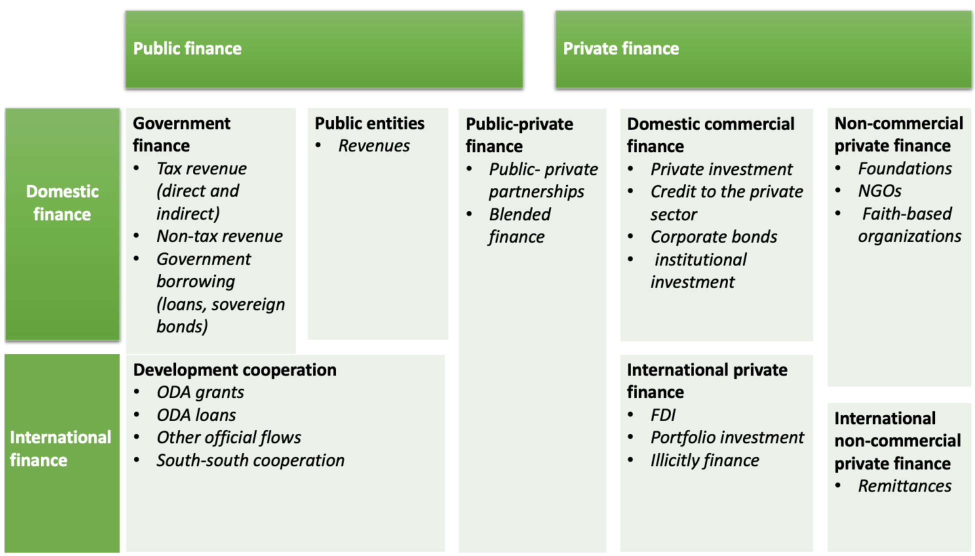

Figure 2: Potential sources of financing flows (Credit: Orria Goni, UNDP Sustainable Finance Hub)

In contrast to public investment, attracting private investment presents a different set of challenges. It is essential to create an incentive environment conducive to the movement of people, goods, finance, and ideas within and across Cabo Verde's borders. This can only be achieved through a form of financial autonomy derived from secure, stable, and predictable revenue streams in regional and global markets. More poignantly, due to the limited size and fragmentation of its internal market arising from poor inter-island connectivity and geographical

12 United Nations Development Programme, "Development Finance Assessment Guidebook," SDG Finance, 2021,https://sdgfinance.undp.org/sites/default/files/UNDP-DFA%20Guidebook-D4-HighResolution%20%28002%29.pdf.

concentration of key economic sectors, achieving competitive scale will require manufacturing of products and specialization in services that people demand both domestically and abroad. This can be accomplished by identifying potentially competitive niches conducive to its current situation and strategically positioning itself at the forefront of one or more of these to create a comparative advantage in the context of a recovering global economy. To do so, Cabo Verdean producers and service providers must be in a position to offer products and services at the requisite quantity or quality levels to be competitive and find adequate demand in foreign markets. This will require promoting individual and private initiative through innovation and entrepreneurship as well as integration with the regional and global economies.

IMPACT HARMONIZATION AND OWNERSHIP VIA ALIGNMENT WITH AMBITION 2030

Cabo Verde has arrived at a critical juncture on its road to 2030. With the first PEDS 2017-21 (PEDS I) coming to a close, coinciding with the culmination of its second Voluntary National Review of its SDG progress, the country is now embarking on the formulation of a second PEDS for the period 2022-27 (PEDS II). The PEDS II seeks to programmatically implement the Cabo Verde Ambition 2030 conceived in 2020 during the height of the global COVID-19 pandemic. Meanwhile, significant work has also been accomplished in updating Cabo Verde's NDC to meet its commitments to the Paris agreement, which also requires significant financing estimated at 2 billion Euros, though it is not clear whether this is in addition to or included within the 5 billion Euros required for COVID-19 recovery.

To accomplish this, development financing will have to be closely integrated and oriented towards the objectives and programme PEDS II as the operational manifestation of Ambition 2030. With this overarching objective in mind, this DFA not only comprehensively analyses the country's prevailing financing challenges but also offers a roadmap for INFF implementation, including a financing strategy (Block 2), M&E system (block 3), and governance and coordination mechanism (Block 4). Within the contours of this roadmap, the INFF should be seen as an institution, not a programme or project, that emerges via a dynamic and interactive process convening the plethoric landscape of development finance stakeholders. Building on and around existing institutions at local, country, regional, and global levels as far as possible, it offers complementary structures that evolve over time and are adapted to prevailing needs of the country's financing challenges. Beginning with Cabo Verde's variegated geographic, social, economic, and institutional landscape, exhibiting a vast spectrum of needs and challenges, it offers linkages between various levels of engagement ranging from local to global. Moreover, having set the foundational building blocks in place, the principle of country ownership will permit the structure to emerge as an inclusive mechanism that brings aboard all relevant actors

– whether public or private, domestic or foreign – that can make a substantive contribution to development financing in Cabo Verde, especially with a view towards PEDS II.

Consistent with Cabo Verde's quest for autonomy, the medium to long-term strategic orientation of the DFA/INFF Roadmap is to continue substituting decreasing ODA and complement domestic public finance with international and domestic private sector finance. Therefore, the implementation of necessary policy measures to assure an enabling framework for strong private sector activity is fundamental. Further developing the outcomes of the 2019 UN MAPS mission, the recommendations derived from this exercise clearly illustrate what areas must be prioritized through a clear sequencing of the process by which the country's ambitious strategic vision can be achieved by 2030 and how financial resources are best allocated to this effect. Policies in areas ranging from tariffs and taxation to sustainable finance, whether cross-cutting or in relation to particular sectors, must also be made coherent with the overall strategic objectives outlined in Ambition 2030 through effective governance and coordination, informed by a multistakeholder INFF Dashboard and long-term impact analysis.

COHERENCE, PRIORITIZATION, AND SEQUENCING

Hence, the INFF roadmap, notably the financing strategy under Block 2, are emerging at a moment where various sustainable development financing needs appear to converge. The challenge for the INFF is to consolidate these needs that, despite being complementary and mutually reinforcing in their ultimate aims, tend to pull in various directions in terms of their immediate priorities. This tends to stretch a finite resource pool, especially when it comes to public financing due to constraints imposed by public debt. As such, the purpose of the DFA, especially the INFF Roadmap (Part IV), is to reconcile disparate demands into a coherent and sequenced financing framework aligned not only with the PEDS process but the panoply of aligned strategic frameworks from local (PEMDS) to global (SDG) levels. This will require choices and trade-offs in terms of resource allocation based on clear prioritization, sequencing, and policy coherence to achieve a catalytic impact.

Given prevailing financing constraints, especially on the public side, financing all objectives simultaneously would have the effect of diluting and fragmenting extant resources across too many objectives, programmes, and projects to have transformational effects or meaningful impact in any particular area. For this reason, a particular challenge of the INFF and the PEDS II exercise lies in pinpointing those areas with the largest potential for achieving catalytic and interactive effects that reorient action from diverse sources within a dynamic, as opposed to static, financing framework subject to evolution and structural transformation.

To this end, the INFF DFA scopes opportunities for diversification through its investment streams, especially within the areas highlighted within Ambition 2030 and SDG Accelerators identified the 2019 UN MAPS mission. This assessment correspondingly focuses on how to most effectively allocate scarce resources in the areas of:

- Tourism and Culture,
- Blue Economy,
- Innovation and Digitalization,
- Green and Circular Economy, and
- Human Capital as a crosscutting asset.

Building on these accelerators and other key enablers, the DFA for Cabo Verde emphasizes the organization of an INFF roadmap around **seven key pillars**, corresponding to the INFF building blocks:[13]

Financing Strategy	1. Public-Private Integration	Public Revenues and Investment
		Private Investment and Productivity Gains
	2. Domestic-Foreign Consolidation	Regional Integration
		Trade
		SSC
	3. Global-Local Nexus	Blue Economy
		Green and Circular Economy
		Innovation: Digitalization & Human Capital
Monitoring and Evaluation	4. Monitoring and Evaluation	Planning – Budgeting – Monitoring Cycle
		INFF Dashboard
	5. Development Finance Impact Analysis	MVI
		MPI
		Sustainable Finance Harmonized Indicators
Governance and Coordination	6. Government-UN joint strategic coordination system	Strategic Coordination Council
		Technical Coordination Council
		Secretariat
	7. Institutional Change	Institutional and Legal Reforms
		Enforcement Mechanism

Table 1: Overview of the building blocks and key pillars of the INFF Roadmap

13 As this DFA falls within INFF Block 1 Assessment, this block is not treated in detail.

The INFF roadmap's seven pillars are further subdivided into short, medium, and long-term priorities for implementation with the aim of maximizing the allocation of finite existing resources, while mobilizing additional financial resources from the entire spectrum of development financing identified below. Through coordination, cooperation, and coherence among all stakeholders in a participatory, transparent, and inclusive process, the ultimate aim is to leverage financing to achieve transformational effects and structural impact for Cabo Verde's sustainable development, with particular emphasis on those who remain furthest behind.

2. DFA METHODOLOGICAL NOTE

Consistent with its SDG integrator role, UNDP was designated as the lead technical agency for INFF implementation in Cabo Verde and is responsible for carrying out the Development Finance Assessment (DFA). To this end, in close coordination with the Cabo Verde Ministry of Finance, UNDP set up a team of issue-specific experts to carry out the DFA process. As a first step towards implementing the INFF in Cabo Verde, the DFA offers a review of the post-COVlD-19 financing landscape with a focus on the structural challenges pertaining to domestic and international public and private financing flows, as detailed in Part II of this volume. Drawing on the empirical evidence-base derived from this analysis, Part III identifies opportunities to mobilize additional sources of financing and more efficient use of extant resources by deploying the SDG accelerators as key enablers to achieve Cabo Verde Ambition 2030. The cumulative insights to development financing realities and opportunities in Cabo Verde ultimately led to the detailed INFF roadmap presented in Part IV. Taken together, the four parts constituting this present volume are designed to inform the development of the SDG Financing Strategy (INFF Block II) to be integrated within the PEDS II process launched in February 2022.

The culmination of this process is the result of a thorough methodological approach that began with an initial outline presented within the Ambition 2030 exercise in July 2020. Over the course of the ensuing research and analysis period, it involved the contributions of countless participants in Cabo Verde, Africa, and beyond, who offered invaluable information, data, and ideas that a volume of this length could never exhaustively encapsulate. However imperfect, this volume is a reflection of this extensive effort, detailed in the remainder of this chapter, to achieve a comprehensive understanding and overview of Cabo Verde's past, present, and possibly future development finance trajectory.

EVIDENCE-BASED APPROACH FOR ADAPTING INFF PRINCIPLES TO CABO VERDE

The analytical framework for the Cabo Verde DFA process was informed by the UNDP DFA Guidebook 3.0.[14] Using this guidance as a point of departure, the DFA process adopted an inductive and empirical approach align and adapt the principles of the INFF with the realities and challenges of Cabo Verde. The DFA and financing strategy for the INFF build on various recent or ongoing, UN-facilitated and government-led strategic assessments and planning processes, notably the government's Ambition 2030 strategic vision. Drawing on available data

14 United Nations Development Programme, "Development Finance Assessment Guidebook," SDG Finance, 2021, https://sdgfinance.undp.org/sites/default/files/UNDP-DFA%20Guidebook-D4-HighResolution%20%28002%29.pdf.

and evidence, the DFA analyzed the evolution of policies, institutions, and capacities over time with reference to socioeconomic performance as a key means of informing the development of a comprehensive, holistic, and integrated financing strategy. With the assistance of the DFA team, various options and avenues were explored together with relevant actors (public, private, domestic and foreign investors, donors, etc.) over the course of two separate series of financing dialogues (March and July 2021) to gauge possibilities for financing Cabo Verde's development process. As such, the DFA process exemplifies a pragmatic methodology that combines the inductive empirical approach of local quantitative and qualitative data-gathering processes with the application of the deductive hypothesis-driven investigation seeking to apply the principles and policies of the INFF in local context through a recursive, cyclical, and evolving process.

FOCUS ON INSTITUTIONS IN MULTIDISCIPLINARY PERSPECTIVE

In this regard, particular emphasis was placed on institutions and structures, especially their effects in terms of incentives and transaction costs, rather than *ad hoc* interventions of particular actors. To accomplish this, the DFA team relied on a multidisciplinary approach that drew on a variety of economic, sociological, and political science-based analytical lenses to arrive at a comprehensive and holistic analysis focused on a polycentric approach to institutions (normative, regulatory, and legal frameworks), policies, and capacities, across public and private spheres. The comprehensive institutional approach rooted in analytical eclecticism was designed to arrive at a synthesized analytical narrative informing the INFF roadmap. Herein, the aim was to ensure that the pursuant results and recommendations are systemic in scope, implementation processes are informed by a holistic view focusing on institutional reform rather than fragmented specific actions, as well as permitting replication and perpetuation over time.

COMPLEMENTARITY THROUGH MEZZO-LEVEL ANALYSIS

The chosen methodology also positioned the DFA as a complementary exercise to prior research and analysis, notably work published by UNCTAD, the IMF and the World Bank. In particular, the approach distinguishes analysis of financing processes from the macroeconomic approaches of other development actors, especially IFIs. As such, the methodology was designed to not only include aggregate data at the national level but seeks to dig deeper to better understand its interdependence with other levels of analysis at micro and mezzo levels, including an emphasis on the interaction of micro and macro processes that interdependently inform and recursively perpetuate each other. By doing so, the analysis includes elements of microeconomic decision-making (incentives) via the lens of the prevailing institutional frameworks. This, in turn, facilitates understanding of development processes beyond the state framework by incorporating the role of private initiatives and (inter)action among diverse actors, including communities, businesses, civil society, and citizens.

THE FINANCING DIALOGUES AND DATA-GATHERING

While the intellectual and methodological design for the DFA process dates to July 2020, the INFF / DFA process in Cabo Verde was formally launched in March 2021 with the opening of the Financing Dialogues (FDs). Anchored within the Ministry of Finance but ultimately comprising a 'whole-of-society' approach that will better link financial resources to sustainable development objectives, the INFF/DFA process is ideally positioned as a basis for broader inclusive, participatory, and consensus-building policy dialogue focusing on the SDGs, as reflected in Cabo Verde's sustainable development strategy. The FDs provided a forum for dialogue and debate on key aspects of INFF implementation, with a particular focus on integrating public and private, foreign and domestic, and all relevant actors within a broader sustainable development financing process that remains beyond the control of any singular actor but is part of an inherently diffuse financing system. Recognizing that this process is inextricably linked with both domestic *and* global economic structures due to the mixed bag of adverse exposure to and essential value-generating integration with external markets, notably Portugal and Europe but increasingly also Africa (see discussion below), international participants were key to the information-gathering process.

As a first step in this process, the initial two-week Financing Dialogues comprised sessions convening disparate actors across government, private sector, international organizations, civil society, and academia with the purpose of discussing, debating, and at times even arguing about how to best construct the governing architecture of an INFF to help Cabo Verde achieve its Ambition 2030 strategic vision. The FDs brought actors together around various themes, ranging from SDG acceleration, innovation, and markets to fiscal revenues, customs policy, and public debt. Given the pressing issue of debt sustainability in Cabo Verde, with public debt exceeding 150% of GDP, and the government's corresponding constraints in terms of generating public investment, the imperative of debt sustainability, transparency, and the very role of the state in the developmental process emerged as recurring themes throughout these dialogues, particularly in the closing plenary session. This first set of dialogues also allowed the DFA team to identify remaining knowledge gaps, especially related to blue economy, regional integration and trade, south-south cooperation, and innovation, for which additional contributions were commissioned (see Part III on key enablers and accelerators).

Over the course of these broad-based dialogues, it was not to be expected that every point of discussion would offer ground-breaking revelations. Indeed, many of the fundamental challenges that Cabo Verde faces are widely known, though new details and missing links between issues came to light through the focus groups. Clearly, the persistent challenges that Cabo Verde faces will not be resolved through discussion alone and, in some cases, consensus already exists on how problems should be resolved. However, as one participant expressed it: "There are many ideas but no projects," suggesting that ideas, words, and policy proposals were not necessarily being translated into practice. In order to catalyse and accelerate the process from knowing to acting, the first step involved a communicative and discursive process with the overarching aim to collectively build consensus and determine the most appropriate approaches to implement the INFF, consistent with the following principles:

Demystifying Finance and Building Trust

Perhaps one of the principal objectives of the FDs was building trust through the presentation of development finance issues in accessible terms in small-scale group settings. Indeed, whenever something 'new' arises, particularly concerning something so fundamental and pivotal as a country's financing system, a certain degree of scepticism and uncertainty is to be expected. With this in mind, the FDs began by applying finance concepts and issues to topics – notably the SDG accelerators – that were already familiar and where a broad consensus had already been achieved through prior exercises, including a 2019 UN MAPS mission and Cabo Verde Ambition 2030. These initial sessions demonstrated a strong alignment between various organizations and institutions in pursuit of common aspirations, thus building trust, before incrementally delving into critical issues such as public debt, domestic revenue mobilization, customs, and trade policy. As such, by fostering closer ties through interactive dialogue, the unfamiliar was gradually displaced through the establishment of shared understandings, first between government and its international partners before branching out to civil society, academia, and the private sector. In subsequent phases, the INFF process seeks to become even more inclusive by directly engaging investors, the diaspora, and especially citizens.

Raising Awareness

A particular challenge in implementing an INFF is the sheer number of actors and organizations involved, with all the coordination and collective action problems that such complex and largescale interaction entails. Integrating public and private, domestic and foreign organizations, institutions, policies, legal framework, etc. is no easy task in and of itself. It is even more difficult if the various stakeholders do not share a common understanding – first and foremost at a conceptual level – of what we actually mean by financial "integration," how it can be achieved, and for what purpose. Indeed, the FDs revealed manifold misconceptions concerning

INFFs. Many with longstanding experience in the development community simply equated the process with a donor coordination mechanism, suggesting that this was primarily, or even solely, about the most efficient allocation of ODA. On the beneficiary side, there often seemed to be an implicit assumption that these FDs were about showcasing or 'marketing' their projects to attract increasingly scarce funding in the context of COVID-19. Private sector participants seemed to assume that integrated financing either meant that public entities were going to give or take away financial resources. Hence, the FDs offered a forum to raise awareness and clarify some of the misconceptions revolving around the INFF and its implementation, demonstrating that this is the first phase in the establishment of an institutional mechanism to offer an encompassing and inclusive structure for financing sustainable development more efficiently and effectively.

Synthesizing Appropriateness and Consequences through Argumentation

Sustainable development discourses have long been divided between those, on the one hand, advocating that human action is determined by a *logic of appropriateness* composed of principles, norms, and rules and, on the other, those emphasizing the constraints imposed on human action in the form of a *logic of consequences*. According to the latter, people behave in accordance with real or perceived interests and expected outcomes in the form of (usually material) gains or losses. The Financing Dialogues sought to synthesize these two approaches by emphasizing that they are not mutually exclusive. In the session on blue economy, for instance, we learned that by positioning Cabo Verde as a mid-Atlantic bunker for 'green refueling' of maritime vessels, Cabo Verde could establish a new economic niche, create jobs, combat climate change, and facilitate regional trade and integration. By adopting a *logic of argumentation* to better synthesize appropriateness and consequences,[15] therefore, the FDs made it possible to persuade self-interested organizations that principled actions and profits are not necessarily paradoxical when it comes to financing sustainable development.

Establishing Common Purpose for Policy Action

Following the initial FDs and an intervening internal analytical phase, a second round of financing dialogues held in July 2021 to discuss policy recommendations and the outline of the INFF Roadmap with the same set of stakeholders involved in the prior analytically focused FDs. In this sense, what the FDs were able to accomplish was the establishment of a venue for openness, transparency, and pluralism that, via an inclusive and encompassing process, allowed doubts to be addressed, concerns to be aired, and underlying issues to be identified with a view

15 Thomas Risse, " 'Let's Argue! ': Communicative Action in World Politics.," *International Organization* 54, no. 1 (2000): p. 1-39, https://doi.org/10.1162/002081800551109

towards resolving them through further analytical work and interactive dialogue. The second forum offered a space to demonstrate where various actors – public and private, domestic and foreign – were aligned and harmonized but also where sources of divergence on key policy issues persist. In pursuit of synthesis, the multi-stakeholder settings helped determine the extent to which objectives converged and established the basis for collective and purposive action within the INFF Roadmap.

CONSTRUCTION OF THE INFF ROADMAP

By emphasizing polycentric coordination, inclusiveness, and pluralism, the culmination of the DFA analytical process in Cabo Verde led to the establishment of an INFF roadmap, informing the financing strategy of PEDS II. This financing strategy, the centrepiece of the INFF process, seeks to enable a comprehensive structural transformation, encompassing institutions, policies, and other key instruments shaping the incentive environment and capacities of all stakeholders, whether public or private. If successful, this process will permit the implementation of a development finance structure capable of transcending dependence on aid, while focusing on system-wide processes and impact. In short, the INFF seeks to create a diverse and polycentric arena for development finance with key reference points guiding interactions between numerous actors across sectors and levels of governance, including local, regional, and global dimensions.

Accordingly, the INFF Roadmap is designed as an *evolving* guidance framework, neither exhaustive nor conclusive, allowing for a diversification of the sources of finance for Cabo Verde's development strategy and the SDGs. Drawing on the process outlined above, its goal is to support an enabling environment towards collective action, through knowledge-gathering and coordination efforts, to drive the transition from an aid-dependent economy towards a self-reliant, sustainable development trajectory. In accordance with the principles of ownership, the implementation of the INFF should be embedded in a Strategic Coordination System drawing on existing institutions (see Block 4, Pillar 6 of the INFF Roadmap), under the leadership of the Ministry of Finance through its National Directorate of Planning (DNP), the Ministry of Foreign Affairs's National Directorate for Political, Economic and Cultural Affairs (DNAPEC), and and the representations of the different line ministries to act as focal points for their respective sectors.

PART II – ANALYSIS OF THE DEVELOPMENT FINANCING TRAJECTORY

3. STRUCTURAL CHALLENGES, FINANCIAL AUTONOMY, AND STRATEGIC FOCUS

Despite the archipelago's relative isolation in the mid-Atlantic, the Cabo Verde islands have always been deeply imbued in the movement of people, goods, and ideas across boundaries. Beginning with their 'discovery' in the late 15th Century when they offered a strategic stopover for early Portuguese explorers seeking an alternative route to the East, Cabo Verde's history cannot be separated from its role as a crossroads of maritime trade linking Africa to the Americas and South America to Europe. However, for most of its human history, this was as part of a larger Portuguese mercantile economic system that imputed upon Cabo Verde a subservient role as a trading outpost across a vast lusophone maritime trade network spanning from Macau and Goa in the East to Mozambique, Angola, and Guinea-Bissau in Africa, and to Brazil in the Americas.

Over ensuing centuries, however, Cabo Verde's role in transatlantic trade diminished due to a convergence of normative, technological, and institutional change. To begin with, normative changes on the international level arose with regards to the slavery, first leading to the abolition of the slave trade across the Atlantic and, subsequently, the institution in its entirety.[16] Coinciding with the abolitionist movement in the 19th century, steamships began replacing sailing vessels as the primary mode of transportation of goods and people across vast distances. The replacement of wind with steam as the main source of propulsion undercut Cabo Verde's advantages derived from geographic positioning as steamships were no longer reliant on the trade winds emanating off the coast of West Africa. Even though Cabo Verde briefly reinvented its *raison d'etre* in the form of a coaling station for transatlantic steamers, exporting minerals from its salt mines (Sal Island is literally named after its salt deposits), and as a transit point for transatlantic telegraph lines (via Saint Vincent Island),[17] these niches were also eventually undermined by the creative destruction of technological advances rendering these comparative advantages obsolete. Given that these changes were largely of international origin and global in scope and character in the sense that they were the result of new ideas and processes transcending borders, they were mostly beyond the control of local populations.

In the second half of the twentieth century, the anticolonial sentiment that permeated Africa also led to the independence of the Cabo Verde islands by 1975, thus cutting formal institutional ties with Lisbon and the market networks that its trade network offered. Hence, when anti-imperialist, pan-African groups spanning Cabo Verde and Guinea-Bissau, under the leadership

16 Toby Green, "Building Slavery in the Atlantic World: Atlantic Connections and the Changing Institution of Slavery in Cabo Verde, Fifteenth–Sixteenth Centuries," *Slavery & Abolition* 32, no. 2 (2011): pp. 227-245, https://doi.org/10.1080/0144039x.2011.557185.

17 Soares, Maria João. "The British Presence on the Cape Verdean Archipelago (Sixteenth to Eighteenth Centuries)." *African Economic History* 39 (2011): 129–46. http://www.jstor.org/stable/23718980.

of Amilcar Cabral, eventually succeeded in staging a revolt from within, little was left behind in terms of domestic capacities or financial resources. Investments in local institutions, whether governmental, economic, or educational, remained sparse, while the human capital vested in a Portuguese-trained administrative and technical elite also began to erode. Despite various forms of institutional path-dependence inherited from the colonial metropole that persisted even after independence, cut off from market links and its position as a strategic node on transatlantic trade routes a distant memory, Cabo Verde was reduced to a remote outpost subjected to widespread poverty.

Since 1975, therefore, Cabo Verde not only had to rebuild and reinvent itself as a sovereign state from the ground up but also had to reposition itself with regards to the broader geopolitical and strategic context of the time. After about 15 years leaning towards the former socialist bloc led by the former Soviet Union and to a certain extent China, Cabo Verde rekindled its relationship with Europe, especially through the development of the tourism industry as a driver of economic growth, and other regions of the world, including the United States and Brazil.

When viewed from this broad-based, longitudinal perspective, Cabo Verde has come a long way in shaping its path by navigating a complex series of geopolitical, socioeconomic, as well as domestic institutional and political challenges that have moulded the identity and cultural composition of Cabo Verde. As a relatively new member of the international community of sovereign states, Cabo Verde was able to benefit from substantial foreign assistance in the form of both ODA (from 0 USD in 1975 to approximately 100 million annually by 1990) and other sources of official aid. These sources of financing and their effective management by national and local authorities allowed Cabo Verde to gradually remove the constraints of extreme poverty and finance a nascent state apparatus.

INDEPENDENCE REQUIRES FINANCIAL AUTONOMY

Nevertheless, independence and autonomy imply more than simple recognition as a sovereign state by its peers and the maintenance of a political authority and administrative mechanism capable of ensuring basic services to its population. Independence also requires a minimum level of financial autonomy derived from economic productivity, especially a vibrant and dynamic private sector capable of commanding private and foreign investment. This is necessary to generate the internal resources required to extract revenues necessary for sustaining, in a recursive and self-reinforcing fashion, the institutional apparatus of a state apparatus offering public services to its population.

This initial economic niche was found in tourism. The tourism boon offered Cabo Verde a transition from an inward-looking economic model focusing on quasi-autarkic, predominantly agrarian domestic industry towards a more open economy seeking to attract external visitors, especially those emanating from Europe. At a macro level, the results for Cabo Verde during this period are self-evident. According to the World Travel and Tourism Council, the "total contribution of travel and tourism to GDP" rose from 7.5% in 1995 to 17.3% in 2000 and to 41.9% by 2010.[18] During roughly the same period, the World Bank estimates that between 2000 and 2010,[19] GDP tripled from 0.31 to 0.54 to 1.66 billion USD, FDI net inflows ballooned from zero to 34 to 116 million USD of net inflows in 1990, 2000, and 2010, respectively.

However, less desirable externalities accompanied these positive economic developments. Despite generous ODA increases from 95.7 in 2000 to 327 million dollars annually by 2010, the external debt stock more than doubled from 320 to 885 million USD. Economic growth also entailed more demand for energy (up to 217 kg of oil per capita, from 86 in 1990) and higher CO2 emissions, rising from 0.28 metric tons per capita in 1990 to 1.13 metric tons per capita by 2010. Moreover, while the poverty headcount ratio declined substantially from 58 to 46% of the population under the national poverty line, the share of income held by the lowest 20% rose only marginally from 4.2 to 5.0% of the population during the same period,[20] meaning that the tourism industry-driven growth had an effect on poverty in absolute terms but not a significant impact on inequality in relative terms.

Nevertheless, the gains of the tourism-based development financing model certainly seemed to outweigh, at least temporarily, the drawbacks as Cabo Verde was designated a lower-middle income country in 2007 and was one of the few countries to achieve most MDGs by 2015. Tourism revenue, supplemented by ODA, was certainly the engine of development but questions persisted with regards to its economic, social, and environmental sustainability.

Despite obvious successes, a series of exogenous shocks, ranging from the great recession, exposure to the Eurozone sovereign debt crisis, to COVID-19, have left the state of public finances in disarray. Already prior to the impact of COVID-19, Cabo Verde faced a dire financial situation marked by high debt levels and excessive reliance on public expenditure. After several years of diminishing debt-to-GDP ratios leading up to the designation as an LMIC, in large part due to high GDP growth derived from tourism, the trend was reversed soon thereafter.

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18 World Data Atlas, "Cabo Verde Contribution of Travel and Tourism to GDP (% of GDP), 1995-2019Wor," Knoema, 2019, https://knoema.com/atlas/Cabo-Verde/topics/Tourism/Travel-and-Tourism-Total-Contribution-to-GDP/Contribution-of-travel-and-tourism-to-GDP-percent-of-GDP.

19 World Bank, "Country Profile," DataBank, 2021, https://databank.worldbank.org/views/reports/reportwidget.aspx?Report_Name=CountryProfile&Id=b450fd57&tbar=y&dd=y&inf=n&zm=n&country=CPV.

20 Ibid.

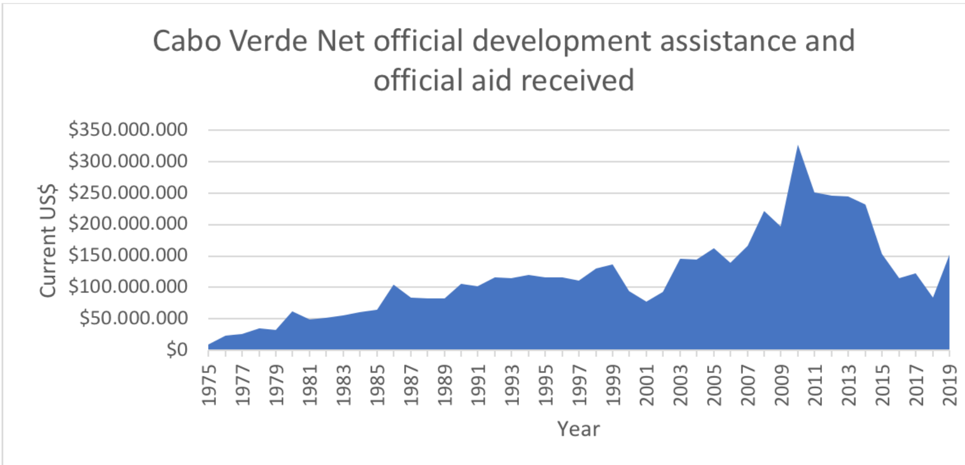

Figure 3: Evolution of Net Official Development Assistance and Official Aid

Source: World Bank Data Bank - World Development Indicators

In many ways, Cabo Verde became a victim of its own success as the MIC status elicited a rapid decline of ODA after peaking at over 300 million in 2009 (see Figure 3). Coinciding with the onset of the great recession and the need for donors to make difficult choices in the face of significantly diminished revenues during the subprime mortgage-provoked global financial crisis and the European sovereign debt crisis affecting European donors making up the majority of ODA, Cabo Verde's ODA inflows plummeted to under 100 million annually by 2017. The country's vulnerability to exogenous macroeconomic shocks entailed that the country also felt the effects of these successive crises on the economy as a whole due to exposure to the Euro via the country's peg and the intricate ties to the European economy, especially in the tourism and banking sectors. As a result, exponential growth in GNI per capita between 2002 (US$1,300) and 2009 ($3,490) plateaued abruptly at approximately $3500 ($3,630 in 2019) until the outbreak of COVID-19 in 2020.[21] The overarching result of these combined effects was a disequilibrated financing structure marked by lopsided reliance on public expenditures of both domestic and foreign origin as well as personal remittances, while FDI and other sources of private investment stagnated.

21 World Bank, "GNI per Capita, Atlas Method (Current US$) - Cabo Verde," Data, 2020, https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=CV.

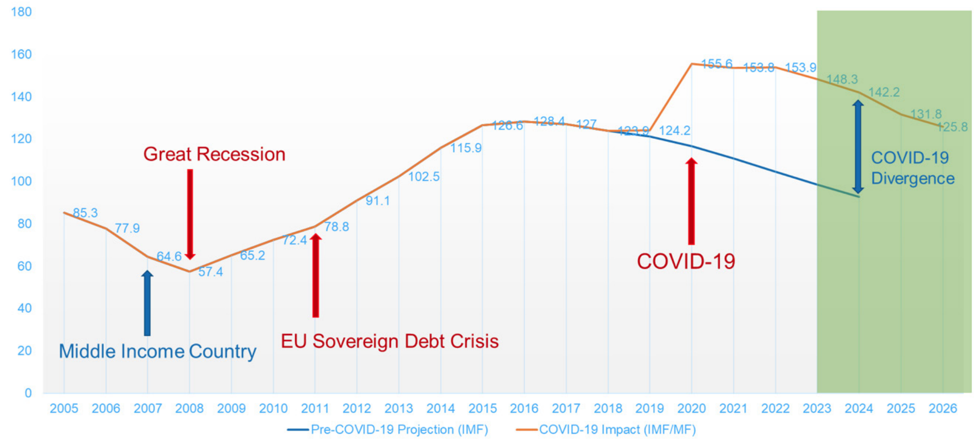

Figure 4: Evolution of Public Debt relative to GDP in the context of Exogenous Financial and Economic Crises

Source: Christopher Lilyblad, based on compilation of data from the for pre-COVID projections and the Joint World Bank--IMF [*debt sustainability analysis 2020*] *for post-COVID projections.*

COVID-19 has only exacerbated this situation. Despite the impacts of the great recession and the European sovereign debt crisis, the tourism industry and ancillary services, especially transport and informal sector, constituted CVE76.0bn in 2017 (44.9% of GDP) while accounting for 93,500 jobs in 2017 (39.3% of total employment), when considering the total contributions of the sector, including demand generated across domestic supply chains.[22] COVID-19 exposed the drastic potential ramifications of relying on a mono-economic structure and its underlying financial edifice relying on surplus revenue and transportation of people from just one region of the world, i.e. Europe. Even though tourism certainly offered a steppingstone towards greater autonomy in terms of allocating derived resources in the form of fiscal revenues and direct investment towards domestic policy objectives (see discussions below), in a sense, Cabo Verde traded one form of dependency for another. While perhaps unintended, the predictable consequences[23] manifested themselves as an empirical reality with harsh repercussions for state and society.

Following the outbreak of the COVID-19 pandemic, a significant proportion of ODA was reallocated to address short-term crisis response needs. The convergence of diminished ODA available for structural investment and high public debt not only serve as indicators for Cabo

22 World Travel and Tourism Council, "Travel & Tourism Economic Impact 2018 Cape Verde," csinternationalrealty, 2018, https://www.csinternationalrealty.com.br/uploads/enterprise/files/22b815388375bbc18136a-6f0a9061c67.pdf

23 João Resende-Santos, "Cape Verde and the Risks of Tourism Specialisation: The Tourism Option for Africa's Small States," *Journal of Contemporary African Studies* 37, no. 1 (February 2019): pp. 148-168, https://doi.org/10.1080/02589001.2019.1619916.

Verde's vulnerability to fluctuations in external flows but further stress the need diversify its financing flows, particularly through greater domestic and foreign private investment, in order to compensate for diminished public expenditures and ODA.[24] Hence, years of diligent and persistent effort to recover from the prior effects of global financial crisis and the Euro sovereign debt crisis to grow the economy and reduce debt were negated in a matter of months due to the abrupt closure of international borders and corresponding disruption of travel and tourism to the islands.

Based on the most recent data from the Ministry of Finance, a divergence of approximately 50 percentage points in terms of debt-to-GDP ratio persists relative to pre-COVID-19 IMF projections (see figure 4). However, Ministry of Finance GDP projections also suggest that Cabo Verde's structural situation has permitted a relatively rapid return to growth after tourism rebounded in 2021. Discounting the initial peak in 2020 due to the government's response measures, the correlative trend reveals a return to a similar debt reduction trajectory compared to pre-COVID patterns, albeit with a handicap equivalent to approximately one-third of government debt. This promises to become a lingering legacy of COVID-19 that threatens the country's financial solvency, decision-making autonomy, capacity for resolute action, and its independence from undue external influence.

AUTONOMY DOES NOT EQUAL AUTARKY

Cabo Verde must now find its place in a global economy underpinned by an increasingly multipolar geopolitical system that is simultaneously fraught by economic uncertainty and geopolitical rivalry. The country's sense of independence and self-reliance was hard-won and, precisely for this reason, should not be foregone in the face of more recent challenges like COVID-19 and corresponding debt distress or concerns over debt sustainability that may expose decisionmakers to unwanted and undue influences over its policy priorities. A predictable, diversified, and stable financing landscape is key to protecting Cabo Verde's autonomy.

Whereas Cabo Verde has a rich history as a strategic node connecting people, goods, and ideas due to its advantageous geographical position, its internal natural endowment has not been amenable to largescale production or revenue generation. Cabo Verde's geophysical and topographic composition has neither been conducive to the type of largescale agriculture permitting a self-sufficient economic system, nor can Cabo Verde claim any other substantial natural resource endowments capable of sustaining the population through exports of raw materials or primary products. More portentously, like the rest of the Sahel region, Cabo Verde

24 UN, Governo de Cabo Verde, *Socioeconomic Impact Assessment: Covid-19 PCNA+ fase 1*, Praia, 2020 available in socioeconomic impact assessment covid-19 Cabo Verde_en.pdf (un.org)

is grappling with the reality of desertification, a natural process arising from the expansion of the Saharan desert since the end of the last ice age.[25] Though exacerbated by climate change, this process actually predates contemporary carbon emission-based climate change and is responsible for irregular weather patterns, droughts, and famines.[26] Together with a lack of regular and predictable annual precipitation levels, including prolonged droughts lasting several years, these factors result in high fluctuations and variability in terms of agricultural yields, which over the course of its history resulted in numerous famines (see table below).[27] As the analysis of the blue economy below demonstrates, even in terms of fisheries – an important source of income for many communities across the islands and a key aspect of the country's blue economy strategy – Cabo Verde remains at a competitive disadvantage compared to some of its mainland peers when it comes to exports and industrialized fishing, as fish stocks tend to be more abundant in waters near the continental shelf due to the marine habitats that shallower waters can provide.

Year(s)	Event(s)
1580-82	Great Famine
1680	Earthquake and volcanic eruption in Fogo
1719	Famine in Santiago
1746	Economic crisis
1748-50	Crisis (unknown)
1754	Idem
1764	Idem, especially in Boa Vista and Sal
1773-75	Famine and starvation
1789	Crisis in Boa Vista
1790	Famine and Starvation
1810	Famine and Starvation
1813	Crisis in Santiago
1814	Famine in Boa Vista
1816	Lava eruption in Fogo
1825	Famine in Santo Antão
1831-33	Famine across all islands; 30,000 starve
1845-46	Partial rain; only São Nicolau and Santiago harvest sufficient

25 Darkoh, M.B.K. "DESERTIFICATION IN AFRICA." *Journal of Eastern African Research & Development* 19 (1989): 1–50. available in http://www.jstor.org/stable/24325608.

26 Alessandra Giannini, Michela Biasutti, and Michel M. Verstraete, "A Climate Model-Based Review of Drought in the Sahel: Desertification, the Re-Greening and Climate Change," *Global and Planetary Change* 64, no. 3-4 (2008): pp. 119-128, https://doi.org/10.1016/j.gloplacha.2008.05.004.

27 Albuquerque Luís de, Domingues Ângela, and e. Silva António Correia, *História Geral De Cabo Verde* (Lisboa, Portugal: Inst. de Investigação Científica Tropical, 1991). *extracted and translated by author*

1847	Volcanic eruption Fogo
1850-51	Insufficient rain in Barlavento islands
1852	Volcanic eruption Fogo
1853-54	Weak harvest
1854-55	Drought; Colera outbreak in Fogo, S. Vicente
1855-57	Drought on Barlavento islands; Colera outbreak in Fogo, S. Vicente and S. Antao
1857	Volcanic eruption Fogo
1858-60	Scarcity in Maio, Santiago and Brava
1860	**Population: 90000** inhabitants across all islands
1863-66	Famine, especially on Sotavento islands; 30,000 starve
1870	**Population: 80,000**
1875-76	Light rains and scarce harvests, especially Santiago and S. Antao
1878	End of slavery
1883-86	Irregular rains; drought; crisis
1889-90	Scarce harvests; famine in Maio and Brava
1896-98	Scarce harvests on Sotavento, Boavista and Sal; food crisis averted and no victims
1890	**Population: 130,000**
1900	**Population: 150,000**
1899-1900	Scarce harvests; Famine and smallpox on Fogo, then S. Nicolau and Santiago
1901-02	Irregular rains; scarce harvests; famine in Brava, S. Nicolau (disease too); population dwindles in Maio; starvation on Fogo and S. Antao
1903-04	Famine and severe crisis; over 10,000 deaths
1905	**Population: 135,000**
1910	**Population 140000;** Malaria and Flu epidemics
1911-13	Drought with limited impact
1920	**Population: 160000**
1921-23	Crisis; famine
1934-36	Drought with limited impact
1941-43	Famine; Fogo loses 31% of population, 28% in S. Nicolau
1946-48	Famine; Santiago loses 65% of population, down to 140,000 on all islands
1951	Volcanic eruption Fogo
1959-60	Drought but adequate measures taken to avoid deaths
1975	Independence from Portugal

Table 2: Crises and natural disasters in Cabo Verde prior to independence.
Source: Luís de Albuquerque e Maria Emília Madeira Santos

<table>
<tr><th>2009</th><th>2010</th><th>2013</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th></tr>
<tr><td rowspan="2">Flash Floods</td><td rowspan="4">Epidemic (Dengue)</td><td rowspan="2">Flash Floods</td><td rowspan="4">Volcanic Eruption
Forest Fire</td><td>Hurricane (Fred)</td><td>Drought</td><td>Drought</td><td rowspan="4">Drought</td><td rowspan="2">Agricultural Plague</td><td rowspan="2">Epidemic (COVID- 19)</td></tr>
<tr><td>Earthquake</td><td>Forest Fire</td><td>Agricultural Plague</td></tr>
<tr><td rowspan="2">Coastal Floods</td><td rowspan="2">Coastal Floods</td><td>Forest Fire</td><td rowspan="2">Agricultural Plague</td><td rowspan="2">Forest fire</td><td rowspan="2">Drought</td><td rowspan="2">Flash Floods</td></tr>
<tr><td>Epidemic (Zika)</td></tr>
</table>

Table 3 : Visual overview of Disasters in Cabo Verde 2009-2020 (Credit: Celeste Benchimol, Environment & DRR portfolio, UNDP Cabo Verde)

Cabo Verde's history of fragility and vulnerability to natural disasters, including drought and famine, suggest that agriculture and fisheries can be part of a comprehensive solution to sustainable economic recovery but will not suffice in isolation. The result of these recurrent crises, predating the effects of climate change that are expected to further exacerbate such events, included erratic population growth and decline at a time when populations across all islands were ranged from a fifth to a third of present-day populations. Along with the variegated topographic terrain on most islands (except the most arid ones like Sal) and the deep mid-oceanic waters surrounding them, Cabo Verde's natural composition is ill-suited for agriculture or fisheries at a scale necessary to support the entirety of its own population at current levels, much less produce surpluses for exports. Moreover, the limited natural resource base, coupled with a rigorous and complex import tariff regime, is not conducive to the form of industrialization or manufacturing that would permit Cabo Verde to produce the broad range of goods and services with the capacities of meeting domestic basic needs and consumer demand. As such, to ensure its independence over the long term, Cabo Verde must develop a form of autonomy that does not derive from autarkic self-reliance based on quixotic ambitions of internal production and consumption.

DOMESTIC MARKET CONSOLIDATION

The gains from decades of growth have neither spread evenly, nor permeated Cabo Verdean society in its entirety. Particularly as a result of the predominant 'all-inclusive' tourism model attracting primarily European visitors, the wealth generated by the tourism industry remains concentrated on the balance sheets of large international corporations (e.g. hotel groups, tourism operators, airlines, etc.) primarily operating on just two islands. Meanwhile, the benefits for Cabo Verde remain restricted to tax revenues generated within the tourism sector and, to a lesser extent, complementary services offered by local businesses, including the informal sector. Though economic diversification remains a key objective reiterated within the scope of the 2019

UN MAPS mission identifying key SDG accelerators across numerous sectors, implementation of such strategies remains a challenge.

The domestic economy remains highly variegated and unconsolidated in part due to the lack of reliable and regular transportation links in terms of frequency and scale. As an African Development Bank report from 2012 indicated: “The cost and inadequacy of inter-island transportation is perhaps the economy’s biggest bottleneck. Aware of the problem, the government has invested heavily in infrastructure development in the past decade.”[28] As a result of these investments and further initiatives – including the creation of a PPP through a concession agreement comprising Portuguese Group ETE (represented by NAVEX Cabo Verde) and a consortium of Cabo Verde shipowners – a network of maritime routes operated by *CV Interilhas* now provides services connecting all inhabited islands, albeit on an infrequent basis[29] with a fleet of only six vessels[30], offering limited capacity for cargo and passengers.

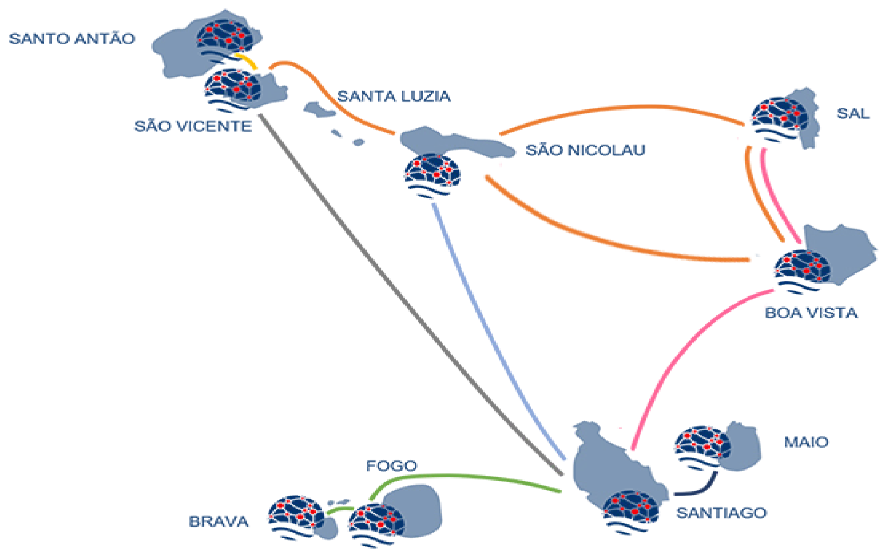

Figure 5: CV Interilhas Route Map
Source: CV Interilhas

28 Olugbenga Adesida, Mohamed Chemingui , and João Resende Santos, “Cape Verde - The Road Ahead ,” afdb.org (African Development Bank; African Development Fund , November 2012), https://www.afdb.org/sites/default/files/documents/projects-and-operations/cape_verde_-_the_road_ahead.pdf.

29 CV Interilhas, *Routes & Schedules* Available in https://www.cvinterilhas.cv/routesschedules

30 CV Interilhas, *Fleet,* available in https://www.cvinterilhas.cv/fleet

Effectively subsidized through a concession agreement signed with the Ministry of Finance, *CV Interilhas* enjoys a de facto monopoly in terms of domestic inter-island passenger transport. With regards to cargo, it is currently the only provider offering regular, scheduled services on routes that can be purchased in advance as other operators require a certain threshold of cargo and passengers before a voyage can cover the costs incurred by the service provider. Aside from *CV Interilhas*, the unpredictability of the cargo voyages raises transaction costs, risks and consumer confidence in a manner that proscribes effective supply for a service for which substantial demand would otherwise be expected.

While not a substitute for maritime transport, especially in terms of the scale required for bulk cargo shipments, the domestic airline service has also been plagued by a series of financing challenges. Following the bankruptcy of the national airline industry, *Transportes Aereas de Cabo Verde* (TACV), the highly regulated domestic passenger airline service was awarded to a Canary Islands-based company, Binter, in the form of a public-private partnership. Similar to the shipping industry, the service was controlled by the state, setting prices for inter-island transportation in return for an effective monopoly in domestic air travel. However, due to financial losses incurred in the aftermath of COVID-19 when inter-island transport was curtailed to restrict the spread of COVID-19, this PPP, which adopted the name *Transportes Interilhas de Cabo Verde* (TICV) in the interim, was also forced to cease operations under financial duress. As a stopgap measure, an Angolan company by the name of Bestfly was contracted by the government, which now serves nine islands with two ATR passenger planes.

As such, both the domestic sea and air transport services are operating under PPPs that do not cover their operating costs due to price ceilings, incurring significant budget deficits. These PPPs account for high expenditure levels in state budgets, while the effect of limited inter-island transportation is perhaps even more acute, albeit less easily quantified, for the domestic markets and society at large.

The tourism sector yet again offers a pertinent example of the effects of this situation on domestic demand and supply chains. Major hotels and resorts located on Sal and Boa Vista islands source their products from European suppliers, especially from Portugal and Spain, rather than purchasing domestic produce as a potential substitute. This occurs despite trade barriers, including relatively high tariff rates,[31] that add substantial costs to imports of goods. In addition to the challenges enumerated above, prospective domestic suppliers remain uncompetitive due to a combination of inferior quality and unreliability of supply chains or long delivery times, which make bulk shipments via cargo airlines more secure and profitable than the significantly shorter domestic maritime routes. In this context, it is possible to conjecture that the revenues and profits derived from regular supply routes would alleviate the quality issues as local producers could

31 See contribution on regional integration and trade below.

reinvest surplus revenue to tailor their products to the needs and preferences of their customers. In short, enhanced inter-island connectivity and transport would provide access to MSMEs to explore new markets, facilitate tourism-related spending to penetrate hitherto marginalized areas, and allow for economies of scale that generate new revenues for the state and private investment.

Given the present circumstances, it is perhaps more accurate to conceptualize the domestic market as consisting of (at least) three intra-state economic systems with only meagre linkages and limited integration between them:

- The southern islands of Maio, Fogo, and Brava grouped around Santiago with its capital, Praia, and its port;
- The northwestern islands of Santo Antao, Sao Nicolau, and Sao Vicente, centered on the latter's deep-water port in Mindelo, the largest and only deep-water port in the country; and
- The northeastern islands of Sal and Boa Vista that have emerged as tourism strongholds, primarily attracting European visitors.

As such, though the Cabo Verde domestic market is generally understood as comprising approximately 550,000 people, the effective debordering induced by geographically-determined socioeconomic variegation and disparities arising from sectorial concentration within particular territories entails that the largest market is on the island of Santiago with its capital city of Praia, comprising a population of approximately 300,000 inhabitants and large discrepancies in terms of purchasing power and inequality. The lack of market consolidation inhibits economies of scale that make certain products and investments profitable, while also discouraging exchange and interaction between the islands, especially for micro, small and medium-sized enterprises who cannot afford customized transport services. Rather, these require the type of scale that can only be offered by coordinated and reliable logistical transactions to meet consumer demand. In short, the lack of domestic market consolidation, beginning with inadequate transportation, has severe repercussions for economic development.

As such, this DFA report builds on a key premise derived from the Addis Ababa Action Agenda; namely, that economic development and financing are both inter-dependent and mutually reinforcing.[32] Viewed from this perspective, the challenges of domestic market consolidation and inclusive growth cannot be neglected when it comes to understanding the recursive relationship between:

(1) the **public dimension**, including the institutional framework and its revenues and investments,

(2) the impact that this process has on economic exchange, including domestic market

32 United Nations. "*Addis Ababa Action Agenda - Financing for Development.*" New York , US: General Assembly, 2015.

transactions and foreign investment and trade, that generate value within the **private sector**, and

(3) the combined effects of these co-constitutive outcomes from the vantage of **development financing**.

The latter includes both direct public investments in the form state revenues derived from taxation as well as indirect contributions to sustainable development processes at the hands of private initiative that, despite remaining within institutional jurisdiction of the state, occur beyond the immediate control of public expenditure frameworks and are therefore not as easily measured or quantified in terms of their direct impact on sustainable development frameworks.

REGIONAL INTEGRATION, TRADE, AND SSC

With the world around it undergoing vast political, economic, social, and environmental change, Cabo Verde once again finds itself at a crossroads. Fortunately for a small-island state like Cabo Verde, in an increasingly global and digital world, playing on the world stage is no longer necessarily defined by geography, place or location. What matters most, in this regard, is creating *strong links and connections to the world.* Indeed, if Cabo Verde is to make the most of its economic opportunities and alleviate its financing challenges, it needs to strengthen integration with the global economy through regional integration, trade and open markets, as well as south-south cooperation.

As a group of islands off the coast of West Africa, the country is nominally a member of numerous regional systems at various geographic levels, including:

- Africa, as a member of the African Union and possibly as a member of the African Continental Free Trade Area (AfCFTA)
- Economic Community of West African States (ECOWAS)
- Community of Sahel–Saharan States (CEN-SAD)

While Cabo Verde has a clear foothold in Africa, it also maintains important links to numerous other regions and continents, whether as a result of membership in a formal institution or due to recurring customary practices and social relationships, including migration and the diaspora, that foster and nurture cross-border ties. The latter can result in regional systems that do not define themselves by geographic proximity but through other common criteria such as language, sociocultural heritage and shared origins, socioeconomic situation (e.g. SIDS), or other categories. These may include but are not limited to:

- PALOP and CPLP, with important connections to Latin America, especially Brazil
- EU Special Partnership and Macaronesia, a group of Atlantic islands comprising the

Spain's Canary Islands, Portugal's islands of Madeira and the Azores, and Cabo Verde.

- Small Island Developing States

However, Cabo Verde is currently not making the most of its membership in these various regional organizations, especially from the vantage of the economic potential that regional integration and specialization can offer in the context of a reclusive domestic market limited in size.

Similar to the domestic dimension, the Cabo Verdean economy remains sparsely integrated within ECOWAS, the African Union, and other regions of which it is a member. In 2018, over 68% of GDP relied on imports, including 80% of primary energy supplies. Domestic agriculture accounted for less than 10% of food requirements, with the remainder predominantly imported from Portugal and other European countries.[33] Even though an ECOWAS trade agreement that foresees tariff-free import of primary goods produced in member states exists on paper, the application of the current institutional framework remains limited in practice. This is perhaps best illustrated by an anecdotal example: In Cabo Verde, local convenience stores carry cashew nuts produced in Guinea-Bissau or Benin – two countries with which Cabo Verde, at least nominally, shares a free trade zone under ECOWAS. However, these tend to be imported via Portugal where these primary goods are first processed and packaged before being reimported into the ECOWAS market. Not only does this transhipment process incur the transaction costs of venturing through customs processes four times but it also more than triples the effective distance travelled from the place of production to consumption. This incurs not only transportation but also environmental costs, such as carbon emissions associated with shipping. Once again, a key impediment is also the lack of regular transportation routes connecting Cabo Verde and the mainland ECOWAS market that renders the process of exporting to Cabo Verde via Portugal less expensive due to the scale achieved by routing products via the logistical metropole.

Accordingly, by reducing institutional, logistical, and financial bottlenecks, the Cabo Verde market could achieve its full potential for trade in terms of additional income for society as a whole and the revenues derived from this process for the government. Regarding the former, if producers could supply goods and services at more affordable rates for most Caboverdeans due to the lower costs of production, while also benefitting from lower tariffs associated with the ECOWAS common market, this would increase local purchasing power and consumer surplus in Cabo Verde, while simultaneously redirecting revenues to other lower income countries. Regarding the latter, the government may, in the short run, forego some revenues on the import/export transactions; however, by effectively increasing consumer surplus and purchasing power, the government stands to recuperate these sources of revenue via VAT and income taxes, while

33 World Integrated Trade Solution, "Cape Verde Imports of Goods and Services," Cape Verde Imports of goods and services in % of GDP 2015 - 2019 | WITS Data, 2019, https://wits.worldbank.org/CountryProfile/en/country/CPV/startyear/2015/endyear/2019/indicator/NE-IMP-GNFS-ZS.

increasing prosperity among the general population.[34] To this end, the section on regional integration and trade in Part III further analyses implications of three interdependent dimensions -- production, consumption, and fiscal regimes – and how to optimize the trade-offs between them to maximize impact in terms of development finance.

Building on this integration with ECOWAS, AfCFTA, and Africa more generally, strategically positioning Cabo Verde as a pivot point between regions will be essential for establishing and maintaining competitiveness. Due to its narrow internal resource base, trade and regional integration are essential for Cabo Verde's sustainable development. Consistent with the Addis Ababa Action Agenda: "We underline that regional markets are an effective way to achieve scale and depth not attainable when individual markets are small."[35] Cabo Verde must therefore strategically position itself in relation to various regions and markets, especially the EU common market via GSP+, and the United States via AGOA, and the CPLP, including Brazil. In short, when it comes to promoting sustainable development in Cabo Verde, looking outwards is at least as important as looking inwards into its internal composition.

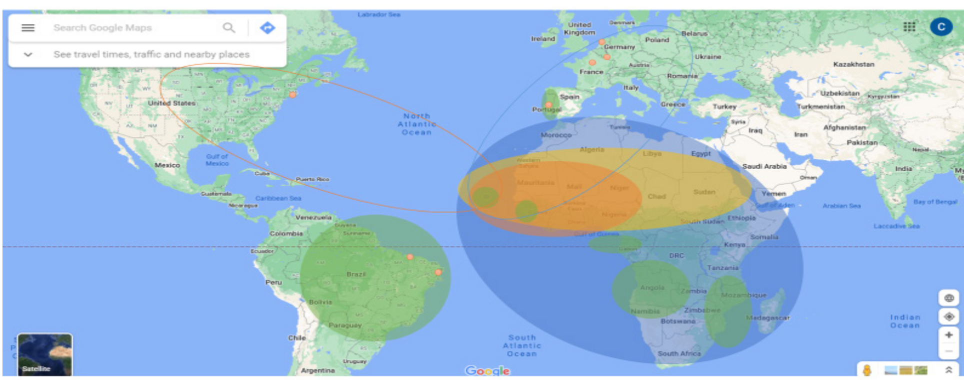

Figure 6: Cabo Verde Pivot Point – A Heuristic Representation

Closely related to the objectives of regional integration and trade, the INFF also seeks to help position Cabo Verde as a driver for South-South and Triangular Cooperation (SStC). Indeed, consistent with the Addis Ababa Action Agenda clearly articulates, adequate financing for sustainable development necessitates unprecedented levels of engagement and cooperation between governments, private sector, civil society, and all other relevant stakeholders in the Global South. Not limited to donor-recipient relationships, South-South Cooperation opens the door

34 A key issue in this regard that, unfortunately lies beyond the scope of this DFA, involves transactions costs associated with accessing the ECOWAS tariff-free customs regime since this not only involves substantial "red tape" but also requires significant knowledge and human capital on the part of producers/exporters.

35 United Nations. "*Addis Ababa Action Agenda - Financing for Development.*" New York , US: General Assembly, 2015

to an expansive array of initiatives ranging from triangular cooperation, regional integration, and trade to knowledge sharing and advocacy networks capable of championing the causes of the most vulnerable on the world stage.

In this context, Cabo Verde is leading initiatives among Small-Island Developing States, especially in the Africa region, to articulate common policy and action agendas with respect to the most pressing global issues, including COVID-19 recovery, inclusive growth, and climate change. Given their status as 'developing states', SIDS collaboration constitutes an essential subset of South-South Cooperation and offers a prescient example for how collective action, informed by shared experiences of environmental, social, and economic challenges, empowers states and their citizens in the face of multidimensional sources of vulnerability. Accordingly, through the framework of the Ministry of Foreign Affairs' new diplomatic paradigm, Cabo Verde could access additional development resources by positioning the foreign service as a key resource mobilization agent. As such, these foreign dimensions of development financing – notably via regional integration, trade, and SSC, among other potential resources -- should be integrated within the INFF coordination and governance mechanism (see Part III - Pillar 6 below).

THE OCEAN AS A GATEWAY TO TRADE, DIVERSIFICATION, AND REGIONAL PIVOTING

To achieve this, Cabo Verde must take full advantage of its most significant asset: the Ocean. As an archipelago in the mid-Atlantic, the ocean impacts every part of Cabo Verde's economy and society. Comprising 99.3% of its 'territory' (when including the vast Exclusive Economic Zone), the ocean is deemed to be Cabo Verde's greatest, albeit underutilized, natural asset with significant potential for sustainable and inclusive growth that could benefit SDG acceleration at both national and regional levels. The blue economy has been identified as a key SDG "Accelerator" and the government's new blue economy strategy – a key component of its Ambition 2030 and Strategic Plan for Sustainable Development (PEDS) – maps out its catalytic potential across multiple Sustainable Development Goals (SDGs).For the purposes of this assessment, the blue economy is broadly defined as any activity involving the sustainable use of the ocean or other water-based resources aimed at producing goods, services, or revenue either for private or public purposes (utility), including but not limited to: Maritime trade, shipping, logistics, ports, fisheries, aquaculture, marine environments, coastal zones, tourism, ocean or water-based sustainable energy, etc. Moreover, given Cabo Verde's geographic location in the mid-Atlantic, this strategic oceanic location cannot be neglected as a factor in its regional integration (AfCFTA, ECOWAS, SIDS, PALOP/CPLP, etc.) and possible positioning as an inter- regional, or even global (via links to EU, US and China), pivot point for exchange.

Indeed, over the course of history, coastal locations have offered states a crucial comparative advantage in terms of transportation and trade. According James C. Scott, since the formation of the earliest states, "[t]he development of large … trading centers depended on an advantageous positioning for waterborne trade".[36] While the development of large modern freighters capable of absolving longer routes have undermined Cabo Verde's historical comparative advantage as a stopover node in transatlantic commerce to some extent, the Cabo Verdean archipelago is still located at the crossroads of transatlantic trade routes that have existed for centuries and will continue to be essential links for international commerce and trade for the foreseeable future. Even though Cabo Verde enjoys a vast *comparative* advantage in this geographic sense, turning this into a *competitive* advantage as an interregional logistics and refuelling hub in a West African context will require significant strategic investment.Building on the historical precedent of Cabo Verde as a former mid-Atlantic coaling station, a particular opportunity appears to emerge in the maritime fuel bunkering sector that is on the cusp of a next-generation technological leap towards non-fossil fuels, notably hydrogen and ammonia.[37] Making critical choices and strategic investments in terms of fuel bunkering, together with key private actors in the shipping sector willing to commit to a long-term strategy, could not only lead to significant financial and economic returns, including job creation and employment, but simultaneously reduce the environmental and climate impact of a shipping industry that is responsible for approximately 2.5% of global carbon emissions.[38] This strategy is also contingent on improving domestic and international transportation networks, driven by increased integration and scaling-up trade with the African continent under AfCFTA. These objectives require the type of large-scale investment and financial resources that can only be raised in capital markets. The pursuant double-bottom line of economic and environmental returns therefore renders these prospects ideal for sustainable financing via the Blu-X sustainable finance platform (see chapter on Capital Markets and Sustainable Finance in Part III), which could provide the capital necessary to make strategic infrastructure investments that, by helping resolve the trade bottlenecks addressed above, could enhance Cabo Verde's positioning as a gateway between Africa and the world.

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36 James C. Scott, *Against the Grain: A Deep History of the Earliest States* (New Haven, CT: Yale University Press, 2017), 54.

37 World Bank, "Charting a Course for Decarbonizing Maritime Transport," World Bank (World Bank Group, April 15, 2021), http://www.worldbank.org/en/news/feature/2021/04/15/charting-a-course-for-decarbonizing--maritime-transport.

38 IMO, "Third IMO GHG Study 2014," International Maritime Organization, 2015, https://www.imo.org/en/OurWork/Environment/Pages/Greenhouse-Gas-Studies-2014.aspx.

4. PUBLIC FINANCE FOR SUSTAINABLE DEVELOPMENT

The analysis of the Cabo Verde's financing landscape shows how the composition of various flow types has developed over time. It shows the declining trend in international development cooperation, as of 2007 due to government's graduation of the Least-Developed-Countries Group, the impact of the financial crisis as of 2008 as well as the recent impact of the Covid-19 pandemic. Furthermore, relatively high domestic private investment, and high remittances provide the context for assessing the structure, priorities, and potential of establishing the financing framework of Cabo Verde.

The financing data is grouped into four categories: domestic public, domestic private, international public and international private. Domestic public finance includes government revenue data, excluding grants. Domestic private finance data is estimated by subtracting foreign direct investment (FDI), change in inventories and public investment from gross fixed capital formation. The calculation of private domestic investment takes into consideration that remittances are utilised for private domestic investment purposes. Therefore, the propensity of consumption (on average 63,83% for the period from 2007 to 2017) serves as a proxy to identify propensity of investment and savings of the remittances (1 - 0,6383) and is discounted from domestic private investment.

International public finance only includes official development assistance (ODA), since data for other official flows (OOF) were not available by OECD-DAC for the time period prior to 2009. The OOF will be discussed in the corresponding section below. ODA only includes flows from official donors, including several non-DAC countries but excluding important South-South Donors such as China, Brazil, and India. International private finance includes FDI and remittances.

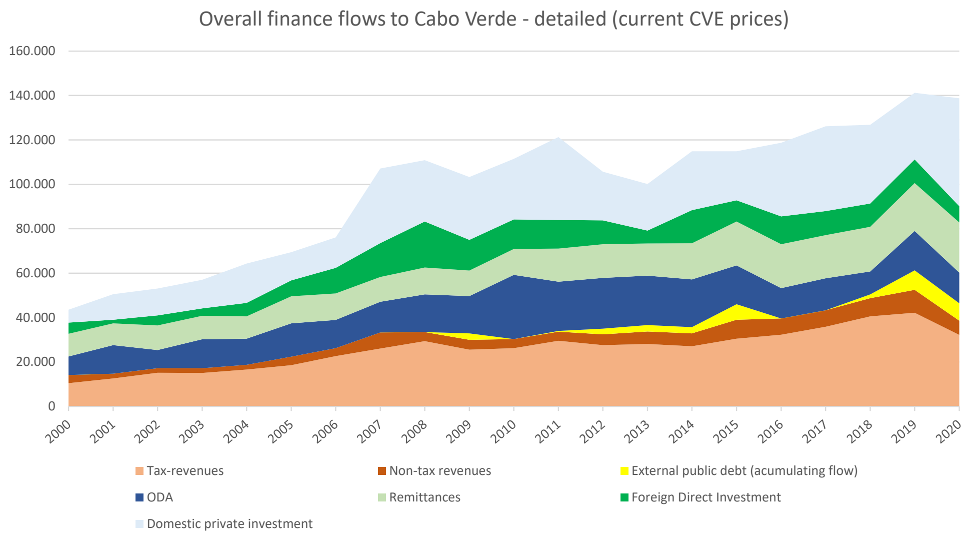

Figure 7: Overall finance flows to Cabo Verde (detailed)

Sources: Cabo Verde Ministry of Finance (internal data), Word Bank Open Data, OECD Creditor Reporting System.

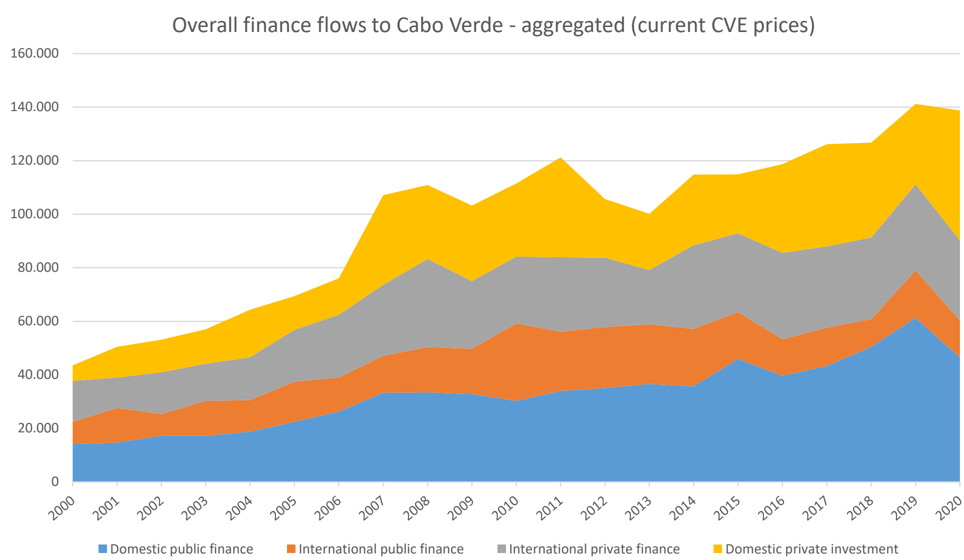

Figure 8: Overall finance flows (aggregated)

Sources: Ministry of Finance of Cabo Verde (internal data), Word Bank Open Data, OECD Creditor Reporting System.

DOMESTIC PUBLIC FINANCE

Several years of strong and positive macroeconomic developments and the process of consolidating public finance have thus been interrupted. After Cabo Verde's redesignation from Least Developed Country to Middle Income Country in 2008, the country's reduction in development aid flows could be substituted by strong performance of the tourism sector. Furthermore, the country depends to a large extend on foreign direct investment and remittances (around 30% of external finance). The strong dependence on tourism, which accounts for 25% of the GDP[39] has been exposing the country to sectoral vulnerabilities such as external shocks generated by Europe's economic crises in 2008 or the current pandemic´s travel restrictions and puts the countries path to sustainable growth at risk. The impact of Covid-19 on Cabo Verde's tourism-driven economy is shown in Figure 9.

Figure 9: The Impact of Covid on the Tourism Sector and GDP

Source: Ministry of Finance of Cabo Verde

39 World Bank, "Cabo Verde Second State-Owned Enterprises Reform and Fiscal Management Development Policy Financing," World Bank, 2020, https://documents1.worldbank.org/curated/en/733391597111272058/pdf/Cabo-Verde-Second-State-Owned-Enterprises-Reform-and-Fiscal-Management-Development-Policy-Financing.pdf.

Fiscal Revenue and Tax Policy

At least since the Addis Ababa Action Agenda (AAAA), fiscal policy has come to be recognized as a key aspect of governance and development. Since public finance is indispensable to a government's ability to manage public resources and offer public goods and services efficiently and effectively, the quality of Public Financial Management (PFM) systems is a prerequisite for implementing and achieving progress on the Sustainable Development Goals (SDGs). Especially in the COVID-19 context, it is essential to understand the current state of public financial management (domestic and international) as well as its governance in the face of the effects of COVID-19 so that Cabo Verde can increase its public investment for development results and achieve Ambition 2030.Domestic public finance (government tax and non-tax revenue plus grants and borrowing) in current prices has grown from US$ 199,71 million in 2000 to US$ 503,17 million in 2020.[40] This was driven by substantial growth in tax revenue, mainly in tourism, increase in donations, as well as high budget deficits in recent years. Covid-19 impact, caused a sharp deterioration of domestic public finance. Fiscal revenues excluding donations declined by 25% from US$ 532,5 million to 399,0 million in the period from 2019 to 2020. Tax revenue declined from 21,6 percent of GDP in 2019 to 19,6 percent in 2020, primarily due to the decline in revenue from tourism. Non-tax revenue excluding donations declined from 5,28 percent to 3,88 percent of GDP. This is a sharp decline compared to the growth period from 2014 to 2019, where fiscal revenues excluding donations increased from 21,17% of GDP (2014) to 26,87% of GDP (2019). In this period, tax revenue rose from 17,52% of GDP to 21,59% of GDP mainly driven by the harmonization of value added tax (VAT) rates at 15 percent across all sectors, the introduction of a new tax framework for micro and small enterprises as well as new taxes on tourism and ecological related activities.

At the same time, public expenditure increased by 2.7%, mainly in the social protection, health, and education sectors, as well as measures to mitigate the impact on businesses and employment. For 2021, the effects of Covid-19 remain significant. The level of economic activity will remain below 2019, affecting the collection of tax and non-tax revenue, together with the increase in expenses arising from the need for state intervention in the scope of measures to strengthen the health system and socioeconomic measures. This leads to current projections for primary balance of -4,43% and an overall deficit of -13,67%. With this, the public debt, which increased from 124% of GDP in 2019 to 155.2% of GDP in 2020, should reach 158.6% of GDP in 2021.[41]

40 According to preliminary budget execution figures for 2020, since the final public accounts document for 2020 has not been released at time of writing.

41 Ministério das Finanças , "Orçamento Do Estado Retificativo: Novos Desafios, Novas Oportunidades 2021," Ministério das Finanças (DNOCP, July 16, 2021), https://www.mf.gov.cv/web/dnocp/proposta-or%-C3%A7amento-2021/-/document_library/oMOIm40QZOnu/view_file/1925127?_com_liferay_document_li-

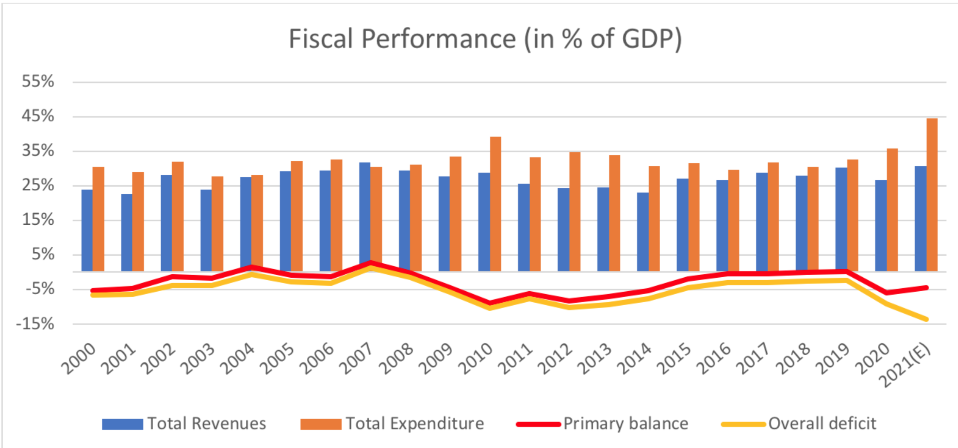

Figure 10: Fiscal Performance

Source: Cabo Verde Ministry of Finance

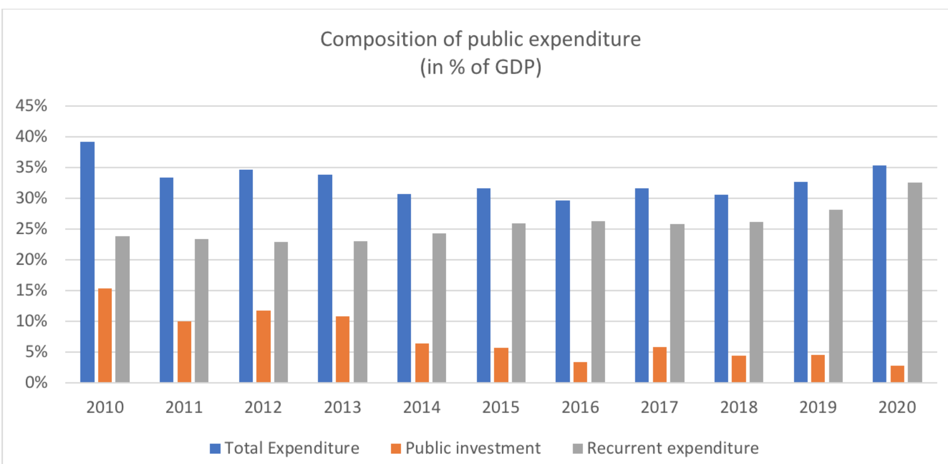

Figure 11: Composition of public expenditure

Source: Cabo Verde Ministry of Finance, Proposal of the modified 2021 budget.

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Tax policy and administration

The official government policy to mobilize domestic revenues is through measures of (i) reducing tax expenditures through the restriction of certain fiscal and customs benefits (ii) reduce tax evasion by revising the micro and small enterprises framework; and (iii) increase the excise tax rates for tobacco and alcohol as well as modernization and capacity building measures of the tax administration (see section below) such as introduction of electronic filing, reinforcing tax arrears recovery, improving fraud detection.

Despite being a small economy, Cabo Verde's tax-to-GDP oscillates around 20% before and after its LMIC designation. This figure is relatively high in comparison with 30 African countries, which have their tax-to-GDP ratio turning around 15% as shown in Figure 12.

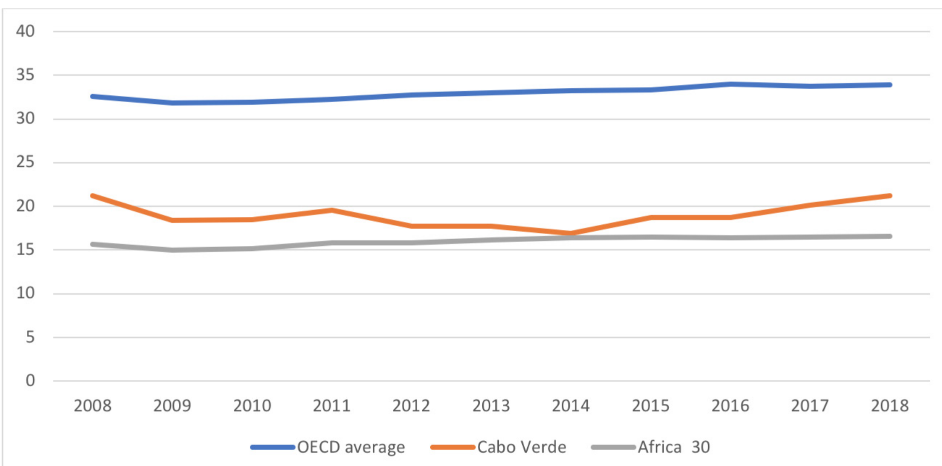

Figure 12: Cabo Verde's tax-to-GDP ratio in comparison with Africa-30

Source: OECD Global Revenue Statistics Database

Nevertheless, when compared to other SIDS countries[42] – although with a different degree of development – Cabo Verde's tax-to-GDP ratio is located at the lower third of peer countries and only slightly higher than the figures of Vanuatu and Papua New Guinea.

42 Due to availability on the OECD Global Revenues Statistics Database the Cook Islands, Fiji, Jamaica, Maldives, Papua New Guinea, Seychelles, Solomon Islands, Vanuatu were selected.

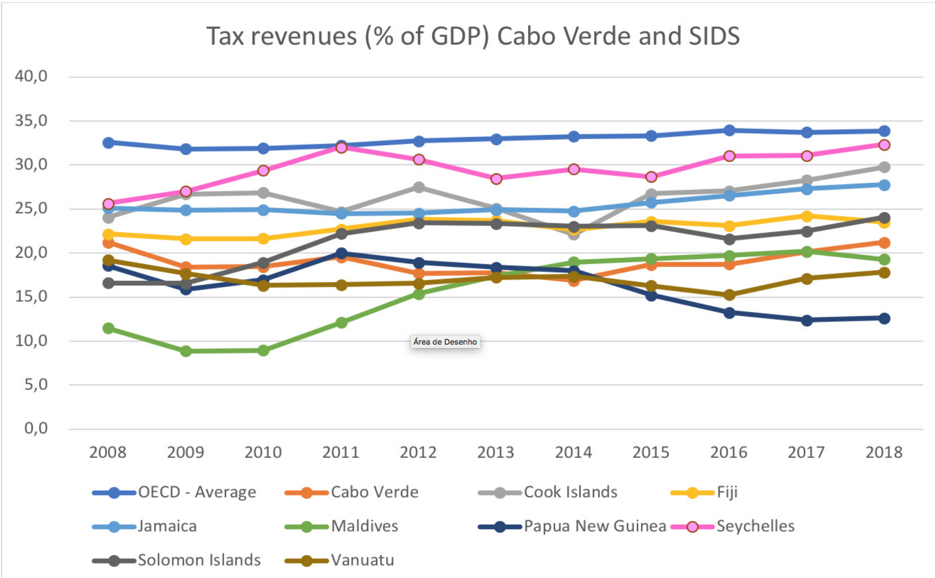

Figure 13: Tax revenues of Cabo Verde vs. SIDS

Source: OECD Global Revenue Statistics Database

The domestic resource mobilization is restricted due to the high degree of informal labour in Cabo Verde, which is assumed to amount to 60 % of employment and contribute to about 25% of GDP.[43] In 2015, the business sector consisted of approximately 33,000 informal firms providing around 40,000 jobs.[44] Furthermore, Micro, small, and medium-sized enterprises (MSMEs) represent 98% of firms, providing more than 40 % of employment.[45]

Personal income tax (*Imposto sobre o Rendimento das Pessoas Singulares* – IRPS[46]) focuses on the value of the income of natural persons, on which a variable rate of up to 27,5% of the calculation base is applied. Income is taxed according to its nature: wage labour, leasing,

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43 Amílcar Aristides Monteiro and Osmar Ferro, "Cabo Verde: Multi-Sector Market Study Focused on Tourism Value Chain Development," WUR (Ministry of Foreign Affairs, 2017), p. 28; https://edepot.wur.nl/421824

44 Ibid, p. 33

45 World Bank, "Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)," World Bank, November 2, 2017, https://documents.worldbank.org/curated/en/825171511262268770/pdf/Project-Information-Document-Integrated-Safeguards-Data-Sheet-Cabo-Verde-Access-to-Finance-for-MSMEs-P163015-Sequence-No-00.pdf.

46 Assembleia Nacional , "Lei Nº 78 -2014 - Código Do Imposto Rendimentos Pessoas Singulares," Lei nº 78 -2014 - Código do Imposto Rendimentos Pessoas Singulares § (2014), https://mf.gov.cv/web/dnre/legislacao/-/document_library/kawUcttkhMXD/view_file/64601?_com_liferay_document_library_web_portlet_DLPortlet_INSTANCE_kawUcttkhMXD_redirect=https%3A%2F%2Fmf.gov.cv%2Fweb%2Fdnre%2Flegislacao%2F-%2Fdocument_library%2FkawUcttkhMXD%2Fview%2F64542.

business, or professional activities, etc. The basis for calculating corporate income tax (*Imposto sobre o Rendimento das Pessoas Coletivas* - IRPC[47]) is profit, on which a 25% rate is applied. The transmission of goods and the provision of services are subjected to a Value-added tax of 15%. In 2014, with the aim to increase their competitiveness and formalisation a special Regime for Micro and Small Enterprises *(Regime Jurídico Especial das Micro e Pequenas Empresas* - REMPE[48]) was created. To avoid hampering of economic activity through high taxes and excessive red tape, microentrepreneurs as well as small enterprises are subject to a simplified tax of only 4% on gross sales and thereby compensate personal- and corporate income taxes as well as VAT. Taxpayers are required to self-assess the tax due by 31 May of the year following the end of the tax year. Taxpayers that meet at least one of the following criteria qualify as a 'Large Taxpayer' and are monitored by the Special Tax Office for Large Taxpayers: Turnover exceeding CVE 200 million, based on the annual income tax return; High level of inherent risk, based on a matrix developed by specific software; Taxes paid exceeding CVE 15 million, correspond to the sum of payments of CIT, WHT, VAT, and stamp duty.[49]

Cabo Verde has relatively high trade barriers, which present an important source of government's revenue (3,86% of GDP, 2008-2018 average), the highest average tariffs being levied on clothing, beverages & tobacco, coffee, and tea (see full list of tariffs on WTO tariff profile for Cabo Verde[50]). For 2019, Cabo Verde had a weighted mean tariff rate applied on all products of 11,55%. This is a decrease in 220 basis points compared to its rate of 13,75% in 2015. At time of writing, Cabo Verde ranks 31 in the list of countries with the highest mean tariff rate, behind the United States (rank 24), several SIDSs such as Maldives (rank 6), Solomon Islands (rank 10) and before São Tome and Principe (rank 38). When compared to other Small Island (Development) States, the import duties are relatively similar, since SIDS typically rely a lot on import duties / trade taxes as their source of revenues.

47 Assembleia Nacional, "Boletim Oficial nº 3, Série: Lei n.º 82/VIII/2015 § (2015), https://kiosk.incv.cv/1.1.3.1957/.

48 Ibid

49 PWC, "Cabo Verde Corporate - Tax Administration," Worldwide Tax Summaries (PWC, August 26, 2021), https://taxsummaries.pwc.com/cabo-verde/corporate/tax-administration.

50 World Trade Organization, "Tariffs and Imports: Summary and Duty Ranges," World Trade Organization, July 14, 2021, https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/CV_E.pdf.

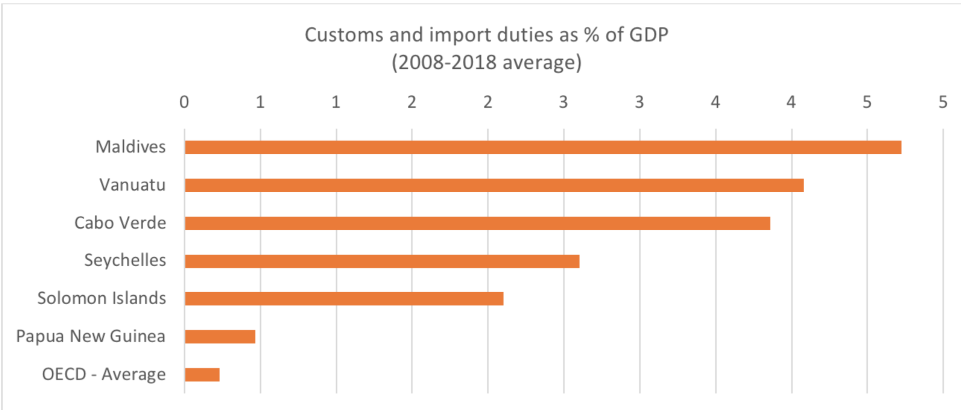

Figure 14: Customs and import duties

Source: OECD Global Revenue Statistics Database

In addition to customs duties and VAT, government revenue is derived from indirect taxes such as a special consumption tax (levied on selected products such as alcoholic beverages, tobacco, and petroleum products), an ecological tax on packaging, and a tourist tax.

As it is the case for many developed and developing countries alike (if excluding social security contributions), VAT is the most important source of tax revenue. Nevertheless, when compared to various regions such as Africa (30), Latin America and the Caribbean and OECD, Cabo Verde shows a relatively high contribution of VAT with 39% of total tax revenue composition. This can be explained by the fact that, besides raising revenue, the VAT is an efficient and pro-growth tax as it does not distort production decisions due to tax-credits.[51] Despite its advantages, the VAT bears some challenges for the revenue services since it firstly, shows high risks of non-compliance and evasion and secondly has a negative impact on in low-income individuals.[52] To counteract to the first, the government of Cabo Verde has recurred to tools for VAT compliance such as the electronic invoicing introduced in January 2021.

51 Ricardo Fenochietto and Juan Carlos Benitez, "IMF Working Paper: Encouraging Formal Invoicing and Reducing the VAT Impact on Low-Income Individuals," imfsg (International Monetary Fund, February 19, 2021), p.5, https://www.elibrary.imf.org/view/journals/001/2021/040/article-A000-en.xml.

52 ibid

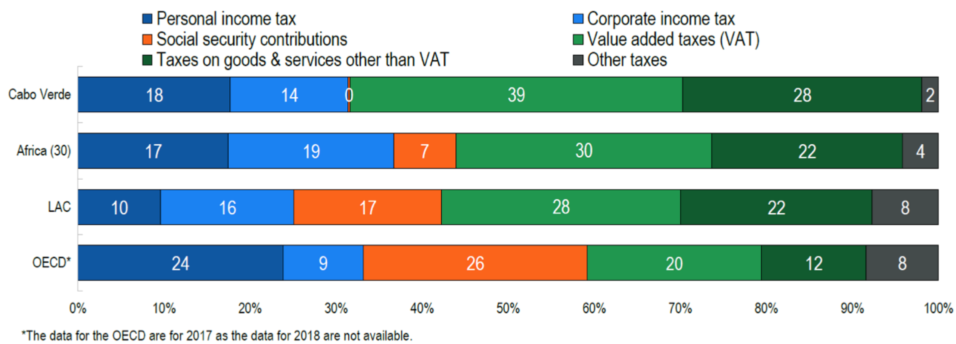

Figure 15: Cabo Verde's tax structure in comparison to other regions

Source: OECD Revenue Statistics in Africa 2020

In 2018, the Cabo Verde government's non-tax revenues amounted to 5,6% of GDP. This figure is lower when compared to the Africa-30 group of countries (6,5% of GDP). Sales of goods and services represented the largest share of non-tax revenues in 2018, amounting to 3.0% of GDP and 53.1% of non-tax revenues. In comparison, the Africa-30 group of countries only accounted for 0,6% of this non-tax category.

According to the 2019 IMF Tax Administration Diagnostic Assessment Tool (IMF-TADAT), the Cabo Verdean tax authority has been achieving improvements in the implementation of modern practices in tax administration. The ongoing improvements of the tax-payers registry, initiatives to automate the processes of alerting taxpayers, notification, and massive cross-checking of data; the reformulation of the tax authority's website, as well as clear efforts to guide taxpayers about their rights and obligations were mentioned as positive. There are, however, areas in which the implementation of good international practices is still at an embryonic stage, risk management, VAT refunds and the participation in elaborating sound forecast on government revenue.[53] Cabo Verde's tax administration receives various technical assistance measures by the IMF through the regional technical assistance centre (AFRITAC), in areas such as risk management for customs, risk management for revenue administration, integrity strategy;[54] as well as through the Revenue Mobilization Trust Fund (RMTF) in the areas such as of electronic invoice design, strategic plan for the revenue administration, strengthening the tax payer register, deployment of IT-solutions, tax administrations institutional assessment.[55] In terms of tax transparency, Cabo Verde joined the OECD Global Forum on Tax Transparency in 2018.[56] Furthermore, to improve its network

53 IMF, *Tax Administration Diagnostic Assessment Tool -TADAT Cabo Verde* (Washington, D.C.: IMF, 2019), p. 7

54 IMF, *African Regional Technical Assistance Centre West 2– AFRITAC, FY 2019 Mid-Year Report* (Washington, D.C.: IMF,2019), p. 10

55 IMF, *Revenue Mobilization Thematic Fund FY20 Annual Report* (Washington, D.C.: IMF, 2020)

56 Thereby the government contributes to promoting and ensuring the effective implementation of international

to exchange tax information with other countries, the government expressed its intention to join the OECD Multilateral Convention on Mutual Administrative Assistance, which has since been approved and ratified by the Cabo Verde National Assembly in December 2019.

Ongoing reform measures and expected efficiency gains

Currently, the National Directorate for State Revenue -DNRE, is carrying out several reforms with the aim to increase the domestic revenue collection. The goal of the tax administration in the long term is to achieve a tax to GDP ratio of 30%, with the contribution from VAT of 38%, personal income tax 31%.[57] Current reform measures include the improvement of the tax payer's register, review of notification system to get tax payers being more active in submitting their tax declaration and paying their taxes on time, reduce tax evasion through better risk management and improved audit techniques, reduced tax evasion and fraud among others by clarifying the entry and exclusion mechanism into the Special Regime for Micro and Small Enterprises; increasing transparency by having MSMEs listing at least one bank account through which all payments and receipts are recorded.

Furthermore, as already mentioned above, as of January 2021, government has introduced the voluntary pilot phase of electronic invoicing. The measure was set within the overall objectives of boosting e-government, improving the taxpayer register and reducing transaction costs of taxpayers as well as to combat fraud and tax evasion. The electronic platform will provide economic data in real time, not only to the DNRE but also to the National Institute of Statistics. The decision to implement the measure can already be assessed positively, since several studies show the positive contribution of electronic invoicing to improving the business environment and to reducing VAT-evasion. By replacing more cumbersome paper-based processes, e-invoicing shows benefits for firms and the tax authorities alike.[58] Administrative and compliance costs are being reduced and the billing and payment systems can be integrated. For tax administrations, e-invoicing can provide real-time information which can be used to improve compliance checks.[59]

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standards, for closer co-operation between tax authorities worldwide so that they can obtain information necessary to ensure tax compliance, such as on cross-border investments. The exchange of tax information on request as well as the automatic exchange of information are the two global standards the Forum promotes.

57 Interviews within the DFA Financing Dialogues

58 Since computer literacy is low in certain segments of the informal economy, it is important that the use of the mentioned channels is optional and not obligatory so the Agenda 2030's principle of "leave no one behind" does not get violated.

59 Matthieu Bellon et al., "Digitalization to Improve Tax Compliance: Evidence from VAT e-Invoicing in Peru," IMF, 2019, p. 4; https://www.imf.org/en/Publications/WP/Issues/2019/11/01/Digitalization-to-Improve-Tax-Compliance-Evidence-from-VAT-e-Invoicing-in-Peru-48672.

For the Peruvian case, the IMF study concludes that that e-invoicing increased firm sales, purchases and value-added by over 5 percent on average in the first year after adoption, and that this impact grows over time. However, the effects seem to be heterogeneous across firms, with larger impacts among smaller firms and those firms at higher

Further the DNRE is undergoing a reorganization process to become a more independent tax authority, to improve its internal management processes as well as to introduce a new model on merit-based human resource management as well es introducing elements of performance-related pay schemes.

In terms of customs and administration of trade, another strategic reform project included in the DNRA reform agenda for the period 2020-2023 is the implementation of a single window for international trade (JUCE) aiming at the reduction of trade barriers and transaction costs internationally, thus leading to a reduction in the time and cost of clearance and consequent improvement of the Cabo Verdean business environment.[60] JUCE is aiming at integrating the Port Management Information System (JUP) used by the port operator ENAPOR, the electronic system of licensing/approval of imports and exports (*Título do Comércio Externo* - TCE), and the customs procedures of the General Directorate of Customs (DGALF).[61]

Further reform measures are being carried out in the area of tax expenditures such as tax incentives and tax exemptions. During the years, the government has granted several tax exemptions and incentives to various companies, often in the framework of large investment projects. Although that granting of tax incentives can be conducive to the completion of larger investment projects and attraction of foreign direct investment, this practice also has several downsides. First, it creates loss in government revenue which is estimated to be 25%.[62] According to World Bank [63]estimates the revenue loss due to exemptions at customs amounted to US$49 million or 68 % of tax expenditures in 2016, revenue loss due to conventions account for US$25 million (35 percent of total tax expenditures) and the IFI tax regime - not aligned with best practices, as was identified as non-compliant with the 'fair taxation' criteria established by the EU's Code of Conduct Group – amount to 5 percent of total tax expenditures. Secondly, it creates discrimination among enterprises since it mainly favours the large-size enterprises. Thirdly, it creates workload of the tax administration to oversee and monitor several different exemption agreements. In 2013, all tax and customs incentives were consolidated to one single piece of

risk of tax non-compliance, whereas the impact on the largest firms is statistically insignificantly. Furthermore, the study's results show that e-invoicing can improve tax compliance among specific groups of firms by lowering compliance costs and by strengthening deterrence effects.

60 Ministry of Finance of Cabo Verde, *Strategic plan of the DNRE 2020-2023* (Cabo Verde: Ministry of Finance, 2020), p. 21 https://mf.gov.cv/documents/54571/0/Plano+Estrategico+DNRE+2020-2023.pdf/9927d185-eae9-63bd-8725-32e1e7b7199c?t=1603063221677

61 World Trade Organization, *Cabo Verde Trade Policy Review* (Geneva: World Trade Organization, 2015), p. 27; https://www.wto.org/english/tratop_e/tpr_e/s322_e.pdf

62 UNCTAD, "Investment Policy Review of Cabo Verde," UNCTAD (United Nations, 2018), https://unctad.org/system/files/official-document/diaepcb2018d2_en.pdf, 36.)

63 World Bank, "Cabo Verde Second State-Owned Enterprises Reform and Fiscal Management Development Policy Financing," worldbank, 2020, https://documents1.worldbank.org/curated/en/733391597111272058/pdf/Cabo-Verde-Second-State-Owned-Enterprises-Reform-and-Fiscal-Management-Development-Policy-Financing.pdf.

legislation, which contributed to increased clarity to investors and at the same time lowered the associated monitoring costs for the authorities. Tax authorities are now required to publish, on an annual basis, a list of taxpayers (legal entities) to which tax benefits have been attributed. To meet eligibility, an investment project needs to be registered in the Cabo Verde Investment Office.[64] Also, the government created a formal benchmark model to systematically assess and publish all tax incentives. By defining the standard tax regime against which to compare the costs of different tax expenditures, the benchmark tax model will promote greater fiscal transparency and identify possible distortion of competition in the domestic economy.

Public Debt

At this time, public debt has reached values that exceed the maximum defined for it to be sustainable and within the limits imposed by law, aiming at the prudence and sustainability of public finances, avoiding the degradation of macroeconomic aggregates.

Box 1

Public debt – basic concepts

The term "public debt" is often used to designate different indebtedness realities, namely, the debt of the Central government or the debt of the entire public administrative sector, resulting only from recourse to public loans or also encompassing other liability situations, such as for example those that result from the deferral of payment of operations on goods and services, the retention of charges made on behalf of third parties, the bonus of interest rates and sureties and guarantees granted and overdue, among other situations.

When talking about public debt, some concepts should be very clear, namely:

Central government Debt (GC) – These are credit operations undertaken directly by the Central Administration, comprising liabilities resulting from other situations under the direct responsibility of the Central government;

Debt Stock – It is the amount disbursed by the creditor to the borrower, under a credit agreement, not yet refunded/refunded;

Internal Public Debt – These are State credit operations carried out in the country and in national currency. They can be held by investors residing in the national territory or abroad. Note that credit transactions must take place in the national territory;

External Debt – These are credits in foreign currency with creditors residing abroad, which may be multilateral, bilateral or commercial;

64 Ernst &Young, "Cape Verde Amends Certain Tax Regimes and Introduces Country-by-Country Reporting," Global tax news, July 10, 2020, https://globaltaxnews.ey.com/news/2020-5965-cape-verde-amends-certain-tax-regimes-and-introduces-country-by-country-reporting.)

Box 1 (continued)

External Public Debt – It is the external debt of the public sector;

The Country's External Debt is made up of the public sector's external debt, plus the country's private sector external debt;

Contingent liabilities – are obligations arising from direct or indirect State engagements that may or may not occur. If they occur, they require an immediate financial intervention by the State (they can be explicit or implicit Contingents);

Debt Stock – It is the amount disbursed by the creditor to the borrower, under a credit agreement, not yet refunded/reimbursed; and

Debt Sustainability - ability of a State to cover its contractual liabilities resulting from a loan agreement, without putting at risk the entire stability and dynamics of the country's economy.

Source: Cabo Verde Ministry of Finance

Public debt sustainability

Debt Sustainability refers to the ability of a State to cover its contractual liabilities resulting from a loan agreement, without putting at risk the entire stability and dynamics of the country's economy. Carrying out the analysis of its sustainability, it is assumed that a diagnosis of the debt portfolio, in a given period, is made, in order to conclude whether or not it is sustainable. Thus, it proceeds to measure the level of debt on and an analysis of the country's ability to meet its service obligations, present and future, without resorting to additional debt relief or debt rescheduling or accumulation of arrears. The level of resources and savings generated in Cabo Verde does not allow for the investments necessary for achieving Ambition 2030 or the level of socioeconomic development expected by the population more generally. The alternative to this lack of domestic savings is supplied by resorting to external savings for financing, that is, resorting to donations, foreign direct investment, and foreign loans.

Based on the impact that resources flows have or may have on the balance of payments as well as on present and future sustainability, it is advisable to be exercise prudence and due diligence, especially in financing via external loans, since donations and Foreign Direct Investment do not originate consideration or future debt.

Hence, the maximum levels of the country's indebtedness, both internally and externally, must be adapted to the country's needs at all times. These are defined in current legislation and are indexed to sustainability forecasts, that is, projections concerning the ability to repay the external borrowing without jeopardizing sustained growth. Therefore, debt sustainability and indebtedness limits also depend on the investment policy and the financing of the economic and financial profitability of the financed projects but also on the State's revenue collection capacity.

Contrary to external flows, State financing through domestic debt issuance may not have, in the short term, a direct impact on the balance of payments. However, the excess of domestic debt leads to a degradation of the business environment.

Current public debt of Cabo Verde

Data from the Ministry of Finance in its statistical report on public debt for the 4th quarter of 2020 published by the Directorate General of the Treasury, shows the evolution of public debt from 2018 to 2020, passing 229.008.4 million CVE in 2018, representing 124% of GDP, to 255,916.5 billion CVE in 2020, representing 151.3% of GDP. It should be noted that the External Debt, which in 2018 represented 91.45 of GDP, in 2020 began to represent 109% of GDP and a value of 184,536.8 million CVE. The internal debt, which in 2018 represented approximately 33.3% representing 61,099.3 million CVE, now represents 42.2% of GDP corresponding to 71,380.2 million CVE

	4th Quarter 2018	4th Quarter 2019	4th Quarter 2020
Public Debt balance	229 008,4	242 262,5	255 916,5
% GDP	124,7 %	124,1 %	151,3%
External Debt	167 909,1	176 805,8	184536,3
Domestic Debt	61 099,3	65 456,7	71 380,2
Total Disbursements	22 878,8	25 284,6	29 453,6
% GDP	12,5%	13,0%	17,4%
External Debt	7 039,4	11 744,5	14 922,6
Domestic Debt	15 839,4	13 540,1	14 531,0
Debt Service Total	14 950,1	14 718,2	17 822,7
% of Exports	6,0%	6,1%	14,1%
% of State Revenue	29,2%	25,1%	41,5%
% of International Reserves	9,3%	8,3%	9,0%
External Debt	5 389,3	6 074,1	5 759,0
Domestic Debt	9 560,8	8 644,1	12 063,7
Memory: GDP of the year	183 698,0	195 202,0	169 117,0

Exports	89 925,0	98 868,6	40 981,9
State Revenue	51 270,4	58 731,8	42 927,6
International Reserves	58 248,9	72 912,2	63 887,3

Table 4: Total Public Debt - Composition and indicators of Public Debt 4th Quarter 2020 (Millions of CVE)

Source: Cabo Verde Ministry of Finance

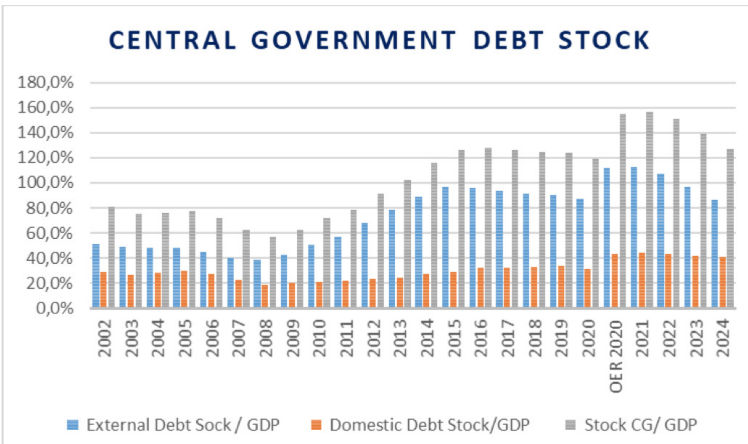

Figure 16: Debt Stock of Central government in percentage of GDP

Source: Cabo Verde Ministry of Finance – General Treasury Directorate- DGT

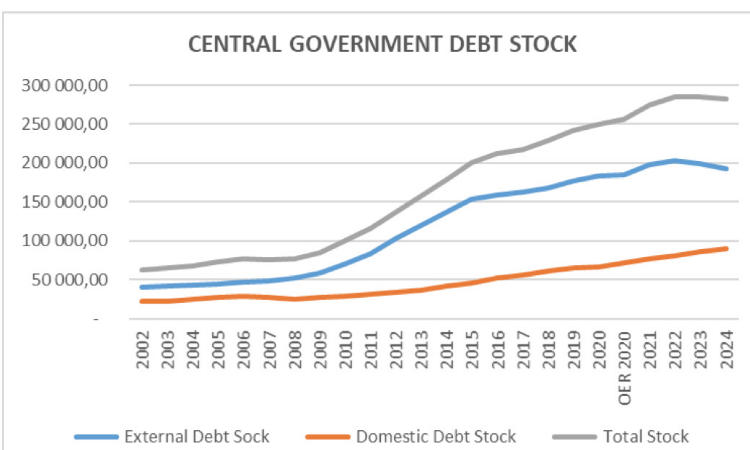

Figure 17: Central Government Debt Stock (Millions of CVE)

Source: Cabo Verde Ministry of Finance – General Treasury Directorate- DGT

As can be seen in the graph, there is a tendency for growth in both internal public debt and external public debt and therefore an increase in the debt stock over the last 10 years, with a forecast for 2021 to set at 156.7 % of GDP. It is true that this growing trend increases the service of the debt indexed to it, combined with an economic growth below the trend, reduces fiscal space or the capacity to accommodate expenses and investments, thus making it difficult to carry out the investments necessary for economic and social development of Cape Verde, taking into account the priority sectors defined in the PEDS 2017-2021 and in the 2030 sustainable development strategic agenda, which are linked to the fulfilment of the SDGs and the 2030 Agenda of the United Nations. When exceeding the limits of both external and internal indebtedness and in a pandemic context (Covid-19), the capacity to contract new loans or to issue more debt to finance investment needs is increasingly reduced. In such cases, one can run the risk of an increase in the tax burden, thus increasing tax revenues that will serve not only to accommodate public expenditures but also to settle the debt service.

It is also noted that an unrestrained increase in public debt could increase the country's risk and consequently increase the cost of external financing with a consequent increase in the interest rate, making future structuring investments for the growth and development of the economy more difficult.

	2018		2019		2020	
	Value	%	Value	%	Value	%
Public Debt	**229 008,4**	**124,7%**	**242 262,5**	**124,1%**	**255 916,5**	**151,3%**
External Debt	167 901,1	91,4%	176 805,8	90,6%	184 536,8	109,1%
Domestic Debt	61 099,3	33,3%	65 456,7	33,5%	71 380,2	42,2%
GDP	183 698,0		195 202,0		169 117,0	

Table 5: External vs. domestic public debt (Millions of CVE)

Source: Cabo Verde Ministry of Finance

According to data from the Ministry of Finance published by the General Directorate of the Treasury in the Public Debt Statistical Bulletin, if we take into account the official creditors of the debt stock, it appears that 48% of the debt is multilateral, 23.3% is bilateral and 28 % is made up of commercial creditors.

The laws pertaining to the State Budget[65] establish that the deficit of the State Budget financed with internal resources cannot exceed 3% of the Gross Domestic Product (GDP) at

65 Assembleia Nacional, "Boletim Oficial Nº 72 2019", https://kiosk.incv.cv/1.1.72.2840/, Art.14.

market prices. Moreover, public debt, internal and external, in the short and medium term, cannot exceed 60% of GDP at market prices. Furthermore, the long-term global public debt cannot exceed 80% of GDP at market prices

According to the Cabo Verde - Joint World Bank-IMF Debt Sustainability Analysis - Report, "Cabo Verde's risk of external and general over-indebtedness is rated as "high", as in the previous debt sustainability analysis (ASD). The present value (VA) of the external debt / public and publicly guaranteed GDP (PPG) ratio exceeds its limit in 2019-2022 under the baseline and prolonged under the stress test scenarios. The PV of total government debt-to-GDP ratio is expected to decline below its threshold from 2026 under the baseline and exceed its prescribed threshold in stress test scenarios. The debt sustainability assessment is based on sustained fiscal consolidation and successful restructuring of state-owned enterprises (SOEs). Prudent borrowing policies and a strengthened debt management strategy are essential to contain the build-up of debt. Given Cabo Verde's vulnerability to exogenous shocks, growth-enhancing structural reforms remain critical to bringing public debt to sustainable levels."

Also, according to Cabo Verde bank statistics, available through the April 2021 Monetary Policy Report,[66] 2020 was Cabo Verde's worst year in terms of economic performance since becoming a sovereign country. Gross domestic product in volume decreased by 14.8 percent, the current account deficit increased from 0.4 to 16.5 percent of GDP, the country's stock of net international reserves reduced by around 80 million euros and the deficit and public debt reversed the downward trend and settled, respectively, at nine and 156 percent of GDP at the end of 2020.

In the analysis of public debt, it is necessary to look at the contingent debt and the indebtedness of Public Companies and Local Authorities. According to BCV's Report on the State of the Economy in 2020, the debt contracted by Public Companies are mostly contracted with national commercial banks and amount to 24,607 million escudos, equivalent to 14.9% of GDP, of which 9.9 % in the form of loans, 3.7% in the form of corporate bonds and 1.3% in financial loans abroad. According to Cabo Verde - Joint World Bank-IMF Debt Sustainability Analysis - Report in 2018 in its "The contingent liability tailored stress test", this contingent liability reflected the vulnerability associated with: (i) domestic loans with public guarantee from ELECTRA, TACV, IFH, ENAPOR and CERMI worth 11.4 billion CVE (6.1 percent of GDP) and (ii) unsecured domestic debt of deficit SOEs totalling CVE 32.1 billion (17.3% of GDP) at the end of 2018.

66 Banco de Cabo Verde, "Relatório De Política Monetária Abril De 2021," Banco de Cabo Verde, April 2021, https://www.bcv.cv/pt/Estatisticas/Publicacoes%20e%20Intervencoes/Relatorios/Relatorio%20de%20Politica%20Monetaria/Paginas/RPM-Abril-de-2021-VF.aspx.

On the other hand, the 22 Municipality Chambers in 2020 had a debt volume of 5,945 million escudos equivalent to 3% of GDP and 95% of this debt was contracted through bank credit backed by State guarantees.

Impact of COVID 19 on Public Debt

The outbreak of the Covid-19 pandemic had a strong impact on the Cabo Verdean economy. The fall in aggregate demand, reflecting the fall in exports and private consumption, respectively, by 58 and 11 %, determined the worst performance of the national economy since the 1980s. Strict containment measures, drop in tourism arrivals and disruptions in global and regional supply chains led Cabo Verde's economy to shrink by 14.8% in 2020.[67] Further negative impacts on the economy were the loss of income of the active population due to layoffs as well as the repatriation of the vast majority of foreign residents in the country assigned to consular services, large companies, and international schools. The downturn had a negative impact on the GDP contribution of several sectors, most notably Accommodation and Restaurants (-70.7%), Transport (-32.9%), Business Services (-23.8%), Trade (-21.1%).[68] This represents a sharp contrast to the growth of 5.7% in 2019, mainly driven by tourism, transport, construction, and retail. For 2021 the GDP growth is projected to grow by 5.8%.[69]

The government adopted fiscal and monetary stimulus measures and enhanced social protection measures to support the economy and help the most vulnerable groups to cope with the impact of the pandemic. The government's policy measures and social protection taken by authorities have been supporting the economy and helping most vulnerable groups to face the impact of the pandemic. The shortfalls in tax revenues caused the fiscal deficit to rise to a 9.1 % of GDP in 2020, which is a sharp increase compared to a deficit of 1.8% in 2019. In the last ten years, the balance of public accounts (annual) of Cabo Verde has always been in deficit, with peaks in 2012 (-10.3% of GDP) and 2013 (-9.3% of GDP), declining to the minimum of -1.8% of GDP in 2019.

As a result, all macroeconomic aggregates deteriorated and, therefore, public debt ratios also suffered from the decrease in state revenue due to the large drop in tourism revenue, as well as the increase in expenditure above all to contain the health crisis. It should be noted that the considerable increase in the economy's financing needs led to the worsening of external vulnerability indicators. Hence, according to data from BCV's April 2019 Monetary Policy

67 International Monetary Fund, "Cabo Verde and the IMF," IMF (IMF, October 2021), https://www.imf.org/en/Countries/CPV.

68 ibid

69 International Monetary Fund and African Debt, "Cabo Verde: Third Review Under the Policy Coordination Instrument—Press Release; And Staff Report," IMF elibrary (International Monetary Fund, April 2, 2021), https://www.elibrary.imf.org/view/journals/002/2021/071/article-A002-en.xml.

Report, the significant increase in the State's financing needs determined the acceleration of public indebtedness, both with external creditors, by 10,805 million escudos (approx. 116 million USD), as with banks and others national creditors, respectively, in 3,100 million escudos (33 million USD) and 2,059 million escudos (22 million dollars).

Therefore, the stock of State debt including and excluding Consolidated Financial Mobilization Securities (TCMF) increased to, respectively, 268.4 and 257.1 billion escudos. By the end of 2020, the total public debt, including and excluding TCMF, exceeded 155% of GDP.

Designation	Exercise 2020*	Initial Budget 2021	Changes to the State Budget	Budget 2021	Budget 2021 Vs Initial Budget 2021
Public debt	25 5916	283 544	-5 292	278 252	-1,9%
Domestic debt	71 380	76 814	2 930	79 744	3,8%
External debt	184 536	206 730	-8 222	198 509	-4,0%
Global debt stock in % GDP	155,2%	145,9%	-	158,4%	8,6%
Domestic debt stock in % GDP	43,3%	39,5%	-	45,4%	14,9%
External debt stock in % GDP	111,9%	106,4%	-	113,0%	6,3%
*Data updated according to the latest public debt statistical bulletin					

Table 6: 2021 Public Debt Revision

Source: Cabo Verde Ministry of Finance and Business Development

Article 14 of Law 55/IX/2019 establishes the Basic State Budget Laws,

1. The deficit of the State Budget financed with internal resources cannot exceed 3% of the Gross Domestic Product (GDP) at market prices;

2. Public debt, internal and external, in the short and medium term, cannot exceed 60% of GDP at market prices;

3. The long-term global public debt cannot exceed 80% of GDP at market prices.

An analysis of table 6 referring to the review of public debt included in the Rectified Budget (RB) for 2021, approved by the National Assembly, it appears that despite an increase in domestic debt by 3.8% in the amount of 2,930 million CVE, it is expected a -4% decrease in external debt to the value of -8,222 million CVE, the stock of global public debt as % of GDP increases to 158%, with the stock of domestic debt increasing to 45% and the stock of debt external increase to 113%, an increase of 8.6%, 4.9% and 6.3% respectively, due to the reduction of the GDP revision by around -10%.

The financing of the deficit reprogrammed for RB 2021 will be ensured, either by external indebtedness, in greater volume, or by internal debt. The level of public indebtedness exceeds what is established by law and forces the government to find ways not only of flexibility but also of financing priority and future productive projects without compromising the dynamics of the economy.

Debt for climate swaps – an option for Cabo Verde?

The economic and financial repercussions of Covid-19 might give chance for a new and innovative financing instrument. Although according to International Monetary Fund projections, GDP in developing countries will rise by 6,3% in 2021 and 5,2% in 2022,[70] the economic downturn of the pandemic paired with constrained public finances make existing debts more onerous. Outstanding multilateral and bilateral debt totalled $738 billion and $424 billion,[71] respectively, in 2017. As has been the case with Cabo Verde, also in other countries public budgets have come under stress due to additional spending for combating the crisis and stimulating the economy. At the same time, countries vulnerable to external shocks, especially related to climate-change, have recognized increased need to ramp up climate resilience measures to guard against future shocks and build adaptive capacity at different levels. As for the Cabo Verdean national context, the current measures toward emissions reduction and building resilience as stipulated in the National Climate Policy and the NDCs represent important steps. Nevertheless, national efforts alone will not be sufficient for achieving mitigation and adaptation and securing the long-term sustainable development and decarbonisation of Cabo Verde.

In April 2020, the G20 and the Paris Club launched the Debt Service Suspension Initiative (DSSI),[72] agreeing on official bilateral debt service suspension for 73 eligible countries. As of April 2021, an estimated $12.5bn in debt repayments has been agreed to be deferred otherwise due to bilateral lenders in G20 member countries. The debt nevertheless must be redeemed in full over a maximum of six years once the suspension expires. The suspension period was originally set to end on December 31, 2020, but then has been extended through December 2021.[73] Cabo Verde is among the eligible countries and participates in the DSSI.[74] According to

70 IMF, "World Economic Outlook Update, July 2021: Fault Lines Widen in the Global Recovery," IMF, July 2021, https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021.

71 Michael I. Westphal and Shuang Liu, "In the Time of Covid-19, China Could Be Pivotal in Swapping Debt for Climate and Health Action," World Resources Institute, November 4, 2020, https://www.wri.org/insights/time-covid-19-china-could-be-pivotal-swapping-debt-climate-and-health-action.

72 G20, "Annexes," G20 Research Group, http://www.g20.utoronto.ca/2020/2020-g20-finance-0415.html.

73 Ibid

74 Overall, according to UNDP the DSSI has shown quite limited participation (only 46 of 73 eligible countries) and has had limited effects on debt relief (only $5 billion — roughly equal to 10% of external total debt-service scheduled in 2020 for all 73 countries). If all 73 had participated with their full eligible amounts, DSSI could have freed up $12.2 billion in 2020 and another $9.25 billion in the first half of 2021; Lars Jensen, "Sovereign

World Bank projections, Cabo Verde has achieved savings of USD 18 million (0,9% of GDP) until December 2020 due to DSSI participation. A further USD 15.8 million (0,8% of GDP) are expected to be saved for the time period from January to June 2021.[75]

International financial institutions (IFIs) and private creditors are being encouraged by G20 to provide debt suspension on comparable terms to the DSSI on a voluntary basis. Nevertheless, at time of writing, multilateral development banks have not yet adopted a debt relief mechanism similar to DSSI because of concerns about a possible negative impact on their credit ratings.[76] From April through December 2020, the World Bank committed $19.5 billion in financing for countries participating in the G-20 Debt Service Suspension Initiative (DSSI)—of which $6.8 billion was in the form of grants.[77] In April 2020, the IMF approved a USD 32 million disbursement of the rapid credit facility RCF in order to assist government to address the Covid-19 pandemic. Financing under the RCF is at concessional lending terms, which in this case means at zero interest rate, a grace period of 5½ years, and a final maturity of 10 years.[78]

Unfortunately, although private creditors have been engaging in the DSSI and followed dialogues through the Institute of International Finance (IIF), at time of writing no private creditor debt service has been suspended so far having as principal reason that no debtor government has requested private-sector involvement yet.[79]

As for several African countries, also for Cabo Verde the larger portion of official bilateral debts covered by the DSSI are owed to non-Paris Club countries, in particular China.[80]

Against the backdrop of commitments from donor countries to sustain concessional finance instruments to partner countries, as well as the global commitment to implement the Paris Agreement – as well as the promise of the most industrialised nations to help developing countries, by providing $100 billion in climate finance to countries vulnerable to the effects of climate change – an already "old"[81] concept appears to gain ground again at international level:

Debt Vulnerabilities in Developing Economies," UNDP (UNDP, 2021), p.4, https://www.undp.org/publications/sovereign-debt-vulnerabilities-developing-economies

75 World Bank Group, "Covid-19: Debt Service Suspension Initiative," World Bank (World Bank Group, December 22, 2021), https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.

76 Viterbo, Bhandary and Gallagher, *The Architecture for a Debt-for-Climate Initiative Background Paper #4* (Boston: University Global Policy Development Center 2020), p. 8

77 World Bank Group, "Debt Service Suspension Initiative," World Bank (World Bank Group, July 28, 2021), https://www.worldbank.org/en/news/factsheet/2020/05/11/debt-relief-and-covid-19-coronavirus.

78 *IMF*, April 22, 2020, https://www.imf.org/en/News/Articles/2020/04/22/pr20184-cabo-verde-imf-exec-board-approves-us-32m-disbursement-to-address-the-covid19-pandemic.

79 Volz et al., Debt *Relief for a Green and Inclusive Recovery - A Proposal* (Berlin: Heinrich Böll Foundation, 2020), p. 40

80 Consulate General of the People's Republic of China in San Francisco, "Wen Jiabao Meets with Cape Verde President," MFA, May 15, 2007, https://www.mfa.gov.cn/ce/cgsf//eng/xw/t319629.htm.

81 The first debt-for-nature was carried out in Bolivia in 1987, under which the NGO Conservation International acquired $650,000 of Bolivian external debt and in turn Bolivia agreed to provide the Beni Biosphere Reserve with maximum legal protection and to additionally create three adjacent protected areas.

debt-for-environment or debt-for-climate swaps (DFES). Since the 1980s about 30 countries have utilized debt-for-environment swaps providing more than $1 billion USD to protect the environment.[82]

In addition to financing it through the Budget Policy, increasing State Revenues and reducing Expenses, the government, together with the World Bank, the IMF, international partners, and NGOs, has been working to accommodate new forms of financing and renegotiation of the public debt, namely through:

1. Meeting with the various partner countries to renegotiate the debt. It should be noted that the government has already scheduled this round by creditor countries;
2. Negotiation to exchange debt for assets, a modality already suggested by the government, especially in relation to debt contracted with Portugal;
3. "Debt for nature and climate agreement to tackle the triple debt crisis, loss of biodiversity and climate change off the coast of West Africa" through Cabo Verdean NGO ADAD - Association for the Defense of Environment and Development, o IIED - International Institute for Environment and Development, UNECA - United Nations Economic Commission for Africa, BwB - Bankers without Boundaries, IUCN - International Union for the Conservation of Nature.

Box 2

How does a debt-for-environment and debt-for-climate swap work?

Generally, under this kind of swap, a country's debt is purchased at discounted value by a third party, which then transfers the title to the debtor country and assists to capitalize a trust that benefits from the reduced debt burden and commits to environmental conservation goals or reduction in carbon emissions. It is also conceivable that borrower and lender countries negotiate a more directly swap including debt relief in the form of debt forgiveness. Another way is what has been implemented in South Africa, where through the swap, the debt of a public institution (in the case of South Africa the public electricity provider) is restructured while undertaking a specific activity such the retirement of coal.[83] In order to be eligible for a debt-for-environment or debt-for-nature swap, it might be necessary that the borrower country carries out a thorough inventory of existing forests and plantings as well as monitor their evolvement. Because of the drawback of private investors from emerging markets bonds due to the Coronavirus-Pandemic, the debt-for-nature/climate swaps might see demand from the international private sector.

82 Picolotti et al. *Debt for Climate Swaps - IGSD Background Note* (Washington, D.C.: Institute for Governance & Sustainable Development, 2020), p. 4

83 Meridian economics, "The Role Of Transition Finance For Climate Mitigation," http://www.meridianeconom-

Box 3

Debt-for-nature swaps: Seychelles as an example for SIDS countries

In 2015 Seychelles initiated a major debt buyback agreement with the members of the Paris Club of creditors plus South Africa. By 2020, a size of 441,513 square kilometres, [84] equalling approximately the size of Sweden, was subject to a pioneering debt-restructuring transaction with the assistance of US-based environmental organisation The Nature Conservancy (TNC), the UN Global Environment Facility and UNDP. Under the transaction, Seychelles committed to increasing its marine protection from just 0.04 percent of its Exclusive Economic Zone to a full 30 percent.[85] In that area coral atolls, coral reefs, canyons, seagrass, lagoons, coastal mangroves and mudflats are now protected against unregulated economic exploitation. This represented the first debt conversion which focused on marine conservation. It also was the first one with policy commitment, having the government signed up to protect 30% of its seas.

TNC raised private capital (mostly philanthropic and loan capital) to gradually buy back 30 million of Seychelles´ sovereign debt[86] (US$21.6m as of 2020).[87] The loans are repaid to the specially created local trust, Seychelles Conservation and Climate Adaptation Trust (SeyCCAT). The trust then repays the US$15.2m in loan capital over ten years and funds US$5.6m of marine conservation and climate adaptation activities over a 20-year period. Furthermore, the SeyCCAT gives US$3m to an endowment that can fund similar activities in perpetuity. Civil society has broadly been involved in the planning of the protected areas, involving consultation with local citizens, businesses, scientists and agencies.

The main advantage of a DFES is, of course, its contribution to alleviate the fiscal pressure of the debtor country and thereby helping to create fiscal space for combating the socio-economic ramification of the Covid-19 pandemic. Secondly, they can generate long-term streams of government revenue for environmental projects and NDCs, thereby contributing to meet the 2 bn Euros Cabo Verde needs for the next 10 years of climate action.[88] Also, the DFES might help to generate leveraging of funds for environmental conservation.

ics.co.za/wp-content/uploads/2020/04/SA-Just-Transition-Transaction-proof-of-concept_Meridian-Economics_Master_v0.2-1_April-2020_compressed_final.pdf (The Meridian economics, April 21, 2020), http://www.meridianeconomics.co.za/wp-content/uploads/2020/04/SA-Just-Transition-Transaction-proof-of-concept_Meridian-Economics_Master_v0.2-1_April-2020_compressed_final.pdf.

84 World Ocean Initiative, "Seychelles Swaps Debt for Nature," The economist (The Economist Newspaper, April 8, 2020), https://ocean.economist.com/blue-finance/articles/seychelles-swaps-debt-for-nature.

85 The Nature Conservancy, "Seychelles Achieves 30 Percent Marine Conservation Commitment," The Nature Conservancy, March 16, 2018, https://www.nature.org/en-us/about-us/where-we-work/africa/stories-in-africa/seychelles-conservation-commitment-comes-to-life/.

86 SeyCCAT, "Our Evolution," SeyCCAT, 2020, https://seyccat.org/our-evolution/.

87 World Ocean Iniciative, "Seychelles Swaps Debt for Nature," The economist (The Economist Newspaper, April 8, 2020), https://ocean.economist.com/blue-finance/articles/seychelles-swaps-debt-for-nature.

88 Ministério da Agricultura e do Ambiente and International Climate Finance, "Cabo Verde 2020 Update to the First Nationally Determined Contribution ," UNFCCC (UNFCCC, February 2021), https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Cabo%20Verde%20First/Cabo_Verde_INDC_.pdf.

Nevertheless, DFES also have their disadvantages such as the limited impact on overall debt burden since they have resulted in relatively small amounts of debt relief because they were mainly negotiated by environmental NGOs with rather limited resources to implement large-scale programs. Furthermore, transaction costs can be high, and negotiations to achieve agreements can be lengthy. Finally, they are vulnerable to macroeconomic and political instability, as well as mismanagement of funds due to corruption.[89]

Especially DSSI signatory countries such as China, the world's largest bilateral creditor to developing countries, could play an important role in promoting the achievement of the converging objectives of both developing and developed countries to navigate the COVID-19 pandemic, curb economic shocks and deal with the climate crisis. As of November 2020, China has suspended debt service payments from 23 countries, worth a total of $1.353 billion.[90]

Following an analysis of the total outstanding bilateral debt of Cabo Verde, the following creditor countries could potentially play a role in designing a debt-for-nature/climate swap.

Volz et al. emphasise the urgent need for swift debt relief for developing countries to provide them necessary fiscal space to combat the current health and social crisis, the debt crisis and the climate and environmental crisis. They argue that first, the climate mitigation measures are key to avoid catastrophic climate change. Second, large-scale investments in adaptation will be necessary to protect people from the effects of the ongoing global environmental change harming to a bigger extent poor people. Third, greater climate vulnerability increases the sovereign credit risk, the cost of capital and therefore undermine public finances. Therefore, investment in adaptation is a good investment and will contribute to future debt sustainability.[91] This rationale also applies for Cabo Verde, its current debt sustainability, situation of public finances, vulnerability to climate-related external shocks as well as the need to financing its NDCs in a sustainable way. Therefore, a rapid action to swap some of the unsustainable public and private debt for climate protection could not only provide relief for public finances but also provide local green jobs, stimulate investment and promote a more resilient economic recovery.

89 Michael I. Westphal and Shuang Liu, "In the Time of Covid-19, China Could Be Pivotal in Swapping Debt for Climate and Health Action," World Resources Institute, November 4, 2020, https://www.wri.org/insights/time-covid-19-china-could-be-pivotal-swapping-debt-climate-and-health-action.

90 Reuters Staff, "China Says Has given $2.1 Billion of Debt Relief to Poor Countries," Reuters (Thomson Reuters, November 20, 2020), https://www.reuters.com/article/us-china-debt-g20-idUSKBN28009A.

91 Ulrich Volz et al., "Debt Relief for Green and Inclusive Recovery," DRGR (Heinrich Böll Foundation; Center for Sustainable Finance, November 2020), p. 48; https://drgr.org/files/2020/11/DRGR-report.pdf,

Analysis of public spending and the national budget

From 2010 until 2019, total public spending remained relatively stable at around 33 % of the GDP. The average composition of expenditures was characterised by recurrent spending of 25,67 % of GDP, public investment accounted for 7,36 % of GDP.

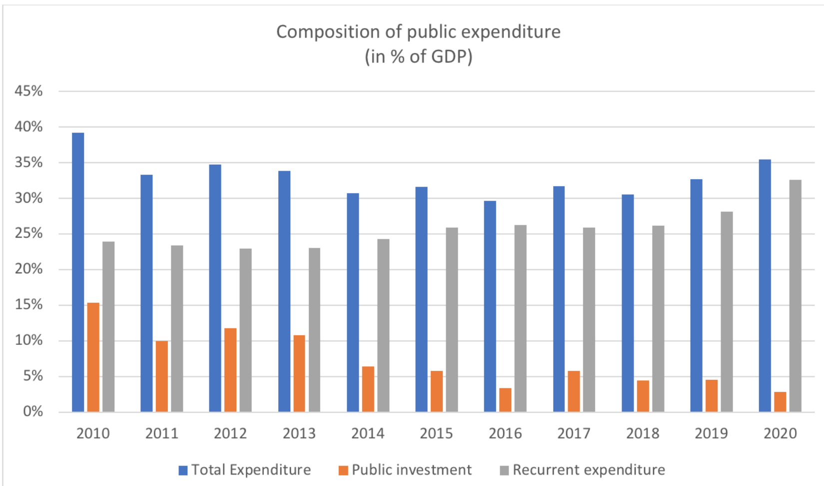

Figure 18: Public spending in percentage of GDP

Source: Ministry of Finance of Cabo Verde

As figure 18 shows, the ratio between government recurrent and capital spending on Cabo Verde could be improved towards more capital spending. Especially regarding the reactivation of the economy hit by the corona crisis and the long-term achievement of the SDGs higher public investment is key. A recent World Bank (2019) public expenditure review concluded that Cabo Verdes recurrent government spending is much higher than in structural peers, approaching 25% of GDP over the last decade (in Cabo Verde, spending is 2 percentage points above structural peers). Cabo Verde today has one of the highest current expenditure rates in the group of structurally similar countries, at around 7% of GDP.[92] Furthermore, capital expenditures in structurally similar countries were larger than those of Cabo Verde in recent years. In the last decade, Cabo Verde has had larger current expenses but lower capital expenses in relation to structural reference countries.[93] Cabo Verde utilizes more resources to public salaries than its peer countries but in return registers less expenses for goods and services.

92 World Bank, "Republic of Cabo Verde Public Expenditure Review : Revisiting the Efficiency of Public Spending to Reduce Debt and Improve Education and Health Outcomes," Open knowledge Repository (World Bank, 2019), p.39 https://openknowledge.worldbank.org/bitstream/handle/10986/31527/CV-PER-Final.pdf?sequence=1.

93 Ibid, p. 40

The budgetary response to the COVID-19 Pandemic

As mentioned above, the Corona Pandemic has had severe repercussions on government finances as well as reduction in receipt of remittances for Cabo Verdean families. Therefore the 2020 national budget, which had been elaborated under the assumptions of economic stability and especially strong growth of the tourism sector, needed to be reviewed during the year (*Orçamento Rectificativo 2020*).[94] In view of the new macroeconomic scenario as well as the social implications of the crisis, the amended 2020 budget focused on spending in the areas of health, social protection and economic stimulus to protect the income of companies, workers in the informal sector and guarantee income for those excluded by the social security system.

The modified budget provided a stimulus package which included a reduction to 10% of the value added tax for the tourism sector (previously 15%), the extension of the deadline for the payment of the corporate income tax (IUR-PS / PC); as well as the reduction of import tariffs and import related value added tax as well as a reduction of the customs exemption on the community tax rate. The reallocation of credits towards the strengthening of the investment programme reinforced the social and economic pillars of the PEDS, to the detriment of general public administration, institutions of sovereignty and the judicial branch as well as funding of management support.[95]

The credit lines and guarantees set up by the government brought relief to more than 500 businesses by sustaining their operations and contributed to maintain about 12,300 jobs.[96] Also, the loans to corporate sector, including micro, small and medium-sized enterprises through the special financing facility for banks as well as the prevention of layoffs through the suspension of employment contracts provided by the pension fund with government's support helped to safeguard around 32,000 jobs.[97] The capacity of government to respond to the external crisis with discretionary spending measures was quite limited due to the lack of fiscal space and the rigidity of budget.[98]

An analysis of total budget expenditure by functional classification of the last 3 years shows that biggest spending increases from 2019 to 2021 (in relative terms) were housing and

94 Assembleia Nacional, "Boletim Oficial Nº 97 – Série 2020" pp. 2201-2337, https://kiosk.incv.cv/V/2020/8/11/1.1.97.3361/p2201.

95 UNDP and ProPALOP-TL, *Anexo-Analise Da Proposta Do Orçamento Retificativo*, *Anexo-Analise Da Proposta Do Orçamento Rectificativo* (Praia, Cabo Verde: UNDP, 2020), p.21; The budget allocation of sovereign bodies and management and administrative support cost centers were cut by 100% in the personnel item (recruitment, promotions, training), 50% in occasional bonuses and overtime, 70% in funds travel and overnight stays and 20% in goods and services (office, fuel, lubricants)

96 IMF, *Cabo Verde – Third review under the policy coordination instrument, Staff Report* (Washington, D.C.: IMF 2021), p. 7

97 ibid

98 UNDP and ProPALOP-TL, *Anexo-Analise Da Proposta Do Orçamento Retificativo*, *Anexo-Analise Da Proposta Do Orçamento Retificativo* (Praia, Cabo Verde : UNDP, 2020), p.11

community amenities as well as social protection. When looking at the institutional classification (including the investment budget) and comparing the revised 2020 budget with the budget for 2021, the biggest increases are to the Ministry of Infrastructure (+154%), Ministry for the Blue Economy (125,9%) and Ministry for Agriculture and Environment (+44,1). The biggest reductions were made to the Ministry of Tourism and Transport (-47,8%), Ministry of Industry, Commerce and Energy (-21,9%) and Ministry of Health and Social Security (-21,2%). This shows the commitment of government to mitigate the pandemic's impacts to the vulnerable and most in need. In terms of spending in the health sector, a sharp increase (+ 33,1%) of the revised 2020 budget got reduced by 20,8% in the subsequent 2021 budget. This decrease is mainly due to a decline in the capital expenditures, since operating expenditures in the health sector increased by 6,5% from 2020 to 2021. In terms of spending in the educational sector according to the functional classification, budgetary allocations were reduced from 2019 to 2020 (revised budget)[99] by 5,3% and at the 2021 budget by 6,8%, which means a reduction for two consecutive years,[100] the budgetary allocations slightly increased by 0,9% at the reviewed 2020 budget and declined by 6,8% at the 2021 budget.[101]

Function	2018	% of budget	2019	% of budget	% Variation	2020 (rev.)	% of budget	% Variation	2021	% of budget	Variation
General public services	18.316	29,9%	21.355	29,9%	16,6	19.725	26,2%	-7,6	19.529	25,1%	-1,0
Defense	1.038	1,7%	1.051	1,5%	1,3	1.179	1,6%	12,2	1.177	1,5%	-0,2
Public order and safety	4.974	8,1%	6.057	8,5%	21,8	6.320	8,4%	4,3	6.095	7,8%	-3,6
Economic affairs	7.548	12,3%	8.942	12,5%	18,5	9.822	13,0%	9,8	9.372	12,0%	-4,6
Environmental protection	3.324	5,4%	1.894	2,6%	-43,0	2.464	3,3%	30,1	2.428	3,1%	-1,5
Housing and community amenities	1.733	2,8%	2.994	4,2%	72,8	3.923	5,2%	31,0	7.283	9,3%	85,6
Health	5.920	9,7%	6.891	9,6%	16,4	9.215	12,2%	33,7	7.302	9,4%	-20,8
Recreation, culture and religion	730	1,2%	849	1,2%	16,3	657	0,9%	-22,6	748	1,0%	13,9
Education	10.381	16,9%	13.334	18,7%	28,4	12.626	16,8%	-5,3	11.772	15,1%	-6,8
Social Protection	7.290	11,9%	8.107	11,3%	11,2	9.343	12,4%	15,2	12.188	15,6%	30,5
Total budget	61.254	100,0%	71.474	100,0%	16,7	75.274	100,0%	5,3	77.894	100,0%	3,5

Table 7: Evolution of government spending during the Corona-Pandemic (functional classification)

In order to cope with the fiscal challenges, at the beginning of the initial 2021 budget execution the government started to impose budget freezes for expenditures such as construction (with the exception of national contributions in international financing projects), reimbursement of Value Added Tax, advertising services, travel and accommodation as well as the acquisition of services and goods. Budgetary freezes in the areas chosen by government seem to be an appropriate means to respond to the tense fiscal situation and the government should keep on focusing on priority sectors as outlined in Ambition 2030. More limited resources and the need to ensure sustainable spending over an unforeseeable timeframe requires focus on strategic sectors to support sustainable economic recovery. In case the fiscal situation worsens and the budget cannot

99 It has to be noted that allocations at the 2020 initial budget compared to those of the revised 2020 budget rose by 0,9%

100 The total reduction from 2019 to 2021 amounts to 11,7%.

101 Also here, it has to be noted that the decline in due to a decrease in capital spending since the recurrent expenditures in the education sector increased by 12,3% from 2020 (revised budget) to 2021.

be consolidated through the revenue side by appropriate policy measures, the government should consider – despite previous public administration budget cuts – identifying further savings by carrying out expenditure reviews or simplified expenditure reviews applying international ratios and standards for comparison. The identified savings or efficiency measures would then serve to assure spending in the health sector and in mitigating the economic consequences for vulnerable families and microentrepreneurs.

Furthermore, this DFA encourages the government to review the efficiency measures suggested by the World Bank (2019),[102] which indicates that there is potential to reduce costs with the acquisition of medicines, with rental and maintenance, as well as with the contracting of professional activities. A reduction of the latter by up to 20% could reduce government spending by 0.4% of the GDP. A 20% reduction in spending on medications, rental and maintenance could economize another 0.13% of GDP. Also, adjustments of salaries and employment in the educational sector could generate savings. For example, a reduction of 5% on average salary could save more than 0.2% of GDP (in gross terms). Reduce the number by 10% of workers in education would save nearly 0.5% (not considering acquittance costs). At least, a 1% cut in these categories would generate savings 0.05% of GDP.[103] It should be noted that – as mentioned above – the total educational budget (including investment budget) by functional classification has already been reduced from 2019 to 2021 by 11,7%. Investing in human capital is key for Cabo Verde, nevertheless the results and efficiency in the educational sector should be reviewed with corresponding performance indicators (e.g. repetition rates) and accompanied performance enhancing measures (e.g. deployment of human resources among school and regions, performance related pay schemes, etc).

Planning and budgeting process

The Ministry of Finance through its Directorate for National Planning (DNP) is responsible for the elaboration of the national development, for monitoring the integration of the Agenda 2030 SDG's into national planning and the coordination of its implementation.

The Strategic Plan for Sustainable Development (Plano Estratégico de Desenvolvimento Sustentável – PEDS) covers a 5-year period. It consists of four strategic objectives, distributed in thirty-five programs, grouped into three pillars (economy, social and sovereignty) aiming at the realization of the national development plan and Cabo Verde's international commitments. The pillars and programs are linked to the SDGs to which they contribute. The main part of PEDS's impact indicators (74%) are SDG indicators. The PEDS is further aligned with the various sector plans and the budget documents.

102 World Bank, *Cabo Verde Public Expenditure Review* (Washington, D.C.: World Bank 2019) p. 57
103 Ibidem

At the territorial level, there are no operational consultation structures involving the various administrative actors in an integrated way, nevertheless, the ongoing UNDP project “Platforms” is strengthening the capacities of local actors in terms of articulation at various levels, strategic planning and local economic development.

The available spending restrictions as well as overall fiscal policy is determined by the medium-term fiscal framework (MTFF/QFMP), which is not legally binding and not approved by parliament. The MTFF is the basis for the medium-term expenditure framework (MTEF/QDMP), which is approved by parliament and covers a 3-year time period of which only the first year is legally binding. The MTEF is linked to the MTFF and the Medium-term debt framework (MTDF/QEMP), which are not approved by parliament.

CSOs recognize the PEDS as a fundamental pilar of Cabo Verde’s development planning. At the same time, the process of its elaboration has a strong top-down orientation. More participation for the several islands and regions should have been possible in the planning process for the 2017-2021 PEDS. The planning process should sufficiently consider the concept of administrative decentralization of Cabo Verde as well as consider measures at local level to respond to needs and challenges of municipalities.

The annual budget follows the institutional, economic and functional classification of expenditure in accordance with the IMF standard for the classification of the functions of government (GFS-COFOG) in the proposal of the budget law, in the approved budget, as well as in budget execution. Furthermore, there exists a programmatic classification, but at the moment only for the public investments projects (capital expenditure) and not for recurrent expenditure (which makes up the biggest part of the annual budget).

Box 4

The advantage of programme budgeting

The public budget is the central nucleus of the relationship between citizens and the State, since it defines the way in which public resources will be collected and allocated, which has a direct impact on citizens lives. Programme-budgeting can be a very useful tool to increase performance in the provision of public goods and services as well as to strengthen accountability budget transparency. Therefore, for several decades, the program budgeting technique has been promoted by development partners as a key instrument for the modernization of the sector pubic and, more specifically, to ensure the link between planning and the budget. It is important to understand that programme-budgeting is not simply about adding one more classification to the budget - it is a technique that also involves the alignment of the budget structure with planning, the definition of performance indicators for each program

Box 4 (continued)

category (program, sub-program, activity, project), monitoring and evaluation, and feedback from evaluations. The performance information is used to inform budget decisions in conjunction with other factors, such as policy priorities, the availability of resources or the commitments of institutional improvement, among others. Several countries have made substantial progress in the introduction of programme budgeting, such as Mali, Ethiopia, South Africa, Slovenia, etc.

Cabo Verde applies programme budgeting but only for the investment projects. Its is recommended to apply programme budgeting for the entire budget, including the current expenditures of the government.

The government is committed to constantly improving its public financial management system according to international standards and implementing the reform agenda in areas such as planning, budgeting, tax administration, debt management. The 2015 Public Expenditure and Financial Accountability (PEFA) assessment concluded that, with 24 indicators out of 28 having a score of C+ or above, the performance was satisfactory and showed an improvement to the previous PEFA of 2008 (13 indicators improved, 10 remaining at the same level, 4 deteriorated, 1 not comparable). Substantial progress was made with regard to the comprehensiveness and transparency of the budget, internal controls, as well as accounting and reporting.

The index revealed the following ranking: 1) Mozambique; 2) Cabo Verde, 3) Angola, 4) São Tomé and Príncipe, 5) East Timor and 6) Guinea Bissau. The assessment pointed out as weaknesses of Cabo Verde the delay in publishing the reports; the absence of initial appropriations at the institutional classification of the investment budget; the presentation of data for recurrent expenditure only at aggregated institutional level and not for sections/services; the presentation of modified appropriations only at a single level and only in the annual report for the recurrent expenditure and capital expenditure. In the quarterly execution reports data at institutional level is presented only for recurrent expenditures.

Regarding external control and accountability, in February 2018 a new law on external control was approved by the parliament. The new law concedes more powers to the Supreme Audit Institution (Court of Auditors) by increasing the scope of entities subject to external control, the adoption of performance audit and the possibility of carrying out concomitant audit.[104] The Court of auditors receives several multilateral and technical assistance measures, actively participates in the INTOSAI and AFROSAI working groups.

104 Assembleia Nacional, "Boletim Oficial Nº 7 série I: Lei N.º 24/IX/2018" (2018), https://kiosk.incv.cv/1.1.7.2468/.

According to Transparency International, in 2016 Cabo Verde ranked 2nd in Africa and 39th in the world in terms of low perception of corruption. More recently, according to the Afrobarometer, in 2017, one in five people considered that the level of corruption had decreased, being 5 percentage points higher than the level of 2014, and the proportion of people who felt that corruption had increased a lot or a little reached 39%, which is 10 percentage points less than in 2014. The number of persons who reported having paid bribes to persons for access to services in the areas of education, police services, health services, water and electricity services and in general to obtain documents did not exceed 7 in every 100.

The challenges of municipal finance in Cabo Verde

Cabo Verde is subdivided into municipalities, which are subdivided into *concelhos*. The official division, since 2005, includes 22 municipalities and 32 *concelhos*. At the administrative level, just below national government, are the municipalities, which administer the *concelhos*, and below these, the *freguesia* councils, which administer the *freguesias*. The *freguesia* is the smallest administrative entity. Municipalities consist of a city council — an executive body — and a municipality assembly — the legislative body. With the transition to democratic governance from the 1990s onwards the role of local autonomy and the democratic decentralization of Public Administration is safeguarded in the Constitution. At the administrative level, just below the government, are the municipalities, which administer the councils, and below these, the parish councils, which administer the parishes. The municipalities, in turn, are made up of a city council — an executive body — and a municipality assembly — a deliberative body. The National Association of Municipalities in Cabo Verde (ANMCV) promotes decentralization in Cabo Verde and represents municipalities before national sovereignty bodies, including the development of training activities for elected officials and professional development of local government staff.

Cabo Verde remains a country of huge regional inequalities and asymmetries, mainly due to the restrictions of its territorial discontinuity, the lack of an encompassing inter-island transport system which restricts the circulation of people, goods and services as well as the resulting difficulties to establish an operating internal market. Those disparities have been aggravated by the recent COVID-19 pandemic. As figure 19 shows, the incidence of poverty varies among the counties of the country, with São Filipe being the poorest county in Cabo Verde, with about 39.7% of the population living in this situation of deprivation. It is followed by the municipalities of Santa Cruz (31.8%), Paúl (30.2%), São Lourenço dos Órgãos (29.1%), and these belong to the group of 11 municipalities with the highest poverty rates, that is, with an incidence above the national average. Boavista is the least poor municipality (1.7%), followed by Sal (3.7%) and Ribeira Grande (6.2%), and these belong to the group of 11 municipalities with an incidence below the national average.

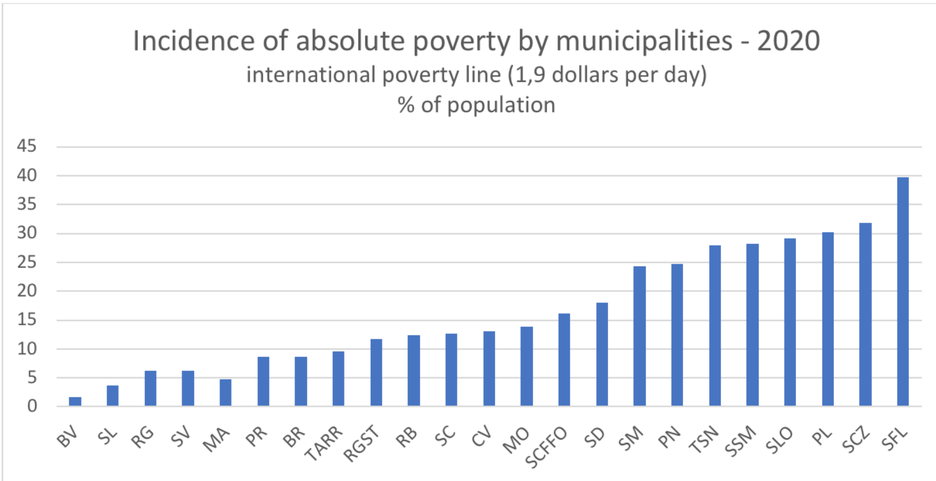

Figure 19: Absolute poverty by Municipality

Source: National Institute for Statistics of Cabo Verde

Lack of resources and (partly) ineffective spending

Despite the gains achieved in the field of financial decentralization over the last 20 years, Cabo Verde's municipalities remain, for the most part, structurally weak and lack the financial, technical, material and human resources necessary and adequate to carry out their tasks. This situation is aggravated by the low potential of revenues linked to local economic activities, limitations of structures and instruments and wider access to resources from tax revenues. As it is valid for municipalities in general, Cabo Verdean municipalities dispose of a quite limited revenue base from which to finance their public services. Furthermore, they lack incentives to generate their own revenues and do not fully utilise the existing revenue potential. Some municipality taxes and fees provided for in the Municipality Budgets are not collected, representing relevant tax losses. Most of the municipalities in Cabo Verde have limited capacity to assume the collection of municipality taxes. With the exception of the municipalities of Praia, São Vicente and Sal, municipality taxes represent no more than 10% of municipality budgets[105], which clearly shows a structural financial weakness. There need to be long-term solutions in order to increase tax base and diversify sources of income.

Municipalities have their own revenue that comes from the collection of municipality taxes, fees and share of tax revenues collected by the State and other co-payments for the proceeds

105 Afrosondagem and UNDP, "Diagnóstico Dos 20 Anos Do Poder Local Em Cabo Verde" (Ministério do Ambiente, Habitação e Ordenamento do Território, 2014), p. 330.

from the sale of land of Integrated Tourism Development Zones (ZDTI) and income of the industrial development zones (ZDI). But there exists some unclarity among the definition of responsibilities and competencies between the central government and the subnational entities. The existence of "gray" areas of legal uncertainty has been reason for conflicts over the years.

For example, the current *Law on Local Finance* clearly establishes the revenues that must be transferred to the municipalities, namely: The share of 49% in the proceeds from the sale of state land included in the Special Tourist Zones located in the respective territory; 50% of the rental proceeds for the use of airport areas paid to the State by the National Airport and Air Safety Company (ASA) to the municipalities that have airports or aerodromes.[106] Also, the government should compensate municipalities for tax exemptions from the Single Property Tax in recent years, in view of the provisions of the current Local Finance Law.

The literature on fiscal federalism[107] sustains, that decentralization can contribute to the development of institutional capacities to obtain development results to the extent that it allows a better allocation of resources by subnational government. Since the process of decentralization of Cabo Verde – in relative terms – is quite at an initial stage, the processes and possibilities for revenue mobilization at local level are not fully developed yet. Despite the increase in municipality revenues over the last 20 years, municipalities still rely heavily on central government transfers to carry out their activities and public investments. This is especially valid for smaller and economically less active municipalities. Moreover, there exists certain financial dependency on central government, because the different opportunities of the international, bilateral and multilateral public financing system are quite concentrated to central state administration. Local authorities have fewer possibilities for direct access to public international financing sources, which restricts the autonomy of Cabo Verdean municipalities in SDG implementation in accordance with their attributions, priorities and potentials. As municipalities are very dependent on central government transfers, is very important to support the efforts made by the municipalities towards diversification of its sources of income. In addition to the problem of scarce resources and the reliance of central government funds, data from World Bank (2019) on the Cabo Verdean education sector shows that public investment in school infrastructure is regressive. This means, that capital spending do not take into account aspects of equity and actual pupil enrolment. Municipalities with high net enrolment rate have minor investments for the period from 2000-2015. Further, the poorest municipalities (poverty rate above 50%) are those with limited investment spending whereas those municipalities with higher investment spending

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106 Assembleia Nacional, "Boletim Oficial Nº 36" | I Série: Lei Nº 79/VI/2005" (2005), Art.5, https://kiosk.incv.cv/1.1.36.471/,

107 See works such as Tanzi, A. Barreix y L. Villela "Taxation and Latin American Integration" (Washington D.C.: IADB, 2008) or Wiesner, E "Fiscal Federalism in Latin America: From Entitlements to Markets", (Washington, D.C.: IADB,2003)

have a poverty incidence below 45%. Additionally, the regional distribution of teachers also shows disparity among the regions. The ration of teacher/pupil (for both primary and secondary education) is lower in the municipalities with most needs and higher in the bigger and more developed municipalities such as Praia and Sal.

The possibility of borrowing – a double edged sword

The 2005 Law of Local Finance created the possibility for municipalities to borrow in order to create short-term financing instruments or for investments, whereby they require a guarantee from the central government. The annual charges for amortization and interest payment on medium and long-term credit, including those on debenture loans, must not exceed 15% of the value of current revenues and 25% of the value of investments made by the municipality in the previous year.[108] Although the possibility to borrow can unlock the investment capacity of municipalities at the same time it can create significant fiscal risk at country level, especially in face of the current high debt distress of Cabo Verde and if adequate supervision of the municipality public financial management is not guaranteed.

This seems to be the case, since at the one hand the audit process is resource intensive - neither the Ministries of Finance IGF (*Inspeccão Geral das Finanças*) nor the Supreme Audit Institution (*TdC*) have sufficient funds to inspect the municipalities. On the other hand, DFA interviews showed that most municipalities do not complete or make available the financial tables required by the Local Finance Act of 2005 and moreover there is no consolidated data on municipality indebtedness, if we also consider municipality debts to state-owned enterprises.

Delivering the Agenda 2030 to citizens – SDGs at local level

The implementation of SDGs at local level gained momentum in 2015, with the holding of the Conference on local and regional development, organized by the Municipality of Praia. Furthermore, the 4th World Forum on Local Economic Development, between 17 and 20 October 2017, under the motto "Local Economic Development as a means of achieving equality, equity and cohesion within the SDG framework called for an incorporation of municipalities in the development process."

The planning and implementation of the Agenda 2030 and the SDGs benefit from the *Platforms for Local Development and SDG localization.*[109] This institutional vehicle brings together

108 Assembleia Nacional, "Boletim Oficial Nº 36" | I Série: Lei Nº 79/VI/2005"(2005), Art. 8,10. https://kiosk.incv.cv/1.1.36.471/

109 The *Platforms for Sustainable Development and 2030 Goals in Cabo Verde* program, financed by the Grand Duchy of Luxembourg, in the amount of two million euros, for a period of three years (2017-2019), administered by the United Nations Program for the Development – UNDP and implemented by the Ministry of Finance and the

municipalities, State representatives at the local level, civil society organizations, universities and private sector entities to coordinate local sustainable development process. The *Platforms* and the municipalities have equipped themselves with Municipality Strategic Plans for Sustainable Development, aligned with the PEDS and the SDGs, which pursue a comprehensive vision of the country and define strategies based on an integrated and multidimensional approach for inclusive development.

A survey of the 22 municipalities in the country (16 answered) showed that 81.3% of municipality actors have good knowledge of the SDGs, 87.5% consider the SDGs as a reference for the action of their municipality, and 75% consider that their municipality budget to be in line with the SDGs. The same survey reveals that municipalities prioritize SDGs 1 (81.3%), 17 (75%), 5, 6, 8 and 11 (68.8%).

According to results of the financial dialogues in the framework of this DFA, municipalities consider as a main challenge for financial decentralization and SDG implementation on local level the necessity of a greater awareness of the government regarding the need for more financial resources allocated to local authorities. Also, the hope for additional SDG-specific funding lines by central government were mentioned, taking into account the low level of revenue collected in recent years, which accounts for about 22% of total municipality revenues. The current 2021 state budget foresees USD 43 million in funding for municipalities through the municipality financing fund. This represents an increase of 2.8% with respect to the previous year. Additionally, the current budget includes transfers of about USD 1,1 million to be distributed among the 12 municipalities with a population of less than 15,000 inhabitants.[110]

Monitoring and Evaluation / Statistics

DNP has been continuously improving its monitoring and evaluation mechanisms. Within the endeavour of implementation of the 2030 Agenda, those efforts have been intensified and DNP has developed several improvements to integrate monitoring and evaluation with the planning and budgeting process. The Law of the National Planning System (Law No. 72/VIII of 2014), defines, among others, the monitoring and evaluation function as a fundamental part of the planning process, defines the preparation of monitoring and evaluation plans at the program level and establishes the function of a monitoring and evaluation agent for technical support to the executing units at sectoral level for assistance in elaborating indicators and carrying out the monitoring exercises.[111]

Cabo Verde Association of Municipalities, aims to strengthen the capacities of local actors in terms of articulation at various levels, strategic planning and local economic development, also contributing to the global partnership for innovation in territorial development and local governance

110 Assembleia Nacional , "Boletim Oficial Nº 142 | I Série: Lei Nº 109/IX/2020" (2020), https://kiosk.incv.cv/1.1.142.3534/.

111 Assembleia Nacional, "Lei nº72/VIII/2014" PEDS:GOV:CV (Imprensa Nacional, 2014), art. 26,https://peds.

The Integrated Financial Management Information System (IFMIS) has been overhauled with the introduction of integrated budgetary and financial management system (Sistema Integrado de Gestão Orçamental e Financeira, SIGOF), with improvements in the quality of reporting of budget execution. Furthermore, progress has been made in the modernization of cash and debt management as well as the implementation of Treasury Single Account (TSA), which led to the closure of several bank accounts have been closed.

Principal weaknesses detected in PEFA was the credibility of the budget (in terms of the change in revenue between the original approved budget and end-of-year outturn), monitoring of fiscal risks of municipalities, the recovery of outstanding taxpayer debt, as well as legislative scrutiny of audit reports.[112] Furthermore, audit practices of the Cabo Verde's Supreme Audit Institution (Tribunal de Contas) were assessed as "[...] adher[ing] to international standards to a very limited extent."[113] In terms of transparency, the budget is publicly available on the Ministry's website, but the budget execution reports do not provide performance information on the delivery of public services, are just issued on a quarterly basis and are publicly available with delay.

The EU/UNDP funded PRO/PALOP-TL Programme created an index to measure the transparency of public finance platforms among the Portuguese speaking countries Mozambique, Cabo Verde, Angola, São Tomé e Principe, Timor Leste and Guinea Bissau.[114] The assessment revealed the insufficiency of data provision by the governments and difficulties to extract detailed information on budget execution. The results for the entire group of countries showed a low level of transparency and that a quarter of the necessary budgetary documents (approved budget, quarterly budget execution, annual report) are not being elaborated. Only 47% of them are produced and published without significant time lag in relation to the reporting period. The information made available is, in most cases, incomplete, little granular or presented with discontinuous form of aggregation and hierarchy throughout the cycle.[115]

gov.cv/sites/default/files/2018-06/Sistema%20Nacional%20do%20Planeamento.pdf

112 Nicolas Drossos et al., "Avaliação Do Desempenho Da Gestão De Finanças Públicas 2015- Relatório Final," PEFA (AECOM IDevEuropeSLe CESO Development Consultants, May 2016), p.10; https://www.pefa.org/sites/pefa/files/assessments/reports/CV-May16-PFMPR-Public-with-PEFA-Check.pdf

113 Ibid, p. 122

114 Programme for consolidating economic governance and management systems of public finances in Portuguese--speaking African countries and East Timor - *Programa para consolidação da governança econômica e sistemas de administração das finanças públicas nos países africanos de língua oficial portuguesa e o Timor Leste*.

115 UNDP, Pro PALOP-TL SAI *(Phase II) forthcoming publication "Transparency Index of the online budget data platform"*, (Cabo Verde: UNDP, forth.), p. 3

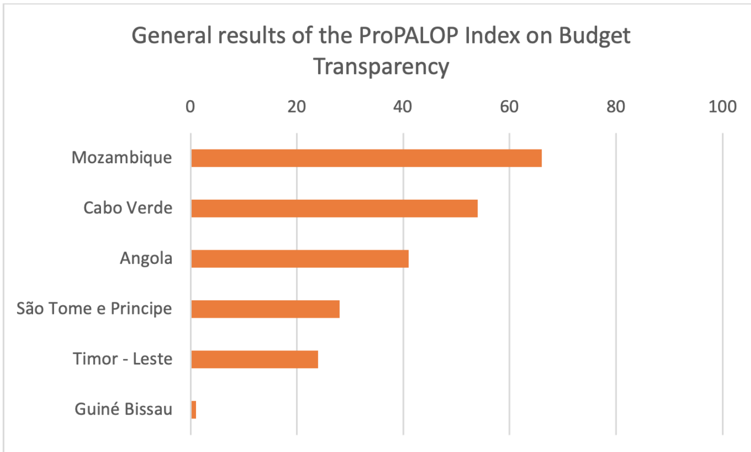


Figure 20: The Pro-PALOP index on budget transparency

In 2019, with support from the World Bank and UNDP, the conceptual design of the Monitoring and Evaluation System for Cabo Verde was prepared by DNP in close coordination with various actors of the public administration, according to which Cabo Verde's monitoring and evaluation system should serve the following purposes: (1) identify advances in achieving development goals and align PEDS priorities with financing, (2) alert when there are deviations from the predicted goals, (3) research deviations and weaknesses in implementation, unintended effects (positive or negative), and determine their causes, (4) promoting accountability and responsibility for results, (5) facilitating the generation and accumulation of learning and stimulating innovation and continuous improvement.

At time of writing, the recently elaborated conceptual design of Cabo Verde's M&E system defines M&E as an instrument for decision-making at program management and budgeting level and links program and policy execution to the respective national development plans (currently PEDS 2017-2021) and Sustainable Development Goals. The M&E system consists of three pillars:

1. Program formulation, which consists of applying the model of the results chain and generation of value in the public sector within the structure of a logical framework.;
2. Monitoring and evaluation processes, which contains descriptions of the procedures and responsibilities for collecting relevant data during the execution of the programs, analysing the results, preparing performance reports, and following up on recommendations and improvement plans; as well as
3. Information architecture, which defines the structures, relationships and procedures

necessary to collect, manage and analyse M&E information, and proposes a distributed platform to achieve connection to multiple data sources for its integrated analysis.

The M&E system presents the PEDS objectives at a higher level of performance, with their indicators and annual targets up to 2021. In the logical framework, each of the 35 programs defined in the PEDS has a set of specific objectives that are measurable through suitable indicators for this level. Figure 20 shows the linkage model between the structure of the specific objectives of the programs and the objectives of the development agendas (PEDS and SDGs). A program can contribute to multiple PEDS goals, and this in turn has a cross-cutting effect to strengthen the coordination and responsibilities of program managers.

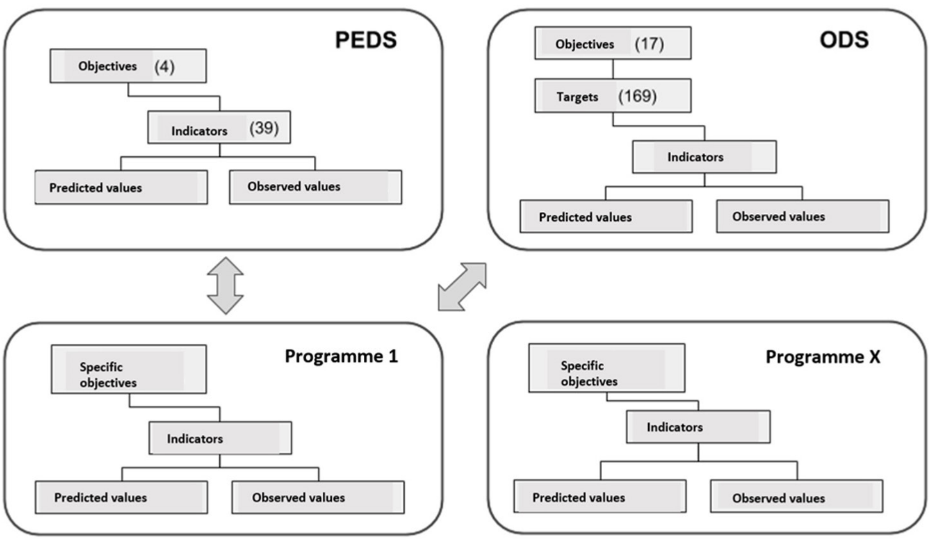


Figure 21: The link between programmes and PEDS / SDGs

Source: Ministério de Finanças 2021

The integration of the performance information produced by the M&E system into the broader policy and budgetary cycle has not been defined clearly yet. Performance information of existing government programs as well as on the expected performance of future programs is key for the next stage of the policy cycle: the allocation of budgetary resources. M&E information such as indicators but also evaluation findings facilitate the explanation of past performance and can be taken into consideration when making policy decisions so that the most cost-effective arrangement of policies and programs will be reflected in the national budget. The linkage of the budget management structure with the M&E system is currently being introduced but has not been completed yet.[116] Currently, there are already common programs in the budget structure based on PEDS, but the actual model does not allow the application of efficiency indicators.

116 see: UNDP, *MAPS/INFF scoping mission report 2019* (Cabo Verde: UNDP, 2019)

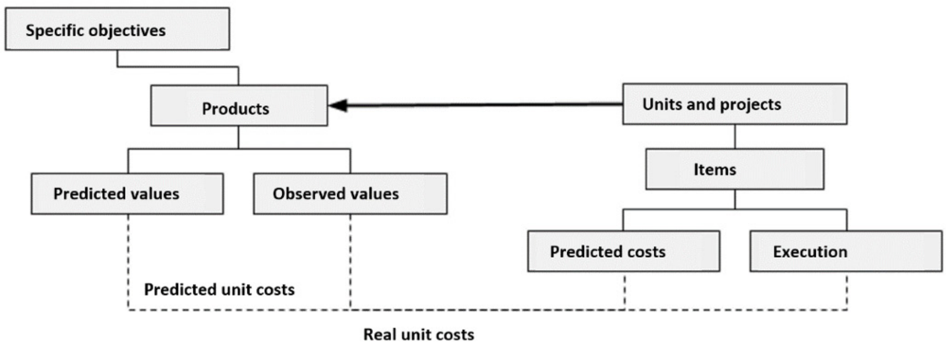


Figure 22: The link between products of the logframe and the budget structure

Source: Ministério de Finanças 2021

Figure 22 shows the potential relationship between the state budget structure and the results chain in the logical framework, making the link between the budget items of each cost centre and the physical products to be delivered, in the planning and execution phases, offering all the elements to measure the efficiency of the program. This link has two approaches, as the Finalistic Units and Projects may be divided into subunits or subprojects so that they correspond to the products in the logical framework, but in the case of the Support Units, their transversal nature allows to distribute relative percentages of financial contribution for more than one product.

Furthermore, the development of capacities for costing exercises should be considered. In order to assess the financial means necessary to achieve development goals, at least at broad level, it is necessary to know the costs of the budgetary programs. Even though this is an ambitious and long-term endeavour, DNP and DGPOG should have each year a better understanding by a thorough analysis of the programmes about the different costs of the activities necessary to implement the budgetary programs and produce the respective outputs and generate results. Thereby close cooperation with the sectorial ministries is key because they dispose of detail technical sector knowledge, can assess the different circumstances, goods and services necessary for service delivery. DNP is currently defining more clearly its M&E conceptual framework, reformulates the logical framework for programme design and elaborates tools such as the guidelines for the use of the logical framework and guidelines to carry out desk evaluations and impact evaluations. Furthermore, the institutional requirements for putting in place the M&E model, as well as an action plan to for establishing the National System for Monitoring and Evaluation are being defined in cooperation with development partners.

INTERNATIONAL PUBLIC FINANCE

International public finance only includes official development assistance (ODA), since data for other official flows (OOF) were not available by OECD-DAC for the time period prior to 2009. The OOF will be discussed in the corresponding section below. ODA only includes flows from official donors, including several non-DAC countries but excluding important South-South Donors such as China, Brazil and India. International private finance includes FDI and remittances.

Figure 6 above includes external government debt, excluding ODA loans. Since the primary deficit of Cabo Verde in the years prior to 2009 was lower than in the following years, ODA loans contributed to restructure non-concessional government debt and contributed to a reduction in the stock of external debt, keeping the ratio external debt/GDP below 50%. From 2010 onwards, both the concessional and the non-concessional part of external government debt started to increase. From 2002 to 2009, the average ratio of ODA loan disbursements to GDP was 3,35% whereas for the period from 2010 to 2015 this figure was 9,12%. This shows that increased spending needs of Cabo Verde were assisted by development partners contribution, notwithstanding of Cabo Verdes LMIC graduation in 2008. Despite this significant increase of concessional loan contributions, they could not make up for the increased government spending in the period from 2010 to 2015, which led to a rapid and critical increase of external government debt which has its repercussions up to date. The external debt to GDP ratio almost doubled between 2010 and 2015 from 50,8% (2010) to 97,0% (2015).

Figure 23 shows the composition of source of financing flows for the year 2020. International private finance is composed of foreign direct investment and remittances. Domestic public finance includes government debt and does not account for origin of investor and therefore includes government debt financed by external private entities/commercial banks. Domestic private investment is reduced by remittances propensity for investment of 36%.

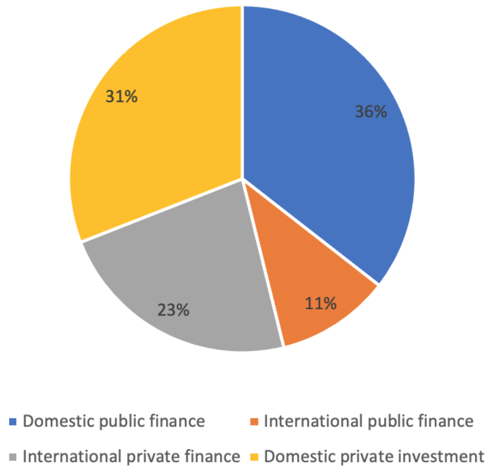


Figure 23: composition of financing flows for the year 2020(in percentage of total financing flows)

Sources: Ministry of Finance of Cabo Verde (internal data), Word Bank Open Data, OECD Creditor Reporting System.

In comparison to other LMIC, Cabo Verde still relies heavily on ODA despite its LDC graduation. The share of ODA in external finance on average for the period from 2000 to 2020 was 38%, reaching its peaks in 2010 (54%) and 2001 (53%) respectively. Although graduation from LDC to LMIC had not immediately affected the ODA allocations (development partner even increased spending in the years following the graduation), the impact has been rather delayed and showed impacts as of 2016 with an ODA share of 30% on external finance.

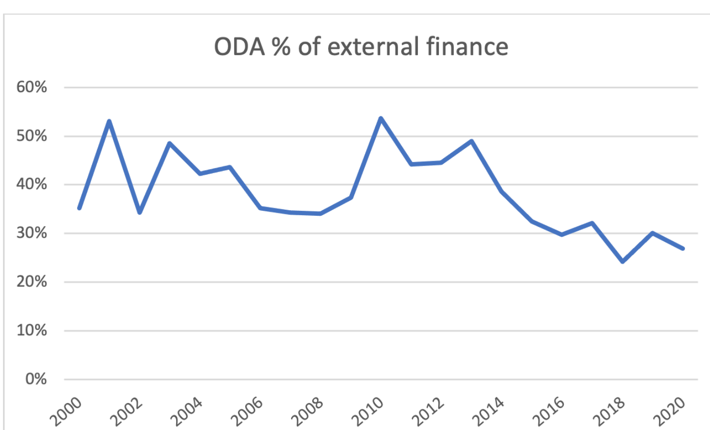


Figure 24: Share of ODA in external finance

Source: OECD Creditor Reporting System Database

Multilateral Governance

In 2009, Cabo Verde migrated within the AfDB from Category A (eligible for ADF resources only) to Category B (blend status)[117] and since then has been receiving concessional finance by the ADF on an exceptional basis.[118] Within the World Bank Group, Cabo Verde was reclassified as a blend country effective July 1, 2009, based on a formal creditworthiness assessment. However, because it has been granted Small Island Economies Exception (SIEE)[119] in 1997, it continues to be eligible for IDA Concessional Credits on Small Economy terms. Nevertheless, Cabo Verde is not eligible for IDA Grants because of its blend country status.[120]

The Corona Crisis has provoked several policy reactions at multilateral level. Cabo Verde's Covid-19 response was supported – among other donors – by the IMF through the Rapid Credit Facility of about US$32.3 million,[121] the Word Bank's Crisis Response Window (CRW)[122], as well as concessional budget support of the AfDB.

In March 2021, the International Monetary Fund offered its members Special Drawing Rights. Special Drawing Rights are mechanisms to which all IMF member countries are entitled, based on the principle that IMF reserves can be used to issue liquidity in times of crisis or in more exceptional situations. They are intended to provide additional liquidity to lower-income countries, which have not been able to provide the types of massive stimulus packages that advanced economies have offered during the pandemic. The IMF issued USD 650 billion worth of SDRs in August.[123] This support will be intensified by an ongoing IDA-20 replenishment.

117 African Development Bank, "2014-2018 - Cape Verde Country Strategy Paper," AFDB, March 2014, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2014-2018_-_Cape_Verde_Country_Strategy_Paper.pdf.

118 Although "blended" ADF access was set to exit in 2015

119 Countries are eligible for IDA resources based on relative poverty and lack of creditworthiness. In 1985, the Board approved an exception to this IDA eligibility criteria (the 'Exception') under which Small Island Economies (SIEs) are granted access to concessional IDA financing even if a county's per capita income exceeds the IDA operational cut-off, see IDA, *IDA18 Mid-Term Review, Transitioning out of IDA financing: A review of graduation policy and transition process*, p. 34; https://documents.worldbank.org/curated/en/648731542748974532/pdf/ida18-mtr-graduation-policy-review-10312018-636767929247403732.pdf

120 IDA, *IDA18 Mid-Term Review, Transitioning out of IDA financing: A review of graduation policy and transition process*, p. 35; https://documents.worldbank.org/curated/en/648731542748974532/pdf/ida18-mtr-graduation-policy-review-10312018-636767929247403732.pdf

121 "International Monetary Fund," *International Monetary Fund*, April 22, 2020, https://www.imf.org/en/News/Articles/2020/04/22/pr20184-cabo-verde-imf-exec-board-approves-us-32m-disbursement-to-address-the-covid19-pandemic.

122 The Crisis Response Window (CRW) provides IDA countries with a dedicated source of additional resources to (a) respond, as a last resort, to the impact of severe natural disasters, public health emergencies, and economic crises; and (b) respond at an earlier juncture to slower-onset crises, namely disease outbreaks and food insecurity. International Development Association, "Crisis Response Window," International Development Association (IDA, 2021), https://ida.worldbank.org/en/financing/crisis-financing/crisis-response-window.

123 "IMF," *IMF*, August 23, 2021, https://www.imf.org/en/News/Articles/2021/08/23/pr21248-imf-managing-director-announces-the-us-650-billion-sdr-allocation-comes-into-effect.

The replenishment is set to conclude by December 2021 and will include policy and financial measures to support 74 countries between July 2022 and June 2025.[124] This will bear direct relevance to Cabo Verde, since IDA is the largest source of concessional loans and grant finance for developing countries encompassing low-income-developing countries and lower-middle-income development countries with access to IDA funding through an exemption-clause as it is the case for Cabe Verde.

With regard to the African continent, these multilateral efforts will be aligned with the network of African Public Development Banks (PDBs), mobilizing the African Development Bank (AfDB) as well as sub-regional and national public financial institutions.[125] Similar to a replenishment of ADB[126] grant funds, the AfDB is seeking to ramp up funding for reactivate countries' economy hit by the pandemic.

ODA flow trends

Official development assistance (ODA) is defined by the OECD Development Assistance Committee (DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries.[127] Both, before and after graduation from LDC, ODA is a key source of finance for Cabo Verde and represents about 38,26% of total

124 The last IDA replenishment concluded in December 2019, under which donors agreed to pay in $82 billion over three fiscal years ending in June 2023. The ongoing replenishment is urgently needed because IDA's current management's intents to commit an additional $35 billion until by 2022, which will deplete most or the prior replenishment. See Clemence Landers, "IDA-20: Donors Must Go Big, and IDA Must Too," Center For Global Development, April 1, 2021, https://www.cgdev.org/publication/ida-20-donors-must-go-big-and-ida-must-too.

125 Déclaration du Président de la République à l'Occasion d'un Micro-Tendu avec le Président de la République Démocratique du Congo et de la Directrice Générale du FMI pour l'ouverture du Sommet sur le Financement des Économies Africaines, "Summit on the Financing of African Economies," *Summit on the Financing of African Economies* (May 18, 2021), https://www.elysee.fr/en/emmanuel-macron/2021/05/18/summit-on-the-financing-of-african-economies-1.

126 ADB Donors agreed to replenish Asian Development Bank's (ADB) Asian Development Fund (ADF) 13 and Technical Assistance Special Fund (TASF) 7, by more than $4 billion for the 4-year period from 2021 to 2024.

127 ODA flows are defined as those flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions which are provided by official agencies, including state and local governments, or by their executive agencies; and each transaction of which is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
is concessional in character. In DAC statistics, this implies a grant element of at least 45 per cent in the case of bilateral loans to the official sector of LDCs and other LICs (calculated at a rate of discount of 9 per cent);
15 per cent in the case of bilateral loans to the official sector of LMICs (calculated at a rate of discount of 7 per cent). 10 per cent in the case of bilateral loans to the official sector of UMICs (calculated at a rate of discount of 6 per cent). 10 per cent in the case of loans to multilateral institutions (calculated at a rate of discount of 5 per cent for global institutions and multilateral development banks, and 6 per cent for other organisations, including sub-regional organisations); see OECD, "Official Development Assistance – Definition and Coverage," OECD, https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/officialdevelopmentassistancedefinitionandcoverage.htm.

external finance flows for the period from 2000 to 2020. This pattern is in line with the majority of SIDS countries, for which concessional finance (ODA) represents the main part of official development finance (ODF).[128] Nevertheless, for Cabo Verde, a trend of reduction in ODA participation of external finance can be observed from 2014 onwards.

Due to the funding of a small group of donors (mainly Portugal and Japan), the total ODA (commitments, 2018 constant prices) has increased after Cabo Verde's LDC graduation in 2008 from 189,036 million in 2007 to 394,449 in 2012. Also, the ODA to GDP ratio has increased after LDC graduation from 12,6% in 2007 to 23,6% in 2012. After 2012 though, both total ODA and ODA-GDP ratio declined until 2017. Portugal represents 40 percent of total ODA to Cabo Verde between 2008 and 2016. The second largest provider of ODA was Japan (mainly related to strengthening water supply systems and desalination plants).[129]

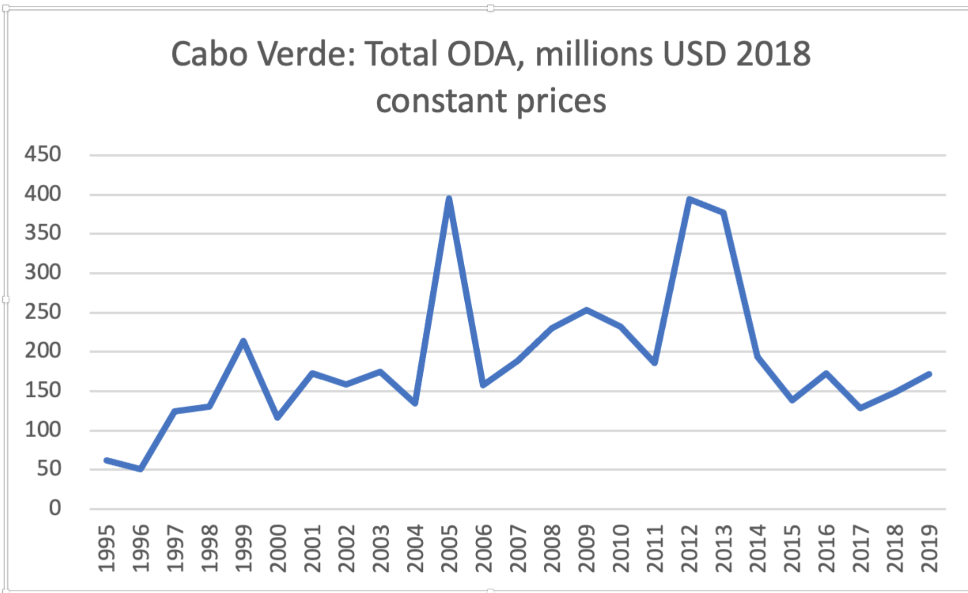


Figure 25: Total ODA in millions of USD (2018 constant prices)

Source: OECD CRS Reporting System

128 Official development flows (ODF) includes: (a) bilateral official development assistance (ODA), (b) grants and concessional and non-concessional development lending by multilateral financial institutions, and
(c) Other Official Flows for development purposes (including refinancing loans) which have too low a grant element to qualify as ODA OECD , "OECD Glossary of Statistical Terms - Official Development Finance (ODF) Definition," OECD, September 25, 2013, https://stats.oecd.org/glossary/detail.asp?ID=1893.

129 OECD, "Creditor Reporting System (CRS)," OECD, 2021, https://stats.oecd.org/Index.aspx?DataSetCode=CRS1.

Nevertheless, the ratio ODA to GDP has been declining with government's graduation from LDC to LMIC (12,6% in 2007 to 8,4% in 2019). Thereby government is inserting itself in the trend of other LMICs which show decreasing ODA as they go along with their development progress (see Figure 26).

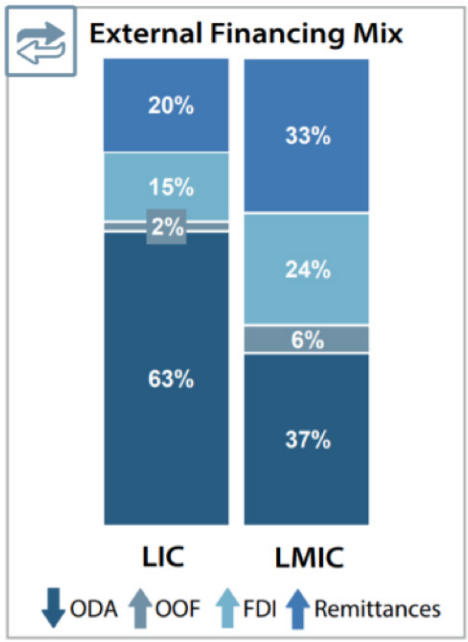


Figure 26: Composition of the external finance mix (Lower Income vs. Lower-Middle Income Countries) (Values as of 2018)

Source: OECD 2018

Nevertheless, the decline in ODA to GDP ratio has been lower than to the LMIC group of countries, because "small-state-exceptions" still allow Cabo Verde to access concessional finance (mainly through multilateral donors). From 2013 to 2014, the percentage of ODA in terms of nominal GDP (current prices) almost halved (from 18,5% to 8,9%). From 2016 onwards it remained at a relatively stable and low level around 3%. This corresponds to the evolution of Cabo Verdes GDP per capita, which rose sharply until 2008 (both at current prices and constant 2017 prices) and then, together with the impacts of the European financial crisis, stagnated at this high level.

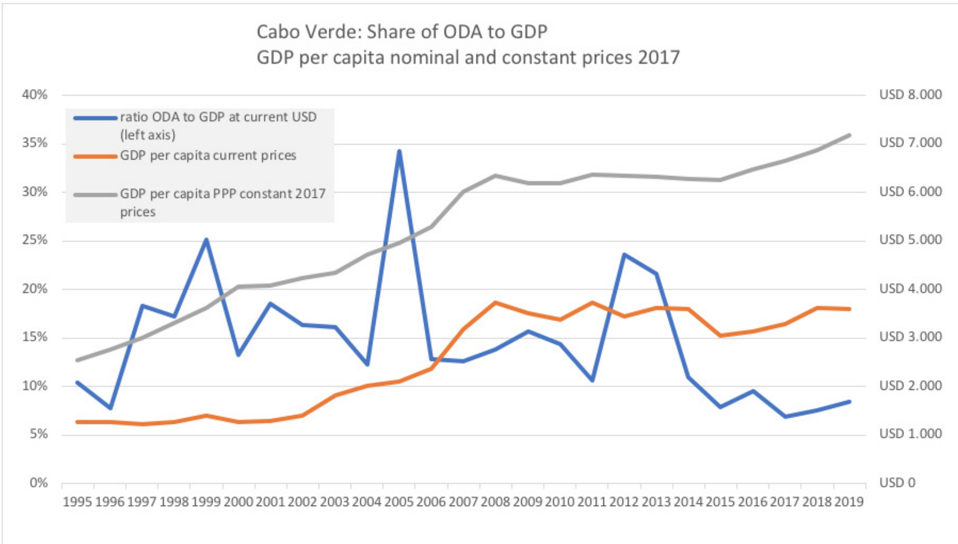


Figure 27: Evolution of ODA in relation to GDP (current and constant prices)

Source: OECD CRS Creditor Reporting System; World Bank

Cabo Verde remains dependent on ODA and other sources of financing have not reached optimal levels of substitution. Dependency on ODA is characteristic of SIDS. Cabo Verde also faces challenges to effectively raise other resources to finance sustainable development.

Key development partners of Cabo Verde are Luxembourg, the European Union, the WB, the AfDB, Portugal, Spain, the United States of America, Japan, the Netherlands, France.

Multilateral has been relatively constant during the last two decades. Whereas total ODA has declined a 73,33 percent (as of 2019) from its peak in 2010, multilateral ODA increased 31,5 % from its peak in 2010. Figure 27 shows, that the main reductions of ODA have been affecting the transportation and storage and education sectors (45% and 30% or USD 39.7 million to USD 25.6 million and USD 32.5 million to USD 22.7 million respectively) whereas the sectors of energy, water supply and sanitation have received upscaling (Portugal, Japan). This trend is driven by the shift in ODA provide by Portugal towards "other commodity assistance" (import support for capital goods) and other social infrastructure (since 2010) as well as support by Portugal and Japan in energy and water and sanitation.

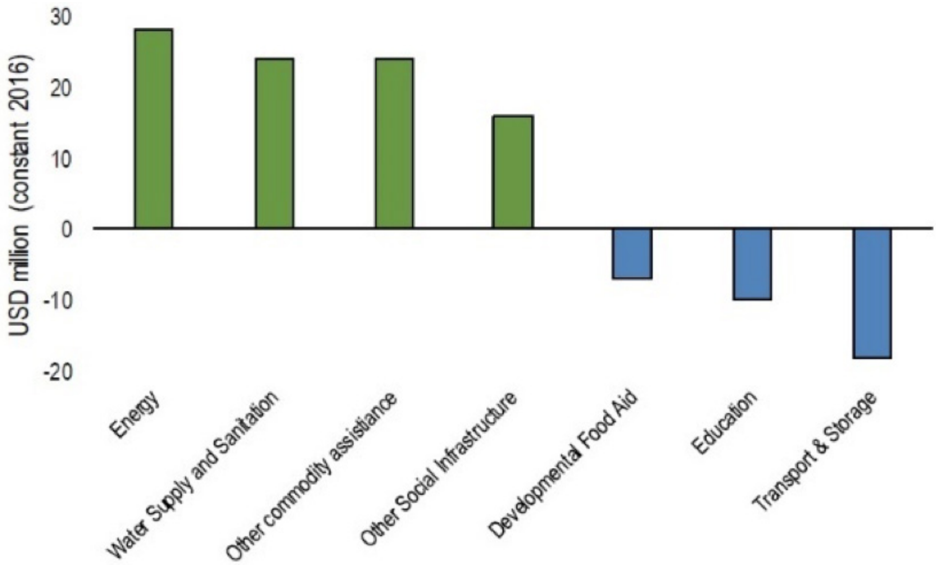
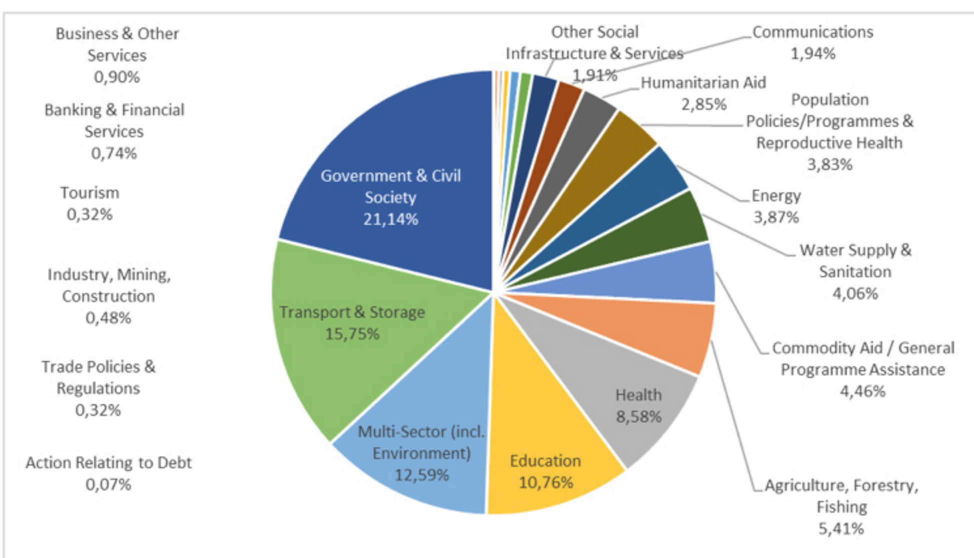


Figure 28: Change in ODA per sector after LDC-graduation of Cabo Verde

Source: OECD, Cabo Verde Transition Finance Country Pilot

LMIC-SIDS:



Cabo Verde:

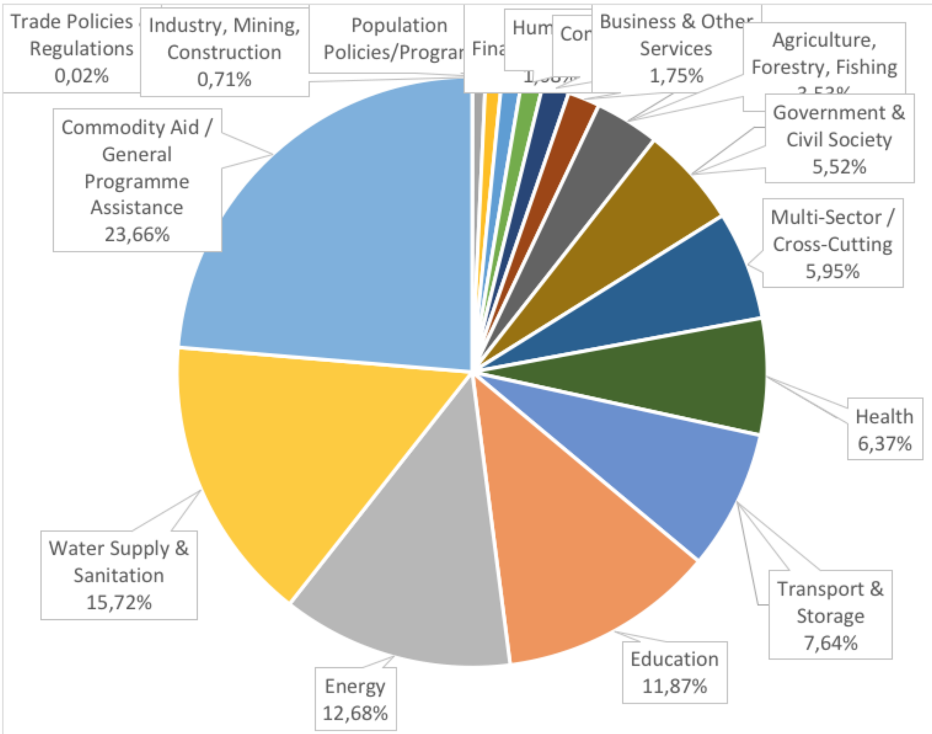


Figure 29: total ODA flows from 2010-2019 to Cabo Verde and LMIC-SIDS (ex-Cabo Verde) by sector, USD constant prices 2018, commitments

Source: OECD Creditor Reporting System Database

Comparing Cabo Verde's total ODA flows from 2010-2019 to a comparison group of LMIC-SIDS[130] the following flow trends can be observed:

1) Contrary to the comparison group, Cabo Verde received relatively more commodity aid and direct budget support. Out of the sector "commodity aid and general programme assistance", 38% corresponded to general budget support. For the LMIC-SIDS group, 78% of the segment "commodity aid and general programme assistance" related to general budget support. The total amount of general budget support in the 10-year period from 2009 to 2010 for Cabo Verde was 167 million USD, representing 9,10 % of total ODA. For LDIC-SIDSs this value amounted to an average per country of 75,81 million USD, representing 3,46% of total ODA. The main part of Cabo Verdes Commodity Support (89,43%) corresponded to import support (capital goods).

130 LMIC-SIDS comparison group consisting of: Comoros, Kiribati, Micronesia, Papua New Guinea, São Tomé and Principe, Solomon Islands, Timor-Leste, Vanuatu

Notably, this type of aid has no longer been provided to Cabo Verde since 2016.

2) Cabo Verde received less than half the ODA flows in the Transport & Storage sector (7,64% of total ODA, compared to 15,75% of the comparison group)
3) Cabo Verde received less than half the ODA flows in the Multisector and Environment field (5,95% of total ODA, compared to 12,59% of the comparison group)
4) Cabo Verde received relatively high ODA flows in the area of Water Supply & Sanitation (15,72% of total ODA, compared to 4,06% of the comparison group).
5) Cabo Verde received relatively high ODA flows in the Energy sector (12,68% of total ODA, compared to 3,87% of the comparison group).
6) ODA flows in the sectors of health and education have relatively similar volumes.
7) Cabo Verde received less than a quarter of ODA flows in the government and Civil society sector (5,52% of total ODA, compared to 21,14% of the comparison group

Concerning the disbursement of budget support, the predictability of foreign aid has improved during the last years due to the creation of the Budget Support Group (GAO) in 2005.[131] Currently the GAO is composed of the African Development Bank, the European Union, Luxembourg, Portugal and the World Bank. The group monitors and reviews government performance in key policy areas and conducts joint review missions twice a year. The GAO's coordination approach also helped to reduce the government's transaction costs, as well as to harmonize donor policies. To this end, the upcoming INFF architecture will contribute significantly with the establishment of the Strategy Coordination Council and inter-institutional sector working groups through which information sharing will be strengthened and dialogue on priority issues be assured. Each IWG will be co-chaired by the DNP with the DG or Head of the relevant sector and expert representatives of development partners with a key mandate in each sector for more in-depth sector and budget coordination.

Concerning the official development aid in form of project finance, still not all financing flows (directly in form of donations or indirectly in-kind) are registered in the budget. This is mainly due to differences in donor and recipient administrative processes in terms of public procurement, financial management and other regulatory requirements. Also, weaknesses in the monitoring of the implementation of aid financed projects makes a detailed and effective analysis of investment expenditure difficult. At shortcomings in the follow-up of the implementation of projects financed by external resources are due, to some extent, to lack of capacity. Training in the follow-up area is, therefore, quite a priority. In addition, it is also important that cooperation partners collaborate through the timely provision of information.

131 The first Budget Support Group included only the World Bank, the European Union and the Dutch Cooperation.

OOF flow trends

Countries' development and GDP growth is often accompanied by diminishing ODA receipts that are sometimes substituted by other official flows (OOFs). OOF is characterised as official sector transactions that do not meet official development assistance (ODA) criteria as determined by the OECD Development Assistance Committee (DAC). OOFs include: Grants to developing countries for representational or essentially commercial purposes; official bilateral transactions intended to promote development, but having a grant element of less than 25%; and, official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose. This category includes, by definition: Export credits extended directly to an aid recipient by an official agency or institution (official direct export credits); the net acquisition by governments and central monetary institutions of securities issued by multilateral development banks at market terms; subsidies (grants) to the private sector to soften its credits to developing countries; and, funds in support of private investment.[132]

As shown in Figure 32, Cabo Verde could not manage to sustainably increase its share of non-export OOF in total Official Development Finance (ODF). The participation of non-export OOF in ODF shows strong fluctuation and had its peaks in 2013 (20,5%) and 2018 (25,4%) and showed an average of 14,5% in the period from 2009 to 2019.[133] When comparing this figure to the LMIC-SIDS group of countries[134] Cabo Verde shows only a slightly higher OOF participation, since the latter only achieved a participation of 11%. This means that Cabo Verde follows the common trend of SIDS to struggle when it comes to attract higher levels of OOFs. Nevertheless, in the area of renewable energy the attraction of OOFs was quite successful in the case of Cabo Verde.

As mentioned above, SIDS benefit from the small island exception that allows multilateral providers to maintain concessional financing flows albeit higher income levels. According to OECD (2018, p. 138), this could create windfall effects, discourage financing sources other than ODA[135] and therefore, reducing the share of OOF financing for SIDS. Also, the low market size provides a challenge to attract more OOF or private finance. As it is the case for Cabo Verde, SIDS countries often show low rate of return for investment projects (especially in the

132 OECD, "Other Official Flows (OOF)," *OECDilibrary*, 2017, https://doi.org/10.1787/6afef3df-en.

133 2016 figures were omitted since data on 2016 non-export OOF was not available

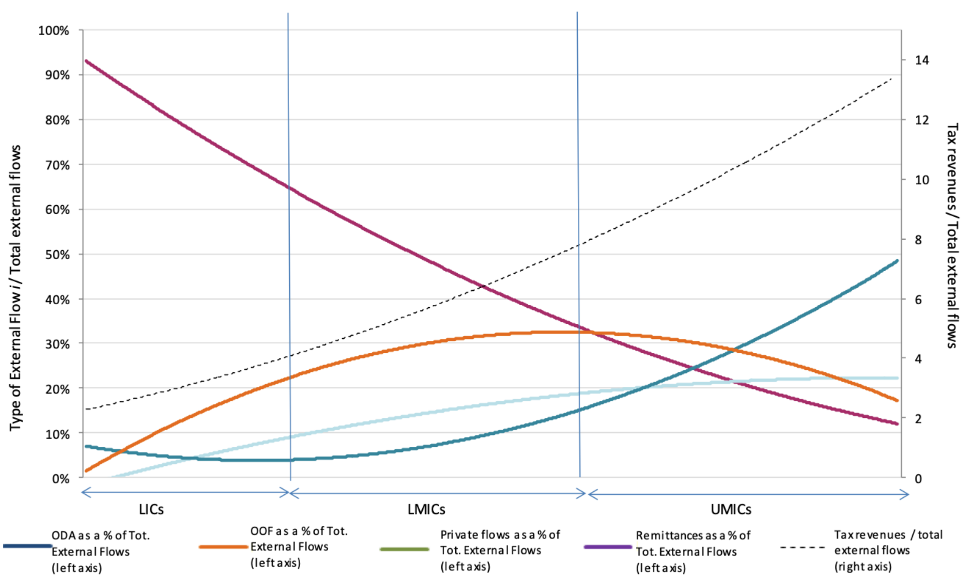
134 LMIC-SIDS Group consisting of: Comoros, Kiribati, Micronesia, Papua New Guinea, São Tomé and Principe, Solomon Islands, Timor-Leste, Vanuatu

135 "*For example, in the production sector, it appears that only the International Finance Corporation (IFC) and Korea provided non-concessional loans to LMIC-SIDS in the period 2012-16, and that there were just three new providers in the UMIC category (Inter-American Development Bank [IADB], International Bank of Reconstruction and Development [IBRD] and Belgium). However, SIDS would have been expected to have IBRD funds at LMIC status (in non-small island exception countries) as well, and, in general, a bigger diversity of non-concessional finance providers*" (ibid).

infrastructure sector) due to the lack of economies of scale and the provision of public goods to a small number of population.[136]

Also, in line with other SIDS, Cabo Verde's high levels of public debt could explain difficulties with regards to prospective access to non-concessional or private finance. High levels of public debt result in a higher risk of default, which makes borrowing more expensive because creditors will charge higher risk premium on capital.[137]

In order to achieve long-term development progress, Cabo Verde needs to continue shifting its financing mix from ODA to other, non-concessional financing flows such as OOF and private finance. Usually as countries go along their development pathways and transition from LDC to LMIC and UMIC, the relative contribution of the different financing flows to the overall financing mix change: ODA resources decline; OOF, private and domestic resource mobilisation (DRM) resources grow, and remittances parabolically decline. This means, at the same time, that a rapid decrease in ODA can result in SDG financing gaps, particularly if ODA is not substituted by other resources. Therefore, the ability to attract OOF and private flows has significant repercussions for the financing of SDG-related policy areas.



Average 2012-16, 2016 constant prices, USD billion disbursements

Figure 30: The mix of external flows changes as countries move along the development continuum

Source: OECD, International Development Statistics 2018.

136 Rachel Morris, Olivier Cattaneo, and Konstantin Poensgen, "Cabo Verde Transition Finance Country Pilot ," *OECDIlibrary*, November 23, 2018, p.35, https://doi.org/10.1787/22220518

137 OECD, "Sector Financing in the SDG Era," OECD, 2018, p.138, https://www.oecd.org/fr/publications/sector-financing-in-the-sdg-era-9789264307711-en.htm

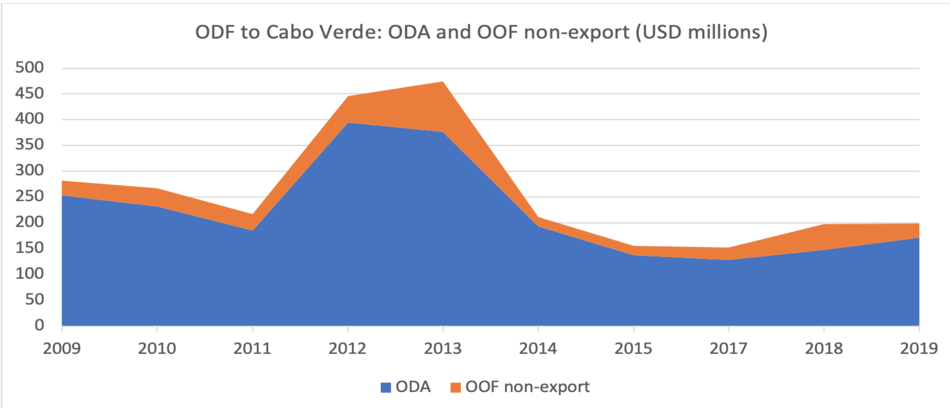


Figure 31: ODA and OOF (USD millions, 2018 constant prices)

Source: OECD, (2018)

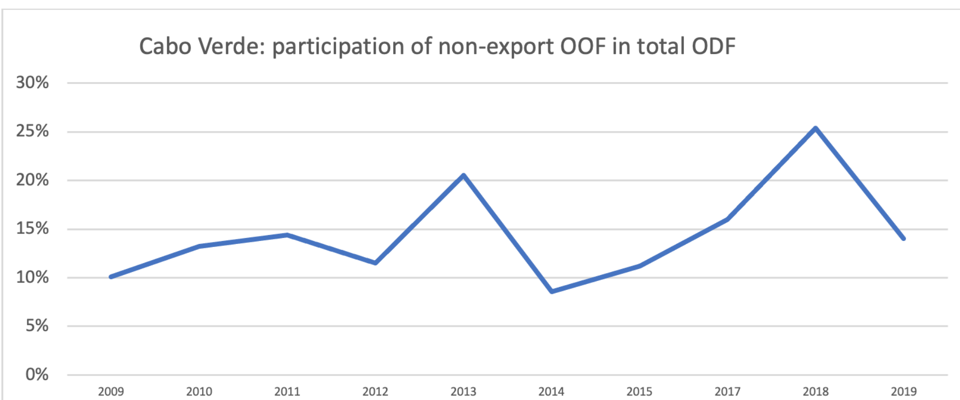


Figure 32: Cabo Verde participation of non-export OOF in total ODF

Source: OECD Creditor-Reporting-System; 2018 constant USD commitments; Official Donors; 2016 figures were omitted since data on 2016 non-export OOF was not available.

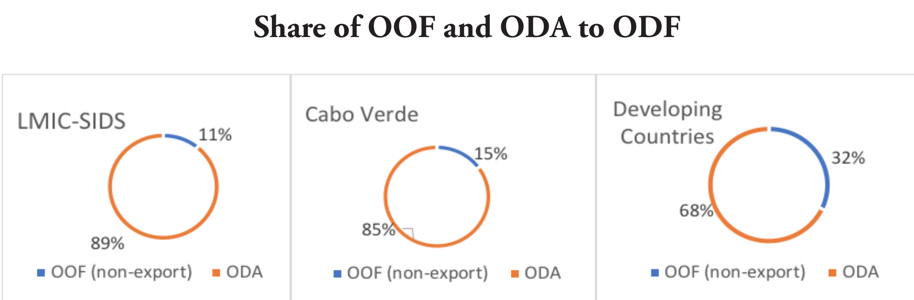


Figure 33: Concessional finance is the main part of Cabo Verdean

Source: OECD Creditor-Reporting-System; 2010-2019 average, 2018 constant USD commitments, LMIC-SIDS Group consisting of: Comoros, Kiribati, Micronesia, Papua New Guinea, São Tomé and Principe, Solomon Islands, Timor-Leste, Vanuatu

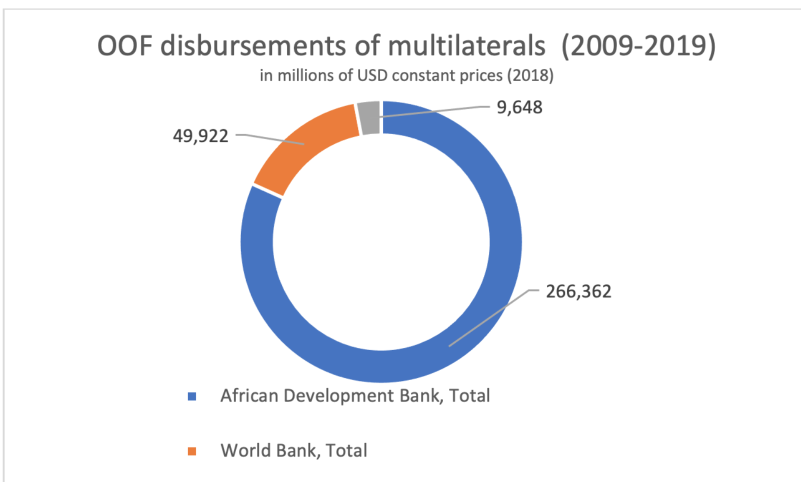


Figure 34: OOF disbursements of multilaterals

Source: OECD Creditor-Reporting-System

Figure 34 shows that the AfDB provides the majority share of OOF to Cabo Verde (81,7%) while IBRD and OPEC provide (15,3% and 2,7% respectively).

In order to tackle the challenge of mobilizing ODA, especially in post-Covid times and relying on concessional debt, government emphasizes the need for consideration of a Vulnerability Profile in defining the criteria for access to public aid for development by SIDS and financing under concessional conditions, taking into account their vulnerability to disasters and phenomena of climate change.

5. PRIVATE FINANCING FOR SUSTAINABLE DEVELOPMENT

The private sector development strategy in Cabo Verde is considered one of the "drivers" of the development of the economy and its importance is contemplated in the strategic documents Ambition 2030 as well as in the planning documents - PEDS - Strategic Plan for Sustainable Development, both aligned with the SDGs and the Agenda 2030 of the UN. Business investment, namely in fixed capital (machinery, equipment and manufacturing, commercial, distribution and administrative facilities), represents a critical component of a country's productive capacity and job creation capacity, determining its stage of economic development and the current of level well-being of its population. In Cabo Verde, despite the significant weight of the state in the economy, private investment played a relevant role in economic growth over the past two decades. However, significant room for growth remains as the country seeks to transition from the focus on tourism and the diversification of the economy, consistent with principles of sustainability and inclusiveness. The following sections illustrate the current state of private financing across domestic, foreign, and civil society actors.

DOMESTIC PRIVATE FINANCE

According to data published by Banco de Cabo Verde in its Report on the State of the Economy 2017[138], available data (from 2015) of the accounts of institutional sectors, produced by the National Institute of Statistics (INE), show, on the one hand, that 60 .2 percent of gross fixed capital formation is carried out by companies, corresponding to 17.3 percent of GDP, and, on the other hand, that the evolution of business investment determines the trajectory of total investment in the economy. It also presents a set of "Determinants of Business Investment in Cabo Verde" that are important to understand the dynamics of investment: (i) Cabo Verdean companies' investment in the current period is dependent on their past value, indicating the existence of a lag in the investment decision and implementation process; (ii) Cabo Verdean companies adjust their level of investment in as a function of their sales (an increase in sales by one percent leads to an increase in investment of about 0.7 percent); (iii) the theory of free cash flows seems to have little relevance in explaining the investment of Cabo Verdean companies, it cannot be concluded that a greater volume of cash flows in the company will correspond to a higher level of investment. This result may be related to the fact that most Cabo Verdean companies have negative cash flows; (iv) when the level of indebtedness of companies increases, investment decreases, as over-indebtedness conditions investment by limiting the financing

138 Banco de Cabo Verde, "Relatório Do Estado Da Economia De Cabo Verde Em 2017," ed. Departamento de Estudos Económicos e Estatísticas, BCV, 2017, https://www.bcv.cv/pt/Estatisticas/Publicacoes%20e%20Intervencoes/Relatorios/relatoriodoestadodaeconomia/Documents/Relat%C3%B3rio%20

capacity; (v) Business investment depends on fluctuations in the economic environment, behaving in a pro-cyclical manner. According to empirical evidence, when GDP grows by one percent, business investment increases by 7.6 percent. In turn, when the interest rate increases by one percentage point, corporate investment reduces by 6.1 percent; (vi) public investment plays a complementary role in relation to company investment (crowding-in effect), that is, public investment generally creates favourable conditions for companies to make investments. Specifically, when public investment increases by one percent, business investment increases by about 0.6 percent.

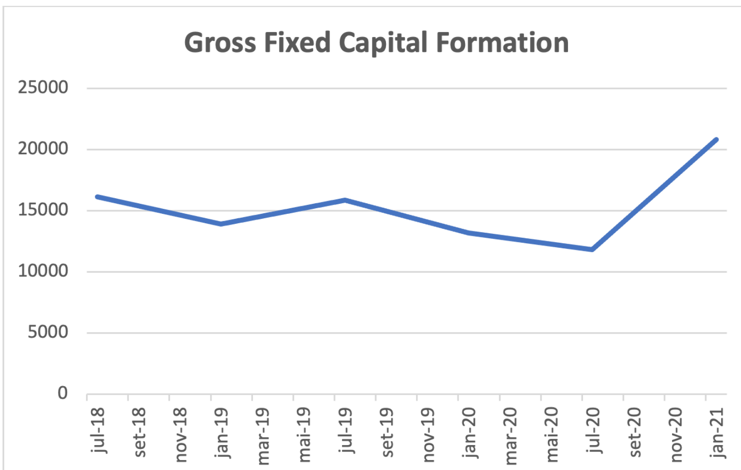


Figure 35: Gross Fixed Capital Formation. January 2018-January 2021
Source: Trade Economics, INE

Analysing the trend of the graph, one during the years of the Covid 19 pandemic, a slowdown and a fall in Gross Fixed Capital Formation (GFCF) which measures the investment capacity of companies, is closely linked to the rate of investment made by companies. However, in the post-pandemic years, with the recovery of the economy and greater business confidence, an increase in GFCF is projected.

The private sector's access to finance remains limited by numerous constraints; however, it is noteworthy that both the government through specific credit lines as well as the Bank of Cabo Verde created important instruments to cushion the effects of the pandemic in order to facilitate companies' access to finance of their activities. The Banco de Cabo Verde (BCV) reduced the interest rates on the permanent lending and liquidity absorption facilities, to 0.25, 0.5 and 0.05 percent, respectively; (ii) reduced the coefficient of minimum cash availability from 13 to ten percent; (iii) created an instrument for financing banks for up to three years, at a rate of 0.75 Percent; (iv) suspend, until December 31, 2021, the deduction from equity of the amounts of goods received in kind in the years 2013 to 2016; (v) reduce the solvency ratio from 12 to ten percent (effective until the end of 2021).

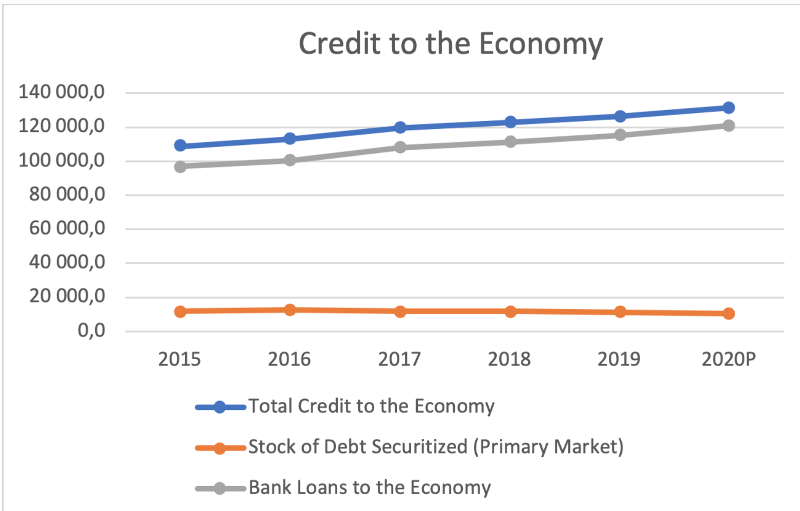


Figure 36: The level of financing through credit to the economy
Source: Bank of Cabo Verde Statistical Bulletin September 2021

An approach to credit granted to the Economy presented in the graph opposite shows the level of financing through credit granted by commercial banks at around 92% of total credit granted in contrast to financing through the capital market at around 8%.

The government created the so-called Eco-system for financing the economy, formed by commercial banks, microfinance institutions, State structures, namely *ProEmpresa* (Institute that provides non-financial services and access to financing), *ProCapital* (Company of venture capital) and *ProGarante* (financial institution that provides guarantees to companies), in addition to specific funds for international cooperation.

Characteristics of the Private sector

Data from National Statistics Institute from 2019 shows that the business sector in Cabo Verde is characterized by a total of 11,174 legally constituted companies, 67.6% of which are micro-enterprises, 29.4% are SMEs and 3% are large companies (a plus of 7 .5% compared to 2018). However, the existence of a large number of companies in the informal sector is highlighted (33,228 informal businesses, according to the Continuous Multi-objective Survey 2015 - Informal sector Module - INE).[139]

139 INE, Inquérito Multiobjectivo Continuo 2015 - Módulo sector Informal, 2018, https://ine.cv/wp-content/uploads/2019/07/relatorio-estatistica-sector-informal-2015.pdf.

Type of Company (SME)	Number of Companies		%	Rate of Change
	2018	2019		(2019/2018)
Microenterprises	7 611	7 550	67,57%	-0,8
Small Companies	1 099	1 296	11,6%	18,0
Medium Companies	1 383	1 984	17,76%	43,5
Big companies	298	344	3,08%	15,4
Total	10 390	11 174	100%	7,5

Table 8: Evolution of active company, by size, between 2018 and 2019

Source: INE, IAE2018; IAE2019

According to data from INE, the active companies generated 71 874 jobs and a turnover of 338 billion escudos, representing an increase of 13.7% compared to 2018. It should be noted that around 69% of active companies were concentrated in the sectors of Commerce (44.1%), Accommodation and Restaurants (15.8%) and Manufacturing Industry (9.0%).

Environment for the private sector development

With regard to the private sector and its role in economic and social development, the following are important aspects on the political agenda when it comes to the development of companies and businesses in Cabo Verde:

- The business environment, covered by "doing business"
- Competitiveness, covered by the competitiveness index
- The context in which companies operate in Cabo Verde, highlighting context costs and market size
- The environment for private, domestic and foreign direct investment
- The financing of companies and the private sector
- Human capital and the creation of jobs

There is a great effort by successive governments to improve the business environment, providing companies and investors with conditions and facilities to be able to develop economic activity and create wealth for the country. Several reforms have been undertaken, both at the legislative, fiscal, labor and economic policy levels. However, there are some aspects that have been pointed out in the "doing business" report (137 in the ranking out of 190 countries) as being crucial for improving the business environment, so that doing business in Cabo Verde is easy and safe. Thus, they are pointed out as items to be worked on, namely:

- Start a business (where procedures and number of days continue to penalize the ranking) (121);
- Access to credit (144);
- Protection of minority interests in investments (170);
- Corporate Insolvency Resolution (168).

On the other hand, governments have been working on aspects related to competitiveness (50.83 in 2019, 50.19 in 2018, 53.71 in 2017 and 52.91 in 2016), also aiming to create optimal conditions to make the Cabo Verdean economy attractive so that investors can make their investments safely and profitably in all sectors of activity.[140] Competitiveness has been monitored through the competitiveness index of the International Economic Forum – "Global Competitiveness Index" with a score of 50.83 in the ranking 112 of 141 economies in 2020 (111th in 2018) with practically the same strengths and weaknesses.

Another important aspect when analysing the environment in which companies operate is related to the high context costs they have to face, namely:

- The costs of insularity, as Cabo Verde is made up of 10 separate islands in the middle of the Atlantic;
- The connection between the islands entails high costs for both production and distribution;
- Factor costs are high, namely the cost of electricity, the cost of water, and raw materials that often have to be imported;
- Costs due to scarcity of maritime transport and high costs in air transport;
- The national market is small, due to its size, the economic development stage, as well as the reduced consumption capacity and purchasing power;
- Inability to operate in the market of the African sub-region due to little information and lack of knowledge about it;
- Excessive bureaucracy in processes in government institutions; and
- Difficulties in access to finance.

If there is no productive investment, there will be no sustainable economic growth and without financing for companies, there will be no conditions for companies to create wealth and contribute to the creation of decent jobs that are important for the growth of the economy. However, despite the existing improvements in investment facilitation, created under the investment code, the approved tax and non-tax exemptions and the restructuring of institutions linked to the promotion of foreign direct investment, the processes related to the realization of the investment continue time-consuming and inefficient. Foreign direct investment will be dealt with below in a separate item.

140 World Bank, "Ease of Doing Business in Cabo Verde," World Bank, 2020, https://www.doingbusiness.org/en/data/exploreeconomies/cabo-verde.

Private sector financing remains a challenge for successive governments. The Ecosystem financing the economy will be dealt with in a specific item under this DFA.

Current Private Sector Development Strategy

The entire private sector development strategy can be found in the planning document PEDS 2017-2021 and in the Strategic Agenda for Sustainable Development - Ambition 2030 documents that are aligned with the SDGs of the United Nations and the Agenda 2030. The strategy shows not only a strong commitment to the diversification of Tourism, but also a strong commitment to maritime trade and the blue economy, a green and circular economy, but above all the definition of a clear financing strategy for the economy not only dependent on public expenses, but above all on a concentration of impact investment in the private sector, supported by capital guarantees and other forms of financial sustainability.

Thus, the creation of the Ecosystem for financing the Economy, as well as other innovative instruments, has been strengthening the financing system for the private sector and, on the other hand, constitutes important alternatives for mitigating the impact of Covid-19, but also with a view to recovery and future sustainability of the economy aiming for growth.

Strengths of the private sector

Taking into account the aforementioned aspects, the following strengths of the private sector can be considered:

- Organized into three Chambers of Commerce and Business Associations;
- The private sector is the government's interlocutor in the social concertation effort;
- Existence of several diagnoses pointing out the paths of development;
- Existence of an ecosystem for financing the economy
- Creation of resource mobilization units within the Chambers of Commerce[141]

141 Resource Mobilization Units whose purpose is to support member companies in the mobilization of financial and non-financial resources aiming at their growth and increasing the competitiveness of companies in the regions where they are implemented

How the pandemic affected the private sector

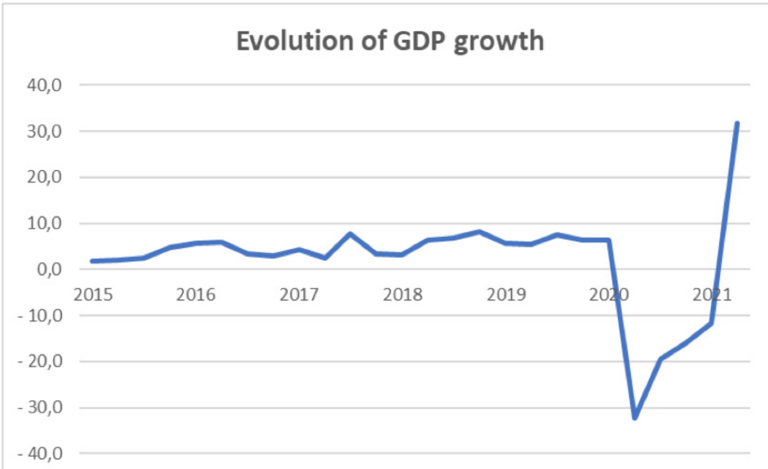


Figure 37: Impact of Covid-19 to the private sector
Source: Bank of Cabo Verde Statistical Bulletin September

The forecast for the growth of the national economy in 2020 was around 5.5% before the COVID-19 crisis, with the pandemic, all economic activity sectors suffered sharp falls. Likewise in the fourth quarter of 2020 the economy contracted 14.6%, following an 18.2% drop in the prior period, reflecting the adverse effects the Covid-19 pandemic is having on economic growth.

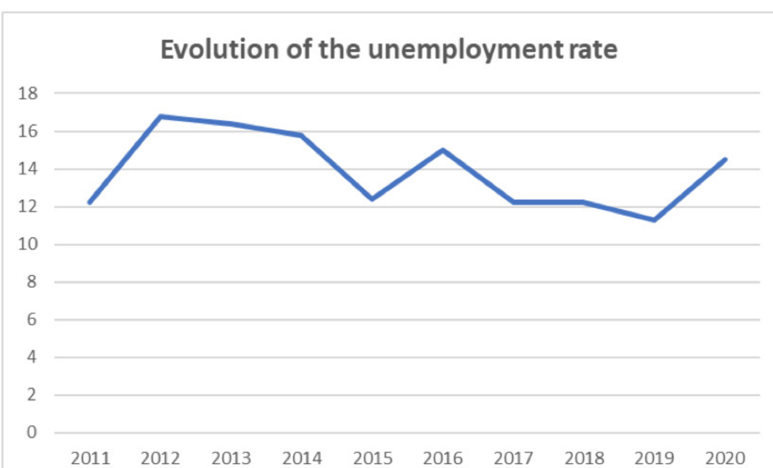


Figure 38: Evolution of the unemployment rate of Cabo Verde

Given the significant vulnerability of the economy to the pandemic, consumption and investment were also strongly affected, thus the labor market lost about 19,800 jobs, affecting women and employees in the service sector more intensely, especially in the tourism sector but also affecting the entire private sector. The unemployment rate that had been declining stood at 12.3% in 2020.

The domestic private sector finance ecosystem

Cabo Verde, since independence, has made a great effort to find the right mechanisms to finance its development. Based on its short-medium and long-term planning system, it has been developing various planning tools, namely the DERP, the PEDS, and the medium and long-term expenditure tables (QDMP and QDLP) as well as the sectorial expenditure tables of medium and long term (QDSMP and QDSLP), which are planning instruments that are linked to the public financing system and the General State Budgets derived, to a large extent, from revenues generated within the Cabo Verdean economy. To strengthen this process, point 3 of Cabo Verde's Ambition 2030 establishes a commitment to GDP growth until 2030:

"The commitment to the diversification of the Cabo Verdean economy and the average growth of 5% per year between 2021 and 2025 and 7% per year between 2026 and 2030, and as a consequence of the doubling of GDP per capita, going from about 3,221 US$ in 2020 to about US$ 6,247 in 2030 driven largely by the performance of total factor productivity (TFP) and the contributions of the labor and capital factor, in the context of a profound reform of the business environment and the reduction of factor costs."[142]

This effort has been preceded by a set of important measures taken in the control of public finances and transparency, as well as an important transition in the mobilization of resources with the holding of the International Conference "Building New Partnerships for the Sustainable Development of Cabo Verde" in December 2018, as well as the "Cabo Verde Investment Forum" of Sal and Boston, all in 2019.

Throughout the various studies and documents of international institutions such as "Doing business" and the competitiveness report, financing the economy has been one of the major constraints to development and, in this sense, Cabo Verde follows a dynamic and a clear economic strategy to encourage investment in the country and to attract investors in various sectors including tourism, transport, energy, technology, industry and services.

The creation and implementation of innovative financing instruments is one of the great challenges for the financing Ecosystem. For that, one can speak of these financing opportunities,

142 Governo de Cabo Verde, "Cabo Verde Ambições 2030," CVA2030, 2020, https://peds.gov.cv/cva2030/cva2030/.

namely through blue bonds, green bonds, through the capital market at regional and international level and through public-private partnerships.

Alongside the international financial institutions, the national financial system is composed of the banking sector,[143] microfinance, capital and securities markets, insurance and payments system, as well as bilateral partners engaged in the strategy of financing the economy, namely the private sector.

According to data up to 2019 published in the Bank of Cabo Verde and International partners, IMF and World Bank reports, Cabo Verde's banking system remains stable, profitable, efficient and liquid however, assets quality remains weak with non-performing loans (NPLs) reaching 12 percent of total loans at end-September 2019. It should be noted that the sector is also highly concentrated, in the two largest banks (Banco Comercial do Atlântico and Caixa Económica de Cabo Verde) holding 64.6% of credit and 68.4% of deposits.

Bank credit to the private sector corresponds to around 58.1% of GDP. However, it can be observed that less than 1% is destined to the Agriculture, Forestry and Fisheries sector, around 27% to the transport and communications sector, 24% to the commerce, restaurants and hotels sector, 16% to commercial services, 14% for social and personal services, 8% for the construction sector, 6% for the manufacturing industry and 5% for the electricity and water sector.

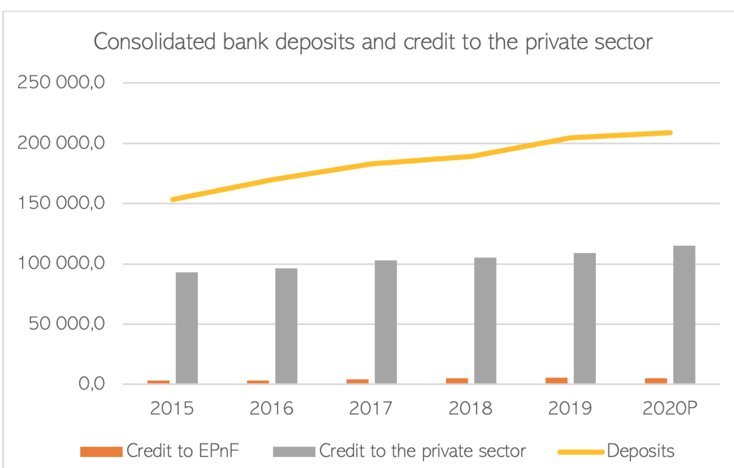


Figure 39: Evolution of Deposits and Loans (Consolidated from Banks) 2015-2020 (Million CVE)
Source: Bank of Cabo Verde Statistical Bulletin September 2021

143 The financial sector corresponds essentially to the banking sector with regard to services to companies, large companies and MSMEs. Banks control 99% of credit in the country and MFIs around 1%. Banks with their branches cover 82% of the territory; 90% of people have access to a bank branch. The Global Economy , "Business and Economic Data for 200 Countries," TheGlobalEconomy.com, 2021, https://www.theglobaleconomy.com/.

According to data from Banco de Cabo Verde in its Statistical Bulletin of 2021, an evolution of bank deposits was accompanied by a sluggish growth, especially in credit to the private sector.

The average effective interest rates on deposits have continuously decreased since 2013, from 4.2% to 1.7% in 2019. Credit rates also fell from 10.89% in 2014 to 9.14% in 2019, leading to the banking intermediation margin to around 8% in 2019 against 6.3% in 2012.

It is noted that commercial banks have branches on all inhabited islands, which are also served by an extensive network of ATMs (204), providing a wide range of point-of-sale machines (8,100 TPV/POS). They still have more than 142,000 debit cards available, and credit cards and prepaid visa cards are available at all banks. All banks have a web banking system.

In Cabo Verde, most microfinance institutions offer a unique product, microcredit, which also remains little diversified, with the exception of *FAMI Picos Coop*, which offers a voluntary savings product, the other microfinance institutions the savings product is mandatory, linked to the credit product (collateral).The amounts borrowed can range from 1,500,000 to 2,250,000 CVE, with a maximum of 15% of the category B institution's net worth and interest rates vary from 2% to 3% per month, with lower differentiated rates for subsidized projects or backed by credit funds.

Credit terms range from three to thirty-six months, with potentially a grace period of three to six months (especially in the agricultural sector).

It should be noted that according to 2019 data from APIMEF - Association of Professionals of Micro Finance Institutions, 43% of credits granted are for commerce, 12% for consumption, 32% for agriculture, livestock and fishing, 10% for housing and 10% other unspecified, with a total of 7,863 with an average value per credit of 81,150 CVE.

Structure of the finance ecosystem

The Ecosystem for financing the economy, formalized through a protocol signed in April 2018 and a pact with the local government signed on March 26, 2019 and aims to coordinate and facilitate the articulation of the various promoters of business development, the state, the banks, industrial and service chambers of commerce, tourism chamber, pro company, pro guarantor, pro capital, micro finance institutions and other private sector promotion institutions, and this is based on the defined strategy and is formed by public and private, structured as follows:

- Financing through public resources and debt management
- Financing for state-owned companies
- Financing through public-private partnerships

- Financing through development cooperation through international partners
- Funding through Philanthropy and NGOs
- Funding through diaspora engagement
- Financing through the promotion of investments and attraction of FDI and investments from nationals
- Financing through the business financing ecosystem, namely to micro, small and medium-sized companies
- Impact Investment Financing and Social Enterprises
- Financing for Financial Inclusion
- Financing for the development of the financial sector

The following three institutions promoted by the State constitute the pillars of the Ecosystem for financing the economy. It is noted that some initiatives were launched by banks targeting companies legally constituted and with organized accounting, participating in the State's efforts to mitigate the Covid effects with State guarantee, namely BCA, Caixa Económica, BAI and BCN.

The entire Ecosystem financing the Economy is an important instrument for economic development based not only on mitigating the damage caused by the Covid 19 pandemic, but above all a private sector financing instrument in full consonance with the PEDS 2017-2021, with the Strategy Sustainable Development of the government for 2030 – Ambition 2030, documents aligned with the SDGs and the United Nations Agenda for 2030. Thus, the priority sectors to be financed are aligned and will contribute so that Cabo Verde can meet the goals defined in the SDGs.

Pro Empresa[144] Institute for Business Support and Promotion, created on May 17, 2017, has as its mission to promote, facilitate and support national private investment by micro, small and medium-sized companies in all sectors of the national economy. This is mainly done through mechanisms that facilitate access to technical assistance, financing and innovation, ensuring the competitiveness of the national economy and currently has the following programs: Pro-Crédito; Promeb; Startup Jovem; Bolsa Cabo Verde Digital; Protocolo de Financiamento Ecossistema; Express+; Crowdfunding / Financement collaboratif; Talent.

The Pró-Garante[145] agency- created on June 15, 2018 under Decree-Law No. 32/2018 has as its mission to promote - with sustainability criteria - access to financing for Micro, Small, and Cabo Verdean Medium Enterprises (MSMEs), through the granting of guarantees, in order to promote the expansion of this business sector and, thus, boost the sustainable development of

144 DL 22/2017 – which creates the Pro Empresa – Instituto de Apoio e Promoção Empresarial IP
145 DL 32/2018 – which creates the Pro Garante – Sociedade de Garantia Parcial de Crédito SA

the national economy. Thus, the defined objectives are: (i) Provide guarantees to eligible credit institutions, regulated and supervised by Banco de Cabo Verde, in order to facilitate the obtaining of credits by MSMEs; (ii) Provide guarantees to the portfolio of special credit lines in order to guarantee compliance with the obligations contracted by MSMEs with the entities that make these special credit lines available; (iii) Provide counter-guarantees for the operations of other eligible financial institutions that provide credit guarantees to MSMEs; (iv) Manage, on behalf of third parties, guarantee funds aimed at improving access to finance for MSMEs; (v) Support the expansion of supply and dissemination of other financial instruments that help to improve MSMEs' access to finance.

The Pro Capital - created by Decree-Law 28/2017 of June 30, 2017 and republished by Decree-Law 51/2018 of September 20 – pursues the mission of participating in the share capital of companies in difficult financial situations, to participate in start-ups capital, participate in investments in the diaspora and provide technical and financial assistance in companies where it participates in the capital. The company is capitalized up to CVE 550 million and operates at the equity and equity investment level and is part of the public ecosystem supporting the business. Pro Capital can join up to 49% of the company's capital (without requiring real or personal guarantees) for a period generally of 6 to 7 years (up to 10 years), allowing the project promoter to have access to bank financing, for which a significant capital injection is needed. The institution can also support technical support (support for company management; organizational and strategic levels in addition to financial).

Strengths

- Integrated investment financing framework
- Ease of resource mobilization through a planning framework or project pipeline
- Better efficiency in mobilizing domestic resources
- Mobilization of foreign direct investment, exploring the full potential of strategic partnerships, namely triangular and south-south cooperation
- Possibility of using innovative sources of financing, such as thematic funds (Green Climate fund), swaps, green and blue bonds, diaspora bonds, social bonds

Main obstacles

- Lack of a formal mechanism for articulation between the various actors that make up the Financing Ecosystem
- Lack of a development bank specialized in financing companies (mentioned in all meetings with the private sector)

- Difficulties for Micro Finance Institutions in getting funding at the local level
- A gap in financing for MSMEs, in the transition between MFIs and Commercial Banks
- Absence of a development bank and/or development fund
- Absence or near absence of MSME credit analysis tools ("scoring", "rating" and similar), as well as the fragility of the information used for credit analysis purposes with banks

Civil society, NGOs and FBOs

Cabo Verde has a manifold environment of CSOs, comprising several NGOs and FBOs. PLATONGs is a Cabo Verdean umbrella organisation platform which reunites about 400 CSOs (NGOs, trade unions and FBOs) in various sectors of public policy. Most of them have partisan affiliation and/or political ties. PLATONG'S mission is to contribute to strengthening and improving the level of intervention of the member NGOs through concerted actions and promoting their participation in socio-economic development. Most member organisations are active in the social and rural area, including with community associations. At time of writing, only 2 microfinance organizations are part of it. PLATONG is an active partner of the government in the implementation process of Fiscal Citizenship Education. It further collaborates with the Financial Information Unit (UIF) of government, in order to prevent money laundering and participates in the review of the United Nations Convention against Corruption.

The funding of Cabo Verdean CSOs comes predominantly from government. Further funding stems from international NGOs, international FBOs, bilateral cooperation and multilateral cooperation such as the EU. This external funding, nevertheless, has been diminishing with the rise of government as being classified as middle-income country. The largest donors of PLATONG at time of writing are Portugal, Luxembourg, and the International Fund for Agricultural Development (IFAD).

Since 2018 government funds CSOs through PLATONG, which in turn disposes of mechanisms to allocate funds to its member organisations. Nevertheless, some CSOs are funded directly by government beyond the PLATONG platform. It is a weakness of the current system, that governments reports limit themselves to only mention governments financial contribution but do not report on services and products, which those organisations provide. Those services and products are substantial however and should be better integrated in the planning of governments service delivery. For example, mayor provision of mammographic services in CV have been provided by NGOs and not the government.

PLATONG annually reports financial information of its members to government, although those reports are not publicly available. PLATONG demands from its member CSOs comprehensive financial information for its annual reporting. Nevertheless, several NPOs do not report the sources of their funding. Actually, there exists a law that requires financial reporting of any CSO but it has never been applied in practice.

INTERNATIONAL PRIVATE FINANCE

Cabo Verde is increasingly promoting a market-oriented economic model in which all investors, regardless of nationality, have the same rights and are subject to the same legal duties and obligations.

A major commitment to reducing the role of the state in the economy requires greater empowerment of the private sector, with the aim of improving the business environment in order to attract the investments needed to drive the desired economic growth.

Cabo Verde has adopted one of Africa's most open investment regimes since the year 2000 which has provided robust Foreign Direct investment. However, it is necessary that these investments efficiently contribute to the increase in the country's GDP and that it is translated into an improvement in economic and social development and an effective improvement in the living conditions of the populations.

For some time FDI was focused on the tourism sector and concentrated on the islands of Sal and Boa Vista. However, there is a constant concern for the diversification of investments in the various sectors of activity, promoting various business opportunities, especially in sectors linked to the blue economy, renewable energies and circular economy and transport, among others.

Country of origin/sector	2015	2016	2017	2018[P]	2019[P]	2020[P]
Total FDI*	11 965,1	12 433,7	10 841,1	10 255,6	10 491,7	7 080,4
GDP	158 699,1	165 782,2	173 097,4	183 697,9	195 202,3	164 910,7
FDI in %GDP	7,54%	7,50%	6,26%	5,58%	5,37%	4,29%
Country of origin	11 965,1	12 433,7	10 841,1	10 255,6	10 491,7	7 080,4
Angola	18,5	65,2	153,5	23,0	367,9	242,1
Spain	1 875,5	1 956,6	581,9	2 063,3	898,7	1 249,2
Ireland	25,8	-8,6	5,1	-28,7	571,6	-8,5
Italy	0,0	39,3	277,6	337,2	282,1	210,4
Portugal	580,7	2 065,8	1 034,5	1 394,4	-907,4	1 477,9

United Kingdom	3 329,5	5 584,0	4 938,1	360,7	165,1	-21,1
China Popular Republic	0,0	631,9	658,7	1675,6	238,0	215,8
Other	6 135,1	2 099,5	3 191,7	4 430,1	8 875,6	3 714,6
sector	11 965,1	12 433,7	10 841,1	10 255,6	10 491,7	7 080,4
Industry	-356,8	-75,9	-216,1	450,0	1 075,4	410,3
services	11 056,0	10 911,4	10 419,0	9 541,2	7 364,9	6 604,9
Business	141,9	531,9	361,4	899,3	1 191,0	1 294,4
Construction	301,2	123,5	307,4	976,0	328,5	1 068,9
Financial services	-185,1	-29,2	-393,9	-241,3	-636,7	-585,8
Tourism and Touristic Real Estate	10 352,0	9 964,0	9 778,1	6 933,7	9 248,0	4 298,1
Other services	445,6	321,2	350,7	973,5	-2 765,9	529,3
Other sectors	1 265,9	1 598,2	638,1	264,4	2 051,4	65,2

Table 9: Foreign Direct Investment per year country of origin and sector

	2010	2011	2012	2013	2014	2015	2016	2017	2018P	2019P
Total de IDE*	13 240,6	12 823,2	10 777,2	5 777,0	14 982,2	11 507,2	12 558,8	10 867,3	10 048,1	10 375,5
Total de Participações**	8 920,2	12 623,9	9 619,3	4 844,3	10 544,6	5 811,9	9 666,8	8 211,8	7 773,4	7 156,1
País de Origem **										
Espanha	1 741,6	6 881,8	337,3	166,8	88,6	156,6	1 428,9	521,5	1 927,3	937,2
Itália	277,4	241,3	65,7	47,0	8,7	0,0	68,8	107,3	69,6	202,9
Reino Unido	2 434,1	2 239,8	3 837,0	2 311,7	5 118,4	3 310,5	5 537,6	4 830,2	348,2	146,2
Irlanda	1 319,2	237,3	68,4	35,6	57,3	25,8	-8,6	5,1	-29,1	-17,1
Portugal	1 603,0	1 037,3	1 249,0	821,0	875,5	449,8	902,6	425,3	1 032,7	-1 846,6
Outros	1 544,8	1 986,4	4 061,9	1 462,3	4 396,2	1 869,1	1 737,4	2 322,5	4 424,7	7 733,4
Ilhas de Destino **										
Maio	0,0	0,0	9,6	11,1	0,0	0,0	37,4	49,7	83,0	83,8
Boa Vista	1 737,8	55,0	1 054,5	66,7	70,9	69,5	2 868,2	2 916,8	894,2	1 348,8
Sal	4 059,7	9 498,3	2 890,0	2 500,5	5 689,1	4 030,6	4 331,2	2 838,6	2 033,7	4 220,7
Santiago	2 854,3	2 198,1	3 579,3	1 569,0	4 248,4	529,5	1 792,5	1 681,8	3 431,3	-478,2
São Vicente	111,1	600,2	307,5	188,6	181,4	-101,7	549,0	560,5	832,5	1 495,0
Outros	157,2	272,3	1 778,5	508,5	354,7	1 284,0	88,4	164,5	498,7	486,0
Sectores **										
Indústria	86,5	784,6	447,0	226,7	108,7	88,9	439,6	227,4	450,0	1 075,4
Comércio	4,8	0,0	559,3	320,0	120,3	151,5	174,7	490,3	743,1	1 197,9
Turismo e Imobiliária Turística	6 285,5	9 859,6	5 364,3	3 084,6	6 356,9	4 021,8	6 817,1	6 267,5	4 665,0	6 604,4
Serviços Financeiros	1 974,7	530,3	261,5	425,0	48,4	-185,1	-29,2	-393,9	-241,3	-636,7
Outros Serviços	331,9	1 088,2	1 484,0	458,4	35,7	415,8	324,5	212,6	1 039,8	-2 663,8

Table 10: Foreign Direct Investment in Cabo Verde (millions of 2020 CVE)

Source: Bank of Cabo Verde Statistical Bulletin September 2021

The importance of foreign direct investment to the economy

Foreign Direct Investment has been crucial for the country's economic development through inputs of capital, technology and know-how, namely in its contribution to the graduation from Cabo Verde to a middle-income country. Despite the fact that in recent years there has been some diversification in investment in other sectors of activity, for many years the concentration of FDI has been in the tourism sector, representing a future risk.

At the moment, the aim is to diversify FDI, especially for investments in the priority sectors of the PEDS 2017-2021, namely in the sectors of renewable energies, blue economy, circular economy, digital economy, sustainable tourism and transport, aiming at the creation of decent jobs, security, justice and social peace, human capital development, and sustainable development as accelerators to achieve the SDGs. It is noted, as shown in the table above, that since 2015, the share of FDI in GDP has been decreasing, from 7.54% in 2015 to 4.29% in 2020.

Foreign direct investment amounted to 10,55.6 Million Escudos in 2018, 10,491.70 million Escudos in 2019 and 7,080.4 Million Escudos in 2020. FDI peak was in 2015, with a sharp drop in 2016. Although with slight fluctuations, the trend has been for a decrease annually. It is certain that without foreign direct investment, Cabo Verde would never have reached the category of middle-income country, as domestic private investment is risk-averse and predominantly invests in sectors that have not been the engine of economic development.

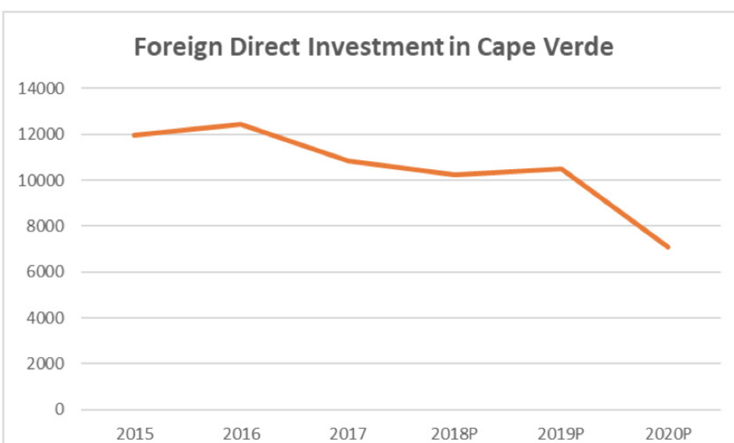


Figure 40: Foreign Direct Investment in Cape Verde (millions of 2020 CVE)

Source: Cabo Verde Central Bank

In 2019, aiming to accelerate investments by the private and public financial sectors (national and international) and private investors (national and international) in the implementation of catalytic projects that lead to sustainable economic growth and job creation in Cabo Verde, the

"Cabo Verde Investment Forum 2019" was organized in Ilha do Sal under the motto "the mid-atlantic gateway to the world's economy".

For the 41 projects presented at the Investment Forum, the accumulated value of financing was 1,010,454 million Euros, with 87% of this value for projects in the tourism sector (876,777 million Euros). It should also be noted that in the public sector portfolio, 3 projects were presented with a value of 2,707,141,332 Euros, 2 of which in the Tourism area and 1 in the transport sector, with a value of 2,697,844,881 Euros, representing 99.66% of the total investment.

During the Forum, 8 memorandums of understanding were signed between promoters and investors, 1 agreement and 3 establishment conventions and 7 announcements were made, amounting to 1,544 million Euros. Highlight for the signing of the *Compacto Lusófono* aims to promote the financing of structuring investment projects in African economies - PALOP, in the amount of 470 million Euros.

Current situation of FDI in Cabo Verde

Cabo Verde invests in the promotion of Investment through Cabo Verde TradeInvest, a government structure with competence and "Know how", created for this purpose. According to the Investor's Guide,[146] in Cabo Verde there are Infrastructure Zones, created specifically to boost investments in the various sectors of activity:

Infrastructure areas for tourist investments: There are Integrated Tourism Development Zones (ZDTI) on the islands of Boa Vista and Maio. The island of Boa Vista has 3 ZDTI (ZDTI of Chaves, ZDTI of Morro de Areia and ZDTI of Santa Mónica) and the island of Maio has 3 (ZDTI Sul da Vila de Maio, ZDTI Ribeira D. João and ZDTI of Pau Seco).

There are Special Touristic Areas (ZTE) on the islands of Santiago, S. Vicente and Sal. The island of Santiago has 8 ZTE (North of Praia, Achada Baleia, Mangue Monte Negro, Porto Coqueiro, de Achada Lage, from Sudoeste da Praia, Achada Rincão and Alto Mira). The island of São Vicente has 7 ZTE (from Palha Carga, Praia Grande, São Pedro, Baía das Gatas, Vale de Flamengos, Salamansa and Saragaça). On the island of Sal there are 4 ZTE (from Santa Maria, from Pedra de Lume, from Murdeira/ Algodoeiro and from Morrinho Branco).

Infrastructure areas for industrial investments: On the islands of S. Vicente (specifically in Mindelo) and Santiago (specifically in the city of Praia) there are industrial parks; in the city of Praia – Santiago island there are four Industrial Zones defined in the city's urbanization plans

146 Cabo Verde TradeInvest, "Guia Do Investimento Em Cabo Verde ," Cabo Verde TradeInvest, 2021, https://cvtradeinvest.com/wp-content/uploads/bsk-pdf-manager/2021/05/Guia-do-investimento2021.pdf.

(Tira Chapéu industrial zone, Achada Grande Trás industrial zone, Achada S. Filipe industrial zone and Palmarejo Grande industrial zone).

International Business Center: Within the framework of promoting international trade and fostering investment with export potential, the International Business Center was created, located in S. Vicente and which includes the International Industrial Center, the International Trade Center and the International Center for the Provision of Services, in which the exercise of activities of an industrial, commercial or service nature intended for international trade is authorized. It is noted that a boost is needed to operationalize some of the industrial investment zones.

In addition to the 41 projects presented at the Cabo Verde Investment forum, in the 1st Quarter of 2021 the following projects were approved by Cabo Verde TradeInvest:

Project	Investment Value Euros	Employment Forecast	sector	Island	Origin of Capital
Four Points by Sheraton & Le Meridien	61.900.000	500	Tourism	São Vicente	EUA
Navio Atlantis Antão	8.950.000	12	Maritime transport	São Vicente	Turkey
Sena's Aparthotel	1.101.509	12	Tourism	Santiago	Cabo Verde
Esplanada Captain George's	47.159	10	Tourism	Maio	Cabo Verde
Maio Hotel	7.200.000	60	Tourism	Maio	France
Viveiro	5.000.000	60	Tourism	Sal	ItáliItaly
Total	**83.097159**	**654**			

Table 11: Approved Projects in addition to the Cabo Verde Investment Forum of 2019

Source: CV TradeInvest

Furthermore, the Nortuna Holding CV group signed on March 10, a Partnership Agreement between the government and the private entity, within the scope of the implementation of the Industrial Investment Project for Aquaculture and Processing of Rabilho do Atlântico Tuna in Flamengo beach in São Vicente. A total projected investment of around 240,000,000 (two hundred and forty million euros) will be carried out in four phases. The first year foresees an initial investment of around 2,080,000 euros (two million and eighty thousand euros) and the creation of 1,000 (one thousand) direct and permanent jobs and approximately 3,000 (three thousand) indirect jobs during construction until operation.

In 2020, according to data from Cabo Verde Trade Invest, 27 projects were approved for a total of 1,244,333,816 Euros with the capacity to generate 12,435 jobs.

Of these approved amounts, the Tourism sector continues to be the most concentrated with 21 projects, representing 80% of the total, with an investment of 998,044,134 Euros and the prospect of generating 11,380 jobs. Another highlight was the diversification of investment into the Industry sector with 19% of the volume of approved investments corresponding to 240,250,757 Euros and the forecast to generate 1016 jobs. Among the approved projects, investment in the health sector worth 600,999 Euros can be highlighted, with the possibility of generating 18 jobs.

Investment of Cabo Verdean Diaspora

Remittances from emigrants have been a source of financing in Cabo Verde. Over the years, the amounts received by families have grown. The data of Banco de Cabo Verde in its annual statistics has registered this evolution. The chart and graph show this evolution from 2015 with 17,260.3 million CVE, to 20,788.9 million CVE in 2020.

	2015	2016	2017	2018^{P}	2019^{P}	2020^{P}
Total Emigrant Remittances	17 260,3	18 184,7	**18 058,6**	**18 404,7**	**19 900,2**	**20 788,9**
GDP	158 699	165 782	173 097	183 698	195 202	164 911
FDI in %GDP	*11%*	*11%*	*10%*	*10%*	*10%*	*13%*
Countries of Origin	**17 260,3**	**18 184,7**	**18 058,6**	**18 404,7**	**19 900,2**	**20 788,9**
Germany	209,0	559,0	146,8	140,9	155,0	190,0
Angola	73,7	97,7	133,9	89,7	100,6	64,3
Spain	280,2	387,6	397,2	408,2	400,0	384,9
USA	2 581,3	3 632,2	3 617,5	3 792,1	4 496,0	5 982,8
France	3 734,6	3 826,6	4 327,2	4 371,3	4 831,4	4 982,7
Italy	1 094,7	1 223,5	923,4	906,0	880,7	854,8
Luxembourg	577,8	651,8	766,1	761,1	752,3	790,6
Netherlands	1 425,7	1 041,1	1 075,8	1 071,4	1 018,3	1 103,3
Portugal	5 537,4	5 237,8	5 141,7	5 324,6	5 679,4	4 895,7
United Kingdom	352,5	200,1	212,0	203,7	238,3	281,9

Switzerland	651,3	511,0	553,5	539,5	503,8	557,9
Others	742,1	816,1	763,4	796,1	844,6	700,1

Table 12: Remittances in millions of CVE

Source: Bank of Cabo Verde Statistical Bulletin September 2021

Analyzing the relationship between emigrants' remittances and GDP, it can be seen that effectively over time, regardless of economic crises, values have grown with small non-significant falls. From around 11% of GDP in 2015, it grew to approximately 13% in 2020 and with a tendency to grow in the following years. These remittances are directed to savings and households.

In the context of sustainable development in Cabo Verde, remittances from emigrants, in addition to covering family expenses, contributing to education and health, can constitute an important form of financing if directed to productive activities, creation of innovative financial instruments such as diaspora bonds, funds for investments in the blue economy or projects by entrepreneurs, thus contributing to the achievement of the sustainable development goals set out in the strategic documents and in the 2030 agenda of the United Nations. However, despite several attempts by the government to encourage investment by the diaspora in the productive sectors of the economy, it has proved to be very timid and only in small economic units. The ongoing deliberations on establishing "diaspora bonds" by the Cabo Verde Stock Exchange and the government might facilitate the Cabo Verdean diaspora to channel their savings into investment in the economy.

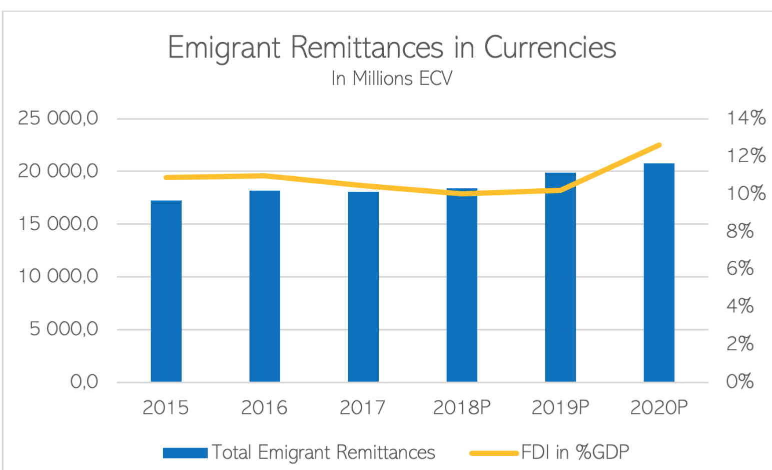


Figure 41: Emigrant Remittances between 2015-2020

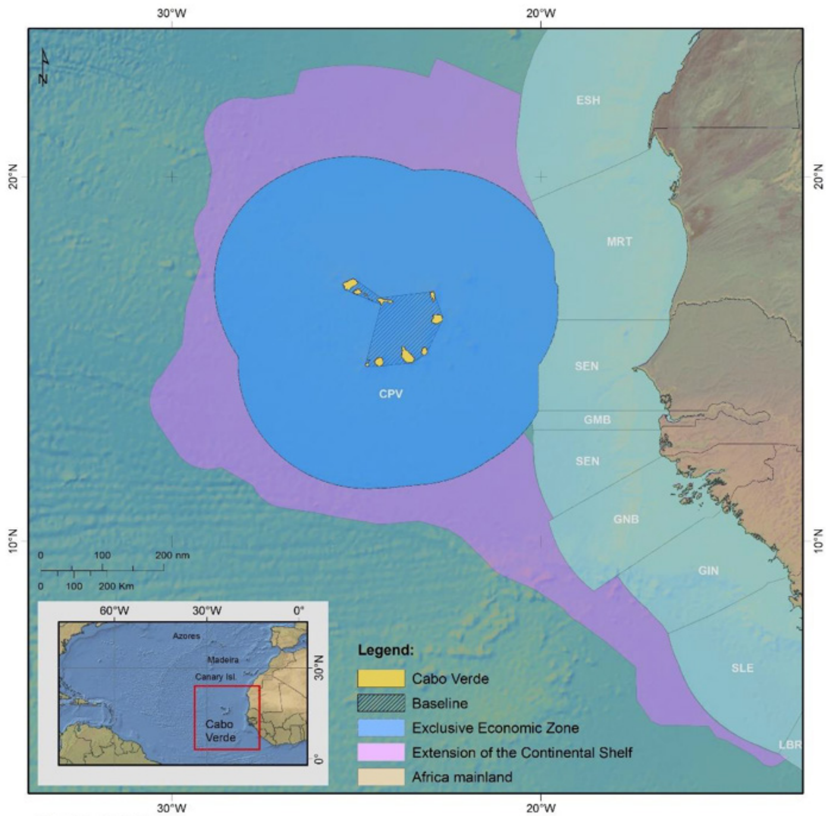
Source: Bank of Cabo Verde Statistical Bulletin September 2021

PART III - KEY FINANCING ENABLERS AND ACCELERATORS

6. BLUE ECONOMY

Cabo Verde's oceanic insularity is its distinguishing characteristic. The country's insularity index - measured by the ratio between the coastal perimeter and the total area - is 0.239. This reality shapes the political, economic and social aspirations, as well as the strategic relations in the international context. The country´s geographical location - in the middle of the Atlantic on the crossroads of several continental platforms, African, American and European - presents challenging prospects for his sustainable development and sovereignty. Cabo Verde cannot fail to include his oceanic platform in the construction and architecture of its sustainable development strategy, vulnerabilities and relevant constrains - isolation, territorial dispersion, weakening of the ecosystems, lack of water, etc. The recorded Vulnerability Index - measure by the ratio of the Insularity Index and population density - is 25. Lopes, Vergilio and Calado, in their study on the governance of Cabo Verde´s sea economy, claim that there are concerns, vocalized by some local watch groups, over the appropriation of resources and maritime spaces due to the weak political and surveillance enforcement of the various maritime activities. It adds that common values such as sovereignty and knowledge of marine resources are vital components of any blue growth strategy that seeks to attract investors and international partners.

In this context, the deepening of international cooperation processes as major global powers (notably the European Union, the United States and China) and integration in regional blocks – African Union (AU), the Economic Community of West African States (ECOWAS), the Community of Sahel-Saharan States (CEN-SAD), the Community of Portuguese Language Countries (CPLP) / African Countries of Portuguese Official Language (PALOP), the European Union Special Partnership for Macaronesia, the group of Small Island Developing States (SIDS), etc. – offer Cabo Verde the possibility of making better use of their differentiating competitive advantages for sustainable development, also mitigating various risks and constraints inherent to its scale and natural conditions.



Source: UAc - FCT, SGPA.
Flanders Marine Institute (2018). Maritime Boundaries Geodatabase: Maritime Boundaries and Exclusive Economic Zones (200NM), version 10. Available online at http://www.marineregions.org/. https://doi.org/10.14284/312. Consulted on 2019-04-24.
GRID-Arendal. One Stop Data Shop (OSDS). Available online at http://continentalshelf.org/onestopdatashop.aspx. Consulted on 2019-04-24.

Figure 42: Geographical Position of Cabo Verde

Box 5

Scale of the country

Total Land Surface: 4033 km2 (consisting of 10 islands)

Total Population 2020: 555,988 inhabitants

GDP 2020 current prices: USD 1.7 billion

GDP per capita 2020 current prices: 3.064 USD

Exclusive Economic Zone: 740,000 km2

THE OCEAN AS CABO VERDE'S NATURAL CAPITAL

Within the framework of Cabo Verde's natural assets portfolio, the Ocean represents 99.3% of the national territory's surface, considering its vast Exclusive Economic Zone.[147] The natural assets that make up the Cabo Verdean oceanic platform have varying characteristics from the point of view of environmental sustainability (renewable vs non-renewable), and, therefore, the analyses need to be adjusted accordingly. However, the potential contribution of sustainable economic exploitation (environmental vs. financial) of these natural oceanic assets to the sustainable and inclusive development of the country is irrefutable and indispensable. Furthermore, the sustainability of the economic exploration of other non-oceanic natural assets also depends on the relationship that this exploration maintains with the oceanic natural assets. The potential beneficial impacts of these interdependent explorations have crosscutting implications for all sectors of the economy and of Cabo Verde as a society.

The sea and coastal areas are already the mainstay of most of the country's economy – according to INE (National Statistics Institute), the tourism sector alone already represents 46.2% of GDP in 2019. Some analysts even consider that this natural asset of the country is already under pressure.148 In fact, only 4% of the country's economic growth that year is explained by the tourism sector, which reveals more about the exhaustion of the current business model in the tourism sector than the overexploitation of the strategic natural capital of the country.149 There are demonstrative signs that the participation of oceanic natural assets in the country's sustainable development is currently still at sub-optimal levels. Growth opportunities can be identified in different sectors correlated with natural oceanic assets, such as tourism, fisheries, aquaculture, renewable energies, maritime transport, extractive industries, biotechnology and marine bioprospecting.150

Ocean Health Index

A sign of the underutilization of the country's natural oceanic assets is given by the assessment carried out by Ocean Health Index, which in its last report (2020) attributed Cabo Verde to the global position of 96th among 221 Exclusive Economic Zones, with a rating of 69 points out of 100 points possible, with an overall average score of 71 points.[151] The analysis of the

147 The Exclusive Economic Zone (EEZ) of Cabo Verde, defined by the exploration strip and authority for managing living and non-living resources, located 200 nautical miles from the coast currently totals 740,000 km², reaching 1 million km² with the extension of the respective platform continental up to 350 nautical miles.

148 World Bank, " Cabo Verde: Blue Bond Note," WACA (World Bank, July 2020), https://www.wacaprogram.org/sites/waca/files/knowdoc/ENG-Cabo%20Verde%20Blue%20Bond%20v9%20FINAL.pdf.

149 *Ibidem.*

150 *Ibidem.*

151 Ocean Health Index, "Cape Verde," Ocean Health Index, 2020, http://stage.ohi2.linesofphp.com/region-scores/

most relevant components of the index for the country reveals the areas of greatest weakness in terms of the country's capacity to lead its natural oceanic assets towards sustainable and inclusive development.[152]

Food Safety Component

The first component relevant to Cabo Verde assesses the country's ability to meet its dietary protein needs by exploiting its natural oceanic assets. Cabo Verde receives a rating of 45 points out of 100 possible points, which places it in 120th position among the 221 Exclusive Economic Zones. However, an increase of 13% in the score of this component is expected in the near future. This indicator reveals the room for progression available in the fisheries and aquaculture sectors to satisfy domestic demand, to which one can add the growth potential of these sectors justified by external demand.

Objective	Score (0-100)	Relative Position (1-221)
Provision of food	45	**120[a]**
Wild Fishing	*45*	*127[a]*
Marine Aquaculture Production	*n/a*	*n/a*

Table 13: Food Supply
Source: Ocean Health Index

National authorities claim that the contribution of fisheries to the country's sovereignty and food security has been growing in recent years. According to the Directorate General for Marine Resources, the national per capita annual consumption of fish in 2016 was set at 25 kg.[153] It is worth noting that FAO estimated an annual national per capita consumption of fish for 2013 of only 11.9 kg.[154] In either case, to assess the impact on food sovereignty and security, the data does not discriminate between consumption by residents and consumption by non-residents (tourists).

However, from an international comparative perspective, FAO's data (2013) reveal that Cabo Verde's average annual per capita consumption is in line with the average annual per capita consumption of fish on the African continent. On the other hand, by expanding the geography of comparison, it can be seen that the average annual per capita national consumption of fish in Cabo Verde is lower than the average annual per capita consumption in the World with 18.9 kg, in West Africa with 15.2 kg, from North America with 21.6 kg or from Southern Europe

scores/cape-verde.

152 *Ibidem*.

153 Direção Geral dos Recursos Marinhos, *Plano De Gestão Dos Recursos Marinhos 2016 - 2020* (Praia, Cabo Verde: DGMT, 2016).

154 FAO, "Fishery and Aquaculture Country Profiles Cabo Verde," Fao Fisheries & Aquaculture, February 2020, https://www.fao.org/fishery/en/facp/cpv.

with 29.1 kg, where Portugal and Spain stand out with 56.8 kg and 42.5 kg respectively, or from SIDS with 12.45 kg, where São Tomé and Príncipe stands out with 28.3 kg. These data reveal the existing potential space for progress of oceanic natural assets as food providers and guarantee of sovereignty and food security for the country.[155]

Artisanal Fishing Component

The second relevant component of the index for Cabo Verde, assesses the country's capacity to generate opportunities for artisanal fisheries and their communities. In this component of the Ocean Health Index (2020), the country obtains a classification of 52 points out of 100 possible, occupying the 179th position in the set of Exclusive Economic Zones evaluated. However, an increase of 11% in the score of this component is expected in the near future.

Some studies carried out offer clues for understanding the reasons that justify the underutilization of natural oceanic assets by artisanal fishing communities. Studies recognizes the relevant role that artisanal fishing has played in strengthening food sovereignty and security, wealth creation, job creation, poverty reduction, balancing the country's balance of payments, etc. However, the use of opportunities by the artisanal fishing community is conditioned by a set of obstacles and vulnerabilities that public policies and private operators must urgently face, namely the high degree of unpredictability of the business, the seasonality of the operation, the perishability of fisheries produce, the diverse risks associated with the activity, the low level of education of most operators and the reduced scale of operation and technological endowment of artisanal fishing vessels and infrastructure.[156]

Fidalga, Seixas and Azeiteiro offer a detailed profile of the case of the community of Palmeira (Island of Sal), which serves to illustrate the reality of artisanal fishing communities in Cabo Verde. The typical artisanal fishing operator in this community is male, with an average age of 40 years, with 3 - 6 children (78%), illiterate or without basic education (89%), initiated in the fishing activity by their families. 78% of fishermen devote only a few hours a day to fishing. Only 3.7% of fishermen are salaried. The exclusive monthly income from fishing varies between EUR 30 and EUR 400. Of the set of artisanal fishing vessels, most are boats measuring 4.5 meters in length, 55.6% are wooden and fibre boats, 74.1% with outboard motor and 22.2% with stern motor, 92, 6% use gasoline. Only 41% have safety equipment, 11% have location instruments and 22% have navigation instruments. 78% of the vessels are engaged in handline fishing. 59%

155 Food and Agriculture Organization of the United Nations, "Fisheries and Aquaculture," FAO, 2021, https://www.fao.org/fishery/en/global-search?q=statistics+global-consumption&lang=en.

156 José A. González et al., "Current and Emerging Small-Scale Fisheries and Target Species in Cabo Verde, with Recommendations for Pilot Actions Favouring Sustainable Development," *Cybium* 44 (November 2020): pp. 355-371, https://sfi-cybium.fr/fr/current-and-emerging-small-scale-fisheries-and-target-species-cabo-verde-recommendations-pilot.

of vessels do not use any fish conservation system on board. In addition, 37% of the vessels were acquired by purchase, while 40.7% were acquired by order of their construction and 18.5% with public subsidy. 96% of fish is consumed in the local market.[157]

These barriers are evident in the proportion of artisanal fishing vessels in the total fishing fleet (91%), in the average number of fishermen in artisanal fishing vessels (3 per vessel), in the average number of artisanal fishing vessels per port (21), and the average number of ports per island (7.5 per island). In this scenario, low levels of productivity, low levels of income, the weak possibility of poverty reduction and the lesser effect on the balance of external accounts are expected - as can be seen - largely due to the small scale of most fishing operations in fisheries traditional, without connection with the proper channels of processing, distribution and marketing of fish that create value for domestic or foreign consumption.

Fishing	Number of Vessels	Dimensions
Artisanal	1.588	3 – 8 m
Semi-Industrial	151	6 – 24 m
Industrial	1	76 m

Table 14: Composition of Cabo Verde's fishing fleet

Source: DGRM (2017)

	Santo Antão	São Vicente	Santiago	Sal	Boavista	São Nicolau	Brava	Fogo	Maio	**Total**
Motorization Rate	86%	97%	64%	98%	90%	99%	95%	80%	91%	**83%**
Harbors	11	5	15	6	3	7	4	15	9	**75**

Table 15: Physical capital components of Cabo Verde's artisanal fisheries

Source: DGRM (2017)

157 Alécia Brígida Fidalga, Sónia Seixas, and Ulisses M Azeiteiro, "Estudo Das Perceções Da Comunidade Da Palmeira (Ilha Do Sal, Cabo Verde) Sobre a Sustentabilidade Das Pescas," *Revista De Gestão Costeira Integrada* 14, no. 1 (2014): pp. 41-49, https://doi.org/10.5894/rgci446.

Fishing Industry		**Cabo Verde population**		
		> 15 years	Active	Employed
		392.355	232.198	203.775
Processing Industry	1.749	0,45%	0,75%	0,86%
Artisanal Fishing	4.811	1,23%	2,07%	2,36%
Industrial Fishing and Semi-Industrial	1.113	0,28%	0,48%	0,55%
Intermediate Activities	989	0,25%	0,42%	0,48%
Total	8.659	2,21%	3,73%	4,25%

Table 16: Structure of employment in the fisheries sector in Cabo Verde
Source: DGRM (2017)

In this context, the emphasis on the development of artisanal fishing communities and taking advantage of the opportunities that are presented to them, must be strategically reconsidered in conjunction with other relevant sectors for the country – fish processing industry, logistical services and food distribution, domestic and international transport, tourism, etc. In this regard, the articulation between public policies and the action of private operators in the fisheries sector should focus on mitigating the risks and vulnerabilities associated with it and on enhancing the opportunities offered by cooperation with other sectors of activity. The solution necessarily involves the combination of increasing the average scale and quality of infrastructure and equipment for fishing operations and support to the fisheries sector, with the reinforcement of the capacity of its human resources and the strengthening of the technological capital of capture, processing, conservation, and distribution of fish at your disposal. These vectors must be oriented towards improvements in productivity through gains of scale, in differentiated products with greater added value, based on an effective quality control system for the product and processes.

Fortes' study (2018) on artisanal fishing in Cabo Verde immediately confirms the risks previously identified for the economic viability and environmental sustainability of this activity in the country. These condition the ability of artisanal fishing to contribute to the pursuit of the country's development goals such as: creating decent jobs, improving family income, reducing poverty, increasing social inclusion and ensuring environmental sustainability.

The situation is evident when the analysis focuses on artisanal fishing income. The average annual income of artisanal fishing per vessel between 2009 and 2017 in Cabo Verde was 1,170 EUR for the islands. However, there are still marked differences between islands. The island of S. Vicente has the lowest average annual income per artisanal fishing vessel for the same period in the set of islands – 312 EUR – and the island of S. Nicolau has the highest average annual income per artisanal fishing vessel for the referred period in the islands as a whole – 2,862 EUR. These data are in line with the study by Fidalga, Seixas and Azeiteiro (2014), according to which "the amount received in the fishing activity is not enough to support the family"[158], making fishermen need to dedicate themselves to other activities paid to supplement their income from artisanal fishing.

2009	2010	2011	2012	2013	2014	2015	2017	**Average**
1.210	1.363	1.223	988	972	1.266	1.322	1.019	**1.170**

Table 17: Annual Average Income of artisanal fishery per vessel in Cabo Verde (EUR)

Source: Fortes (2018)

The main obstacles identified by the study that explain the risks to the economic viability of artisanal fishing are, therefore, the small scale of artisanal fishing operations, the concentration of artisanal fishing activities in a reduced number of fish species and the reduced capacity for investment and exploitation of the operators of this type of traditional fishing: : (i) incentives to increase the average size of traditional fishing vessels, (ii) mechanisms for managing and controlling the portfolio of fish stocks in real time, by island or group of islands, that favours the diversification of the exploitation of the species, (iii) integration of artisanal fisheries communities in the decision-making and communication networks of the fisheries sector and its partners, (iv) set of public policy measures aimed at ensuring the economic viability and medium-term environmental sustainability of artisanal fishing: (vi) efficient surveillance, monitoring and control mechanisms within the EEZ, notably with regard to industrial and foreign operators, ensuring transparent compliance with fisheries and nature conservation legislation and competition.159

Environmental Protection Component

The third relevant component of the index for the country assesses the sensitivity to places, with particular attention to iconic species and special places. In this component, Cabo Verde obtains a classification of 34 points out of 100 possible, being awarded the 184th position for this component among the 221 Exclusive Economic Zones evaluated. However, an increase of 11% in the score of this component is expected in the near future.

158 *Ibidem*

159 Delvis Manuel da Graça Fortes, "Assessment of Economic Viability of The Artisanal Fisheries in Cabo Verde: Recommendations for Improvement.," *Grocentre* (dissertation, 2018), https://www.grocentre.is/static/gro/publication/673/document/Delvis18prf.pdf.

Sensitivity to places

Objective	Score (0-100)	Ranking (1-221)
Sensitivity to places	**34**	**184th**
Iconic Species	*66*	*107th*
Special Locations	*2*	*188th*

Table 18: Sensitivity to places
Source: Ocean Health Index

The perception offered by the classification obtained by Cabo Verde in this component of the Ocean Health Index is reinforced when its results are crossed with the results of other environmental indicators for the country. According to IUCN RedList criteria, 78% of Cabo Verde's endemic flora species are threatened (51 species).[160] In the case of birds, with the same criteria, there are 7 endangered species in the country. In the case of marine fauna, there are 35 endangered species. And in the case of mammals, there are 4 endangered species. On the other hand, according to data from 2018, only 2.9% of Cabo Verde's land surface is classified as a protected area and there are no marine protected areas, when 64% of the 1,099 km of coastline is covered by habitats and the country has 34.3 km2 of cold-water corals.[161] The picture is more evident when, in international comparative terms, of the set of 53 endemic species evaluated in Cabo Verde, 45.3% are threatened or threatened with extinction risk and, of the 579 endemic species evaluated in the rest of the world, only 7.4% are in the same states.[162]

Water Pollution Component

The fourth relevant component of the index for Cabo Verde assesses the ability to avoid water pollution. In this component of the Ocean Health Index, the country obtains a classification of 62 points out of 100 possible, occupying 95th position among the 221 Exclusive Economic Zones in question. However, a 1% reduction in the score of this component is expected in the near future.

Marine pollution has been one of the most serious global challenges, requiring urgent action by government agencies, especially in African small island states where resources are scarcer. Furthermore, waste management and environmental and ocean education programs in schools are scarce, with small island states facing these problems more seriously. Perception plays a key

160 Maria M. Romeiras et al., "IUCN Red List Assessment of the Cape Verde Endemic Flora: Towards a Global Strategy for Plant Conservation in Macaronesia," *Botanical Journal of the Linnean Society* 180, no. 3 (2015): pp. 413-425, https://doi.org/10.1111/boj.12370.

161 Ibid

162 IUCN, "The IUCN Red List of Threatened Species," IUCN Red List of Threatened Species, 2021, https://www.iucnredlist.org/.

role in ecosystem management and conservation policies. In the case of Cabo Verde, communities are aware of the problem of marine pollution and can identify the lack of an adequate waste management system and inadequate population behaviour as the main causes of the problem.[163] They also identify damage to equipment and the presence of plastic in fish as the most relevant impacts.[164] In certain circumstances, they even reveal apprehension about the tension between economic activities and environmental conservation, the problems of pollution and the fragility of maritime surveillance.[165]

Biodiversity Preservation Component

The last relevant component of the index for the country assesses the capacity to preserve biodiversity. In this component, Cabo Verde obtains 91 points out of a possible 100, being awarded the 52nd position in the set of Exclusive Economic Zones evaluated. However, an 8% increase in the score for this component is expected in the near future.

Objective	Score (0-100)	Ranking (1-221)
Biodiversity Preservation	**91**	**52th**
Species	*82*	*139th*
Habitats	*100*	*9ath*

Table 19: Biodiversity

Source: Ocean Health Index

Cabo Verde's performance in indicators related to its policies and institutions for environmental sustainability has declined in recent years and is relatively low. They are the lowest of all the World Bank Institutional and Country Policy Assessment (CPIA) indicators. Given Cabo Verde's dependence on its natural capital, tourism-based economy and the importance of preserving the resource base on which many of the poorest households depend, the inadequate protection of its natural environment from pollution and damage, it's a concern. Healthy natural resources are equivalent to a social safety net.

There is insufficient preservation of Cabo Verde's natural capital, harming the tourism industry. Cabo Verde ranks only 78th out of 141 countries in "enforcement of environmental regulations" in the Travel & Tourism Competitiveness Index. Cabo Verde is considered one of the 11 centres in the world most threatened in terms of marine biodiversity. A total of 22 species of dolphins and whales can be found in its waters, which are also an important nesting site for several endangered sea turtle species.

163 José C. Ferreira et al., "Perception of Citizens Regarding Marine Litter Impacts: Collaborative Methodologies in Island Fishing Communities of Cape Verde," *Journal of Marine Science and Engineering* 9, no. 3 (October 2021): p. 306, https://doi.org/10.3390/jmse9030306.

164 Ibidem

165 Lopes et al, "Stakeholder perceptions on the maritime economy and planning in Cape Verde", research gate (2019), available in https://www.researchgate.net/publication/333321326

However, Cabo Verde's biodiversity is under strong pressure from irresponsible hotel building practices and touristic activity. Concentrated fishing, limited enforcement of environmental and building regulations, and various forms of pollution all pose a significant threat to the quality of the natural environment and the preservation of the country's biodiversity. Furthermore, the unregulated extraction of coastal sand for civil construction purposes continues to be one of the main avoidable growing environmental problems, increasing the risk of seawater intrusion into aquifers and coastal lands. Environmental issues are particularly pertinent to Cabo Verde, as the health of the tourism industry depends heavily on the archipelago's natural beauty.

Mismanagement of solid waste generated by tourist resorts and local populations, and various other forms of pollution, pose a significant threat to the country's natural environment. The systems and rules for solid waste management are suboptimal across the country. The regulation appears to be poorly applied, with entire communities dumping garbage in non-approved areas, including in the sea, which affects the country's environment. Fish stocks, which represent another of Cabo Verde's important natural resources, also depend on a healthy coastal aquatic environment. Uncontrolled waste disposal also affects groundwater quality, with a direct impact on poor communities.

Export Potential

Another sign of the underutilization of the exploitation potential of natural oceanic assets is offered by data from the International Trade Center, which in its report reports the underutilization of the export potential of the fish processing industry in Cabo Verde. According to the organization, the country carried out in 2020 exports of processed fish whose volume is USD 40.3 million less than its potential export value (see box 1), considering the production capacity installed in the country and the business opportunities existing in the international markets, which is also observed in prior years. The same reality characterizes other sectors of activity that have their natural capital in oceanic natural assets, delaying the development process of these sectors and blocking the catalytic effects of sustainable development in other sectors of the economy and society.

It is therefore a priority to place, in fact, the potential for acceleration and transversal irradiation of the participation of natural oceanic assets in the development processes of island economies at the heart of the country's integrated strategy for sustainable and inclusive development.

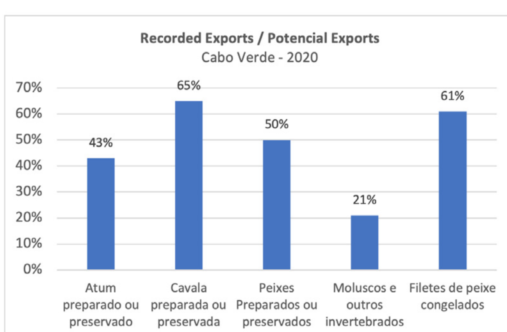
THE OCEAN AT THE RADIAL CENTRE OF CABO VERDE'S DEVELOPMENT STRATEGY

Cabo Verde's current sustainable development strategy is described in two official documents, (1) Ambition 2030: Cabo Verde's Strategic Agenda for Sustainable Development, and (2) the Strategic Plan for Sustainable Development 2017/2021. The Ambição 2030 program places its epicentre in the ocean's natural capital and human capital. The country clearly states that the blue economy – or the set of economic activities that use the ocean, or other water areas, in a sustainable way as a resource platform to produce goods and services with public or private benefit – must be the main accelerator of its sustainable development. This should be the central and radial anchor for catalysing and accelerating the integrated sustainable development process in this phase of the country, with which it aims to achieve greater effects in the areas of diversification and internationalization of its economy. In this framework, it identifies the main guidelines of public policies for the sector: (1) optimize the returns from the sustainable use of marine resources, minimizing ecosystem degradation and increasing social benefits, (2) technical and financial investments in research areas and ocean development, and (3) maritime safety and security. The Maritime Special Economic Zone of S. Vicente is the flagship project.

Box 6

Fish export potential

According to 2020 data from the International Trade Center, Cape Verde has shown some inability to take advantage of all its processed fish export potential for the current production capacity installed in the country. In 2020 alone, according to the organization, the potential for unrealized processed fish export was equivalent to USD 40.3 million. Given the relevance of the volume of processed tuna exports to the total volume of processed fish exports, the situation is more impressive in this subsector of processed fish, as it uses only 43% of its export potential, having failed to take advantage of an export potential equivalent to 23.4 million USD in 2020.



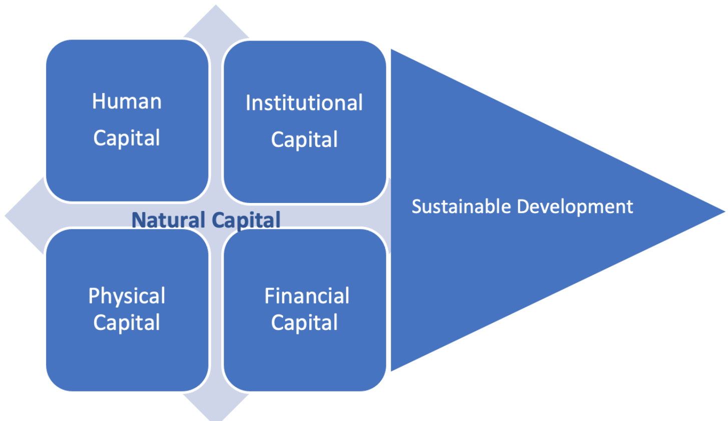


Figure 43: Cabo Verde 2030 Sustainable Development Strategy Matrix

In the Strategic Plan for Sustainable Development 2017/2021, Cabo Verde recognizes the specific constraints of small island states and proposes an effort to integrate into the global economic system as a platform country for circulation in the mid-Atlantic. The platform would integrate domains of logistics and maritime transport (with special emphasis on bunkering and transhipment), logistics and air transport, international business logistics, financial services and ethnic investment, the digital economy, without ceasing to accommodate the services of tourism. The plan (still in force) already includes strategic objectives that integrate some areas of the blue economy, such as the concern with the sustainable use of natural oceanic and coastal assets and with the preservation of biodiversity and environmental quality, with access to water for human consumption, with the management of environmental and climate risks, etc. However, the rationality inherent to the blue economy has a timid presence in the definition of strategic development options for blue economy activities.

At this moment, work is underway to review the national strategic plan for sustainable development for the period 2021/2025, for which its guiding document is the current national strategic agenda. Therefore, an integrated systemic plan of all dimensions of the blue economy is expected, in articulation with other sectors of the economy and society, with other natural assets and with other assets, human, physical, financial and institutional. In a phase prior to work on Cabo Verde's new national strategic plan for development, the national authorities – with technical support from FAO and AfDB – published the strategy and investment plan for the blue economy in two documents: (1) the Unified Strategic Framework for the Blue Economy (2019), and (2) the National Investment Plan for the Blue Economy in Cabo Verde (2020).

The strategic reference framework for the blue economy defines as strategic axes (1) the promotion of blue growth through the promotion of entrepreneurship and the development of decent jobs for young people and those most dependent on ocean resources (the importance of women in the value), (2) improving the business environment for private investment, (3) promoting innovations for the benefit of diversification of activities, new markets and new jobs, (4) institutional adjustment and strengthening the capacity of institutions public and private organizations for the promotion of the Blue Economy, (5) the reduction of negative environmental impacts through the promotion of innovations in favour of renewable energies and more inclusive and sustainable production and trade systems, (6) the improvement of conditions for prevention and adaptation to climate risks, (7) strengthening knowledge and valuing education and training strategies, adopting good co-management practices and innovations to support new ways of valuing natural and environmental resources, (8) reducing poverty, food risks, social inequalities and promotion of gender policies, (9) the follow-up and assessment of changes in public policies with a prospective vision for sustainable development based on the Blue Economy.

The document also defines as vectors of action for the blue economy (1) the prospective vision, education and adaptation of public and private institutional capacities to the blue economy, (2) support for entrepreneurship and innovation (3) new investments, new financing for new products and/or new markets and new jobs, (4) reducing environmental impacts and improving living conditions and livelihoods. The strategic reference framework identifies some economic activities with potential, namely: (1) Blue Ports, (2) Fishing, (3) Aquaculture, (4) Blue Tourism, (5) Maritime Spatial Planning, (6) Enhancement of Coastal Zones, (6) Blue Transport and (7) Blue Energy. Regarding scopes of resource mobilization and new financing mechanisms, the blue economy strategic reference framework identifies a wide range of financing alternatives, namely: (1) public-private partnerships, (2) Blue Bonds, (3) Debt Conversion, (4) Social Impact Bonds, (5) Diaspora Bonds, (6) Crowdlending Diaspora and Others, (7) Conditionally Recoverable Grants, (8) Blue Rate and (9) Blue Insurance.

The national investment plan for the blue economy in Cabo Verde, formulated by the national authorities – with technical support from the FAO and the ADB – regarding natural capital for the blue economy, focuses only on marine fauna. For this purpose, it offers the identification and mapping of some marine species with iconic interest for biodiversity and nature tourism or for fishing use of artisanal or recreational nature. 166 The plan seeks to privilege four components of investment in the blue economy, namely: (1) coastal infrastructure, (2) protection and management of natural heritage, (3) enhancement of ecosystems and ocean resources, (4) research & development. The investment options were based on 16 criteria previously defined for classifying the projects, namely: (1) based on an ecosystem approach, (2) based on a cost-benefit

166 Corals, Molluscs, Sea Turtles, Sea Birds, Marine Mammals, Shark, Fishing Resources

analysis with reference to the pillars of sustainable development, (3) developed according to a participatory approach (private and public sectors and civil society). (4) promotes the inclusion of grassroots national communities, (5) promotes the sustainability of natural heritage (including the reduction of negative impacts on the environment), (6) linked to the strengthening of fair trade, (7) promotes job creation decent, (8) favours the promotion of gender (9) takes into account available innovations to ensure the sustainability of investments, (10) contribution to the resilience of ecosystems, (11) achievement of space management objectives, (12) in accordance with CaUEB guidelines, (13) eligible for Blue Economy funding, (14) provides necessary follow-up measures for implementation, (15), potential paradigm shift, (16) potential impact (positive / negative) on the sector .

The 55 investment projects inscribed in the plan were selected from a set of 60 proposals formulated by the municipality councils (29), the central administration (25) and the private sector (6), divided as follows:

	City Councils	Central Administration	Private sector	Total	%
Coastal Infrastructure	9	1	1	11	20%
Valuing resources and natural heritage	20	2	10	32	58,2%
Protection and management of ecosystems and natural resources	0	4	0	4	7,3%
Research & Development	0	8	0	8	14,5%
Total	29	15	11	55	100%
%	52,7%	27,3%	20%	100%	

Table 20: Distribution of blue economy investment projects

Source: PNIEA (2020)

Except for 3 projects, all the other 52 projects require public funding, in some cases with the participation of the private sector only in management. The total investment foreseen under the PNIEA is 76.99 million Euros, of which 18.12 millions of Euros earmarked for coastal infrastructure and 58.87 million Euros for the enhancement of resources and natural heritage.

The principal projects of the investment plan are: (1) the Integrated Development Project "Calhau Azul" (Island of S. Vicente), with aquaculture operations, renewable energies, energy efficiency, ecotourism, and environmental conservation and protection, with a budget in excess of 12 million Euros, (2) the Blue Economy Integrated Development Project (Island of Santiago), with operations to manage the coastal zone, infrastructure, fisheries and aquaculture and renewable energies, with a budget in excess of 12.5 million euros (3) the Integrated Blue

Economy Development Project (Island do Sal), with infrastructure operations, aquaculture and fisheries, coastal management and renewable energies, with a budget of 4 million Euros, (4) the Renewable Energy Project for the Blue Economy, with a budget of around 6.5 million Euros, (5) the Project for the protection, conservation and management of coastal zones and (6) the Project: 'One by One' Fisheries Value Chain of Tuna, with an or budget of around 750 thousand Euros (7) the Special Maritime Economic Zone of S. Vicente, (8) the tidal power plant and ocean thermal energy conversion, (9) the renewable energy micro production systems in port facilities and in the facilities of desalination, (10) the Electric mobility project for artisanal fishing vessels, (11) Naval Shipyard for the Construction, Repair and Maintenance of Semi-Industrial Fishing Vessels, with a budget exceeding 7 million Euros.

OPPORTUNITIES AND CHALLENGES FOR THE BLUE ECONOMY IN CABO VERDE

Defence and National Security

The sovereign functions of the state in the scope of defence and security can, and should, integrate the goals of sustainable development in its mission. Surveillance of maritime assets and activities across the EEZ, training services for maritime defence and security personnel, and marine science and technology development services are aligned with the national development strategy. These services can generate direct and indirect beneficial impacts for the development of blue economy activities, namely in the preservation of the country's natural oceanic assets, in the safety of people and goods in the maritime and coastal space, in the production of knowledge about marine and coastal realities, in the development of marine science and technology, in the definition of public policies and coordination of economic activities in the marine and coastal space. The insertion of these services in national and international technical-military and technical-scientific cooperation networks and consortia will leverage the benefits for activities that operate on ocean natural assets.

Biodiversity Protection, Conservation and Management

Cabo Verde's natural oceanic and coastal assets are part of the country's biodiversity heritage. These must be managed to ensure their protection and conservation, without ceasing to be sources of wealth creation, income and employment and improving the quality of life for local communities. A set of economic activities can be developed for these purposes around natural oceanic and coastal assets. Immediately, the activities of supplying goods and services for the exercise of territorial sovereignty in the fields of maritime and coastal defence and security. In addition, the activities of supplying goods and services for environmental protection and conservation, and the production and transfer of knowledge on biodiversity and environmental sustainability in the maritime and coastal space. Marine and coastal biodiversity is a base asset for differentiating the country's tourist demand profile for other tourist products, such as nature tourism, nautical tourism or adventure tourism, among others. In the preservation of this biodiversity, for several reasons, some green and/or circular economy activities are critical, such as urban water cycle management services and urban solid waste and industrial waste management services.

Planning, Management and Control of the Coastline

The environmental sustainability of maritime and coastal areas requires planning, development, management and control of human activities that take place in these spaces. In this context, these activities create opportunities for wealth creation, generate income and qualified employment in areas as diverse as planning and urbanism, infrastructure development, real estate development, proximity services, hotels and restaurants, etc. These opportunities can be leveraged with the participation of the national or international private sector.

Carbon capture

The natural capacity of maritime space and coastal zones to capture carbon can be leveraged through some chemical and biological processes. The desired leverage in carbon capture can be achieved through mechanisms that increase photosynthesis in the ocean. Enhanced ocean and coastal photosynthesis can be achieved by restoring carbon-capturing coastal ecosystems, large-scale seaweed cultivation, or ocean fertilization with iron. Also, chemical processes that add alkalinity to the ocean are a way to leverage carbon capture. The oceanic alkalinity can be achieved, on the one hand, by adding carbonate or silicate to the ocean and coastal areas, using minerals from desalination for this purpose. On the other hand, ocean alkalinity can be achieved with electrochemical processes that speed up chemical reactions that capture carbon, such as seawater electrodialysis, which can be paired with the production of hydrogen.

Fisheries and Aquaculture

The fish industry in Cabo Verde has shown an inability to exploit the full potential of operation that the existing stocks in the national maritime space allow, as well as the potential for aquaculture production that natural conditions favour. This diagnosis is supported by the underutilization already identified, whether in the context of national food security or in the scope of the potential for fish exports. In part, this inability is associated, on the one hand, with the lack of capacity of artisanal fishing operators and, on the other, with the reduced scale of traditional fishing operations. In this context, the potential for growth of traditional fishing and aquaculture is identified, if the improvement of training and scaling up of the operations of these activities is encouraged, aimed at improving productivity and competitiveness in the sector's international markets. This effort involves the horizontal integration of traditional fishing operators into semi-industrial fishing operators (increasing the scale of operations) to reduce operating costs and vertical integration of traditional fishing operators (increasing the sector's national value chain) to greater retention of the value created by national operators. It also involves encouraging the logistical grouping of traditional and semi-industrial fishing operations (increasing the scale of logistics and distribution operations) in order to reduce the costs of these operations. These guidelines for taking advantage of the growth potential of the fish industry require, in parallel, an effort to train traditional and semi-industrial fishing operators to improve levels of efficiency and leverage the scale of the operation, the development of management of logistic operations of conservation, distribution and commercialization of fish and aqua cultured to maximize production potential, investment and development of infrastructure management to support fisheries and fishing industry to improve productivity levels and operation efficiency, development of the processing industry of fish and aquaculture to increase the retention of value created in domestic operators and research and development in marine science and technology to improve efficiency levels and increase the potential of operations. At the same time, fish aquaculture can seek synergies with seaweed aquaculture to diversify the profile of the sector and take advantage of other potential offered by natural oceanic assets.

Marine Biotechnology

In addition to the positive impact in terms of carbon capture, the production of marine algae in aquaculture (marine agriculture) has been of increasing interest by the food industry, the biochemical industry, the pharmaceutical industry and the cosmetic industry, etc. Cabo Verde shows conditions for growth in the field of marine agriculture whose potential is still untapped.

Extractive Industries

In addition to extracting aggregates (sand), Cabo Verde has not yet explored its seabed (genetic, energy and mineral resources). In this context, it still lacks a legal system, economic analysis tools to support decision-making for public policies and governance mechanisms for the exploration of the seabed.

Blue Energy

The energetic potential of oceanic assets is well known. Cabo Verde's maritime and coastal space therefore has a recognized set of opportunities for infrastructural development and renewable energy production based on offshore wind power, tidal mechanical strength or marine bioenergy. These opportunities in the field of renewable energy can be paired with other clean energy production processes. This is, for example, the case of water electrolysis, powered by renewable energies (wind, solar, waves) allows the production of green and blue hydrogen and green and blue ammonia. Or the case of hydrogenation for alcohol synthesis, which allows the production of green synthetic methane, green and blue synthetic methanol. Hydrogen, ammonia, methanol and methane are likely to be used as fuels by land and maritime transport. Cabo Verde can aspire to be a hub for the production and supply of green and blue fuels in the centre of the Atlantic, which is part of a broader portfolio of services to the maritime transport and international logistics sector.

Maritime Industry

The investment effort in the modernization of national artisanal and semi-industrial fishing, associated with the country's infrastructural investment in shipyards for the construction, maintenance and repair of semi-industrial fishing vessels, opens a set of business opportunities in service operations. Shipbuilding, maintenance and repair, not only to meet the demand of the domestic market, but also to scale these operations to meet the demand of the international market.

Transport and Communications

Cabo Verde has the potential to become a physical connectivity hub between the African, European and American continental platforms. The country's ambition to become a country-platform for circulation in the mid-Atlantic region opens a window of business opportunities in various operations, including flag registration services, cabotage services, port services, logistics services, international maritime transport services and domestic for people and goods. Cabo Verde also has the potential to become a digital connectivity hub, namely in the scope of transcontinental and regional submarine communications cabling, the management of maritime information and communication systems and the management of maritime information and communication infrastructures, etc.

Tourism and Leisure

Tourism and leisure have been the anchor sector of Cabo Verde's development in recent decades. Its relevance currently represents about 50% of the country's GDP. However, in recent years, this sector only accounts for 4% of the growth of the Cabo Verde's economy. This means that the current tourism and leisure business model in the country has reached its maturity. However, the country is endowed with a diverse set of natural oceanic and coastal assets that allow it to develop tourist products with greater added value and less environmental impact, aimed at other market segments, namely tourism and nautical events (sports nautical and recreational), tourism and fishing events (fishing and recreational), tourism and gastronomic events, tourism and historical and cultural events, cruise tourism, nature tourism, ecological tourism, adventure tourism (water and underwater) , etc.

Human capital

The country's strategic orientation towards blue economy activities requires an orientation towards the formation of human capital for these activities. There is, therefore, a need for education and professional training services, as well as the science, technology and innovation system, to satisfy the specific human capital needs of the blue economy cluster.

Public administration

The successful materialization of Cabo Verde's development strategy, anchored in blue economy activities, opens in the future a window of opportunities for the sector's public administration within the scope of international cooperation for the development of the sector in other geographies, namely within the scope of South-South cooperation, as is already the case in the fields of the digital economy.

Financial Intermediation

The financial intermediation sector occupies a central place in alternative financing mechanisms to development. The successful issuance of blue bonds on the Cabo Verde capital market will not only facilitate the country's development financing process but will allow the Cabo Verde Stock Exchange to be a relevant financial intermediation operator to place similar operations for the financing the development of other economies in the region in areas of the blue economy (see section on sustainable finance for the blue economy below). The same opportunity exists for other alternative development financing mechanisms.

Information and Communication Systems and Technologies

Information and communication systems and technologies are currently an instrument for improving efficiency in different sectors of activity, each with its specific needs. Cabo Verde has shown capacity in the development of information and communication systems and technologies to meet some domestic needs. This ability has been recognized. The recognition of the country's capabilities in these domains has been expressed in the requests for international cooperation requested by countries in the region, especially in the context of the digital economy. The activities of the blue economy have needs for information and communication systems and technologies that are common to other activities and others that are specific to their own nature. The sector of information and communication systems and technologies has here a window of opportunity in developing solutions for the specific demands of blue economy activities, which if successful may be the object of technological transfer to the blue economy of other countries in the region.

Type of Activity	Oceanic Service	Established Industries	Emergent Industries	Growth Factors
Animate resources exploitation	Food safety Marine biotechnology	Fishing Aquaculture	Chemical Industries Pharma Industries Cosmetics Industries	Population Growth l Coastal Urbanization Fish Demand Beauty & Cosmetics Industries
Exploitation of Inanimate Resources	Metals Minerals Oil & Natural Gas	Exploration of the seabed	Exploration of the deep seabed Metal & Mineral Derivatives	Minerals Demand by Heavy Industries Transforming Industries Demand Energy Demand
Creation of New Resources	Water Energy	Desalination Alternative energies	Electrochemical Mediation Renewable Energies Wave energies	Energy Demand International Energy Regulation Drinking Water Demand Drinking Water Stocks Water Management
Logistics, Commerce and Services	Transportation and Commerce Tourism and Leisure	Naval Industry Maritime Services & Transport Port Infrastructure & Services Tourism & Coastal Development	Changing the Energy Matrix Cabotage Shipping Registration Service Nautical Tourism Cruise Tourism ecotourism Maritime Royal State Maritime Heritage	Growth of Maritime Trade International Regulations Globalization Tourism growth Urbanization Search for Preservation and Conservation
Oceanic Control	Monitorization & Oceanic Surveillance Carbon Capture Coastal Management Biodiversity Management Oceanic Pollution	Defence & National Security I.T Technologies Environmental Regulation	Maritime Technologies Blue Carbon Cabotage Habitat Protection and Recovery Technologies for Management of the Urban Water and Urban and Industrial Waste Cycle	R&D in Maritime Technologies International Carbon Regulations Tourism growth Urbanization Search for Preservation and Conservation

Table 21: Activity guidelines for the blue economy

Source: World Bank (2017)

LIMITATIONS AND OBSTACLES TO THE DEVELOPMENT OF THE BLUE ECONOMY IN CABO VERDE

Natural Capital

The preservation and conservation of natural oceanic and coastal assets is a necessary requirement for the sustainable development of any blue economy activity. This condition can, and should, be assumed as a prior restriction in the definition of public policies for the sector, and in their implementation. However, it is diagnosed, in several sources, (1) deficiencies in the mapping of the country's oceanic and coastal natural assets, which prevent a better understanding of the necessary preconditions for the sustainable development of blue economy activities. In addition to these imperfections, there is (2) the absence of a national system for the integrated planning and ordering of the maritime and coastal space and the economic activities that operate within it. Finally, to different sources, (3) deficiencies in the monitoring and control system of natural oceanic and coastal assets are unavoidable, not only from the point of view of defence and national security, but also from the point of view of preservation biodiversity and environmental quality, and the sustainability of economic and social activities that use natural oceanic assets.

Physical Capital

To enhance the anchoring of Cabo Verde's national strategy for sustainable development in oceanic and coastal natural assets, this natural capital needs to be associated with a set of physical infrastructure assets that ensure the economic viability and competitiveness of blue economy activities. In this context, the country manifests some (1) deficiencies in the capacity of infrastructure and equipment and in the quality of infrastructure and equipment management services to support blue economy activities, namely in the areas of port infrastructure and logistics and transport and communications, (2) deficiencies in the integrated planning of maritime and coastal space and in the integrated planning of the development of port and coastal zones, which hinder the coordinated development of different blue economy activities in space, and (3) deficiencies in planning, development and management port logistics operations and services and intranational and international transport, which increase the difficulties for the development of blue economy activities.

Human Capital

Cabo Verde's efforts in building human capital are recognized. However, the success of the sustainable development strategy based on blue economy activities requires the country to have (1) greater national awareness of the potential of this sector and its opportunities for its development. In part, this lack of national awareness is due to citizens' lack of knowledge about the country's natural oceanic and coastal assets. The lack of knowledge is explained, in part, by (2) the reduced availability of scientific and technological staff in science and technology for the blue economy and by (3) the reduced national scientific capacity in science and technology oriented towards the blue economy. These constraints on scientific and technological frameworks and capacities for the blue economy are due to the (4) still reduced national financial capacity oriented towards training, research and development in the blue economy.

Institutional Capital

In the institutional domain there are also some limitations and blocks. By their nature, blue economy activities require scale investments whose maturations and returns occur over a long-term horizon. Political priorities in the allocation of public resources are not always oriented towards the requirements of this type of investment. Sometimes, the political decision allows itself to be captivated by electoral cycles (short term), preventing resources from being allocated to projects with an effective impact, but whose effects are only visible in the long term. There is also an absence of an integrated collection of statistical and other information on the blue economy. This gap has a very important impact on the way development strategies are defined and the implementation of public policies for the sector. Some of the deficiencies observed in the articulation of sectorial strategic plans and in the definition and implementation of public policies, are explained by decision-making without technical-scientific evidence and lack of coordination between public decision-makers and/or private operators.

Financial Capital

Cabo Verde faces some funding constraints through traditional development finance mechanisms. In particular, the limits to sovereign indebtedness and the difficulties in accessing commercial bank financing by private operators are especially constraining for development. These limitations pose additional difficulties for the development of the blue economy as they reduce the possible financing space for projects in this sector.

In addition to these basic difficulties, the means made available by the fiscal space are often allocated to small-scale blue economy projects with a low impact on the sector's productivity and competitiveness, more focused on local agendas and dependent on electoral cycles. In a context of severe financial constraints, the country must be more judicious in its resource allocation options and should seek to minimize all the very common inefficiencies in public investment decisions, as they consume resources that can be allocated to the development of blue economy projects.

Additionally, the private sector also reveals difficulties in accessing the financing mechanisms available in the financial sector, whether due to the scale of the financial resources needed to mobilize for blue economy projects, or due to the credit capacity of the project promoters. In addition, the perception of credit risk by financing institutions is high for blue economy projects, aggravating the difficulties due to the increase in financing costs.

Despite all the difficulties with traditional development financing mechanisms, Cabo Verde still reveals limited use of alternative development financing mechanisms for blue economy projects.

7. REGIONAL TRADE AND INTEGRATION

By 2025, according to estimates by the African Development Bank (ADB), consumption by African families is expected to reach USD 2.5 billion. And by 2030, according to ECA forecasts, the African agricultural and agri-food market will be worth a billion USD. These trends highlight the future growth potential of the African continent, and reveal the opportunities associated with it. Currently, only 16% of the volume of foreign trade of African countries has other countries on the continent as partners. On the other hand, European intraregional foreign trade represents 70% of the total volume of European foreign trade. In the case of North America and Southeast Asia, intraregional trade represents respectively 54% and 51% of the total external trade volume of the countries of these regional economic blocs.

The general trend is towards progressive trade liberalization and opening to foreign trade. Cabo Verde began this process with integration into the Economic Community of West African States (ECOWAS). More recently, Cabo Verde signed but has not yet ratified the African Continental Free Trade Area (AfCFTA). The country is also pending the signing of a free trade agreement with the European Union (Economic Partnership Agreements). The agreement is expected to open up new trade opportunities, attract foreign direct investment and reduce the costs of foreign trade with EU countries. Cabo Verde's current regional integration framework requires the country to become aware of the diverse impacts of free trade agreements on its economy. Concretely, it should seek to leverage the positive effects and mitigate the negative effects, on the economy, employment and public finances, associated with integration agreements.

THE CURRENT SITUATION OF TRADE AND REGIONAL INTEGRATION OF CABO VERDE

In Cabo Verde's economy, two-thirds of the wealth created comes from the tertiary sector. The volume of employment in the tertiary sector also represents two-thirds of the total employment in the country. The main product exported by Cabo Verde is fish (preserved or frozen). The exported volume of frozen or preserved fish represents 70% of Cabo Verde's total exports. This reveals little diversification in the basket of products exported by Cabo Verde. Cabo Verde's main export destination is Spain, which consumes around 68% of the country's exports. It is followed by Portugal, which is the destination of 9.7% of Cabo Verdean exports. This reveals little diversification in the destination markets for Cabo Verde's exports. The African continent has reduced expression as a destination for Cabo Verde's exports. In 2020, only 1.1% of Cabo Verdean exports had such an African country. The five main products imported by Cabo Verde are fuels, vehicles, machinery, electrical machinery and equipment and products of animal origin. Cabo Verde's main supplier is Portugal. Imports from Portugal represent 54.6% of the total volume of imports. This reveals little diversification of Cabo Verde's import markets. The African continent has little expression as a source of Cabo Verde's imports. In 2019, only 1.9% of Cabo Verdean imports came from an African country. Cabo Verde's trade balance has chronic deficits. In 2019, the trade balance deficit was equivalent to 14.6% of GDP. The economic impacts of the COVID-19 pandemic aggravated the trade balance deficit to 35% of GDP. Customs revenue is the main tax revenue. They are set at around 40% of tax revenues. Tax revenue in 2020 constitutes about 73% of total state revenue. Among the small African island states, Cabo Verde is the one with the smallest share of African intra-regional trade in its external trade and has the highest average customs tariff. The effects of integration in the AfCFTA on Cabo Verde's well-being, trade flows and fiscal revenue are residual, whether by general equilibrium simulations or by partial equilibrium simulations. In terms of regional integration in Africa, Cabo Verde shows high performance in the dimensions of macroeconomic integration and integration through freedom of movement, low performance in the dimensions of trade integration and production integration, and average performance in infrastructure integration.

The AfCFTA represents a market of 1.2 billion consumers, without borders or tariff barriers, with a potential GDP of 2,500 billion dollars, is the largest free market for goods and services since the creation of the World Trade Organization (WTO). It was expected to increase intra-African trade by 60% by 2022. Cabo Verde also hopes to sign a free trade agreement with the European Union (Strategic Partnership Agreements), one of the main economic zones in the world, with a domestic product gross (GDP) of 16.210 billion dollars and more than 500 million consumers. This agreement will open up new trade opportunities, attract more foreign direct investment (FDI) and reduce the cost of exports and imports with the main economic partner.

Among the small African island states, Cabo Verde is the country that registers the lowest intensity in commercial interaction with countries on the African continent. Cabo Verde's intra-African external trade volume represents only 2.2% of its total external trade volume. However, Cabo Verde's degree of openness (104% of GDP) is one of the highest among these countries, being surpassed only by the Seychelles (200% of GDP). The average customs tariff applied by Cabo Verde is one of the highest in this group of countries (10.9%), being surpassed only by Equatorial Guinea (15.6%). Cabo Verde's non-tariff customs barriers are also among the highest in this group of countries.

	GDP ppp (bn usd)	Exports. (bn usd)	Imports. (bn usd)	Degree of openess (% GDP)	Population (mil)	Average applied tariff (%)	Non-tariff barriers (%)	Intra-African trade (%)
Cabo Verde	3,5	0,2	0,7	104%	0,5	10,9%	9,5%	2,2%
São Tomé & Príncipe	0,6	0,0	0,1	80%	0,2	10.4%	9,5%	18,2%
Comoros	1,3	0,0	0,2	62%	0,8	7,4%	-	15,4%
Seychelles	2,6	0,5	1,0	200%	0,1	4,3%	9,5%	8,0%
Equatorial Guinea	31,2	4,2	2,3	76%	0,8	15,6%	-	9,3%
Mauritius	26,0	2,4	4,4	96%	1,3	0,8	6,8	15,0%
Africa (cumulative)	6057,8	344,5	459,0	-	1170	-	-	-
Africa in % of World	4,8	2,4	3,1	-	16,1	-	-	-
Africa (average)	30,5	2,6	2,9	63,8	11,7	-	-	-

Table 22: International trade - Cabo Verde in comparison to its peers

THE OPPORTUNITIES OF TRADE FOR CABO VERDE IN THE FRAMEWORK OF AFCFTA

Following the World Bank approach (simulation analysis with WITS-SMART)[167], simulations of the effects of AfCFTA with the computable general equilibrium model in perfect competition indicate that Cabo Verde will observe, over a 15-year horizon, a gain of 0.18% in general well-being, only with the elimination of customs tariffs, given the current situation**. The general welfare gain from the 35% reduction in non-tariff customs barriers will be 2.4%.** And the joint general welfare gain from the elimination of tariffs and the reduction of non-tariff barriers will be 3.02%. Even though, under this scenario modelling, Cabo Verde sees the smallest gains in general well-being through integration in the AfCFTA, the gains nevertheless remain considerable and the model does not account for unforeseeable multiplier effects of new market opportunities for domestic entrepreneurs that result from access to growing markets across Africa, notably in the areas linked to the SDG accelerators (green, blue, digital, sustainable tourism, etc.).

167 World Bank, "The African Continental Free Trade Area - World Bank," Open Knowledge Repository, 2020, https://openknowledge.worldbank.org/bitstream/handle/10986/34139/9781464815591.pdf?sequence=4&isAllowed=y.

Increase in welfare (%)	Base scenario		
	Only elimination of customs tariffs	Reduction of 35% of the non-tariff barriers	Elimination of customs tariffs and reduction of non-tariff barriers
Cabo Verde	0,177	2,431	3,017
São Tomé & Príncipe	0,064	3,393	4,300
Angola	0,060	1,337	1,693
Mauritius	0,127	6,001	7,276
Seychelles	0,141	4,037	4,995
Sub saharan Africa	0,07	2,10	2,60
Africa	0,05	1,70	2,11
Europe	0,00	0,00	0,00
Rest of the world	0,00	0,00	0,00

Table 23: Effects on well-being in the context of perfect competition

In a scenario of 45% reduction in non-tariff barriers, combined with the elimination of customs tariffs, Cabo Verde will see a general welfare gain equal to 6.4% compared to the current situation. However, in this scenario, the country continues to be the one that sees the smallest gains of the group of small African island states. Simulations in the context of monopolistic competition indicate that Cabo Verde will see a gain in general welfare of 0.25% by eliminating customs tariffs. The gain in general welfare resulting from the reduction of non-tariff barriers will be 0.9%. The gain in general welfare resulting from the combined elimination of customs tariffs and the reduction of non-tariff barriers will be 2.5%. The total effects on general well-being for Cabo Verde in the context of monopolistic competition are lower than the total effects on general well-being in perfect competition. Also in this context, Cabo Verde will see the smallest gains in general well-being.

Simulations for Cabo Verde's trade flows, in the context of integration into the AfCFTA, indicate that there will be a residual increase in the country's foreign trade with the African continent of around 0.33%, in an environment of perfect competition. In an environment of monopolistic competition, the increase to be observed for Cabo Verde's trade flow in the intra-African context will be 0.31%. The effects on Cabo Verde's customs tax revenue, resulting from the country's integration into the AfCFTA, are negative, but residual. An estimated loss of customs tax revenue equivalent to 0.03% of GDP.

According to the World Bank approach (simulation analysis with WITS-SMART)[168], simulations of the effects of AfCFTA with the partial equilibrium model for the set of ECOWAS countries indicate that Cabo Verde will see an increase in exports to the African continent of about 0.33% compared to value prior to integration. The effects of integration on customs tax revenue are residual. An estimated loss of customs tax revenue of 2.1% compared to the revenue observed before integration. It is estimated that the effects of integration on consumer surplus will be equivalent to 0.07% of GDP in 2020. The effects of integration on general well-being will be equivalent to 0.06% of GDP in 2020.

AfCFTA has an ambitious and comprehensive agenda for trade liberalization in Africa. The mentioned simulations lead to the following insights for member countries in general:

1. The estimated welfare gains for Africa from the adoption of the AfCFTA are significant under the various trade barrier reduction scenarios considered, with most of the gains coming from the reduction in non-tariff barriers. These gains can increase substantially with a further reduction of said barriers. Given the static nature of the model, the reduction of these in the simulations is done in a timely manner. In practice, however, reducing non-tariff barriers will involve a process and will likely occur gradually, especially large reductions in transport costs – which will require investments.

2. The volume of potential gains in allocative efficiency that countries are likely to gain from AfCFTA depends critically on the degree of openness, the initial level of trade barriers, and the strength of initial intra-African trade ties. As smaller countries tend to be more open and benefit from changing terms of trade, they will experience large welfare gains.

3. For almost all countries, manufacturing and agriculture are the biggest contributors to the estimated income gains.

4. For most countries, under monopolistic market structures, the gains from the introduction of AfCFTA are smaller than in countries with perfectly competitive market structures, suggesting that the overall scale effects are not strong for most African countries.

5. The simulations suggest that AfCFTA has positive impacts on global well-being, although – as expected – some regions outside of Africa would suffer very small welfare losses.

168 Michael Takudzwa Pasara and Steven Henry Dunga, "Who Wins And Who Loses Under The AfCFTA? A Simulation Analysis Across Ecowas Countries," International Journal of Economics and Finance Studies, 2020, https://www.sobiad.org/eJOURNALS/journal_IJEF/archieves/IJEF-2020-2/mt-pasara.pdf.

Cabo Verdean economy exports show a strong concentration in one product/sector. Furthermore, the Cabo Verdean economy is also dependent on the services of the tourism sector. The affiliation to AfCFTA could constitute a springboard to the African common market. Countries with a restricted domestic market such as Cabo Verde will have access to large markets and will benefit from this if they successfully implement specialization strategies and industrial policies that integrate the country into global value chains, considering their competitive advantages.

The low rate of specialization in foreign trade (share in Cabo Verdean exports / share of the same product in world trade) implies that Cabo Verde has a lot of room for progress in terms of developing competitive advantages in industry and services. At present, Cabo Verde owes its comparative advantage to activities linked to natural resources (fishing and tourism). Therefore, this must be considered in any perspective of growth in uncertain climate change related weather conditions, business environment reforms, and public investments whose efficiency and effectiveness have yet to be demonstrated.

Without the implementation of public investment programs focused on the competitiveness of the territory and private operators, the implementation of the AfCFTA / ECOWAS agreements will have a limited positive impact on the Cabo Verdean economy and on the living conditions of their families. However, there are some trade diversion hypotheses, if African countries present themselves as competitive suppliers for intermediate and final consumption products or if the efforts to make real and competitive the logistic connection between Cabo Verde and the continent are observed or if the Cabo Verdean companies integrate themselves in the African value chains. This results in the imperative need for public authorities and private actors to do everything possible to take advantage of opportunities to access quality inputs at competitive prices and eliminate or reduce the negative effects, mainly on the customs revenues, on the profits and employment of economic sectors with low international competitiveness and on the income tax revenues generated in these sectors.

8. CAPITAL MARKETS AND SUSTAINABLE FINANCE

Sustainable finance is a growing field that originated with the introduction of 'green' financial instruments by the EIB in 2007 and the World Bank in 2008. Though still small relative to the global share of bonds, funds, and other securities -- 'green' bonds, for instance, accounted for only 0.0079% of global bonds markets in 2018 -- sustainable finance instruments are part of a growing industry with an estimated total value of $258.9 billion in 2019, up from 171.2 billion in 2018 within the green bond sector alone.[169] While green bonds are the original form of 'sustainable finance' and continue to lead sustainable finance in terms of market volume, there has been a proliferation of sustainable finance instruments ranging from social, sustainability, and sustainability-linked bonds as well as Environmental, Social, and Governance (ESG) labelled funds, to even more recent or emerging 'transition' and 'blue' instruments (ibid). These proliferating frameworks now cover a vast range of financial instruments (bonds, funds, equity, etc.), market actors (regulators, financial service associations, banks, stock exchanges, etc.), processes and regulations, standards and labels, and third-party verification mechanisms. Over time, the field has also witnessed a crystallization of taxonomies ranging from green, social, transition, sustainable, and sustainability-linked bonds to ESG funds and, more recently, equity based on a company's adherence to impact standards, just to offer a superficial overview of this growing financial industry.

What began as somewhat of a bottom-up voluntary reporting approach rooted in the deontology of climate and environmentally cognizant investing, i.e., deliver returns in terms of prosperity and the planet, has recently morphed into a panoply of new governmental regulations intertwined with non-state frameworks seeking to ensure the dual-purpose impact of such investments. Herein, ethical convictions pertaining to environmental, social, governance and other sustainability considerations are imposing themselves on the market through new sets of norms and rules that seemingly defy market logics oriented exclusively towards profit-maximizing. Whereas private enterprise had long been associated with transgressions against the environment and humanity, the United Nations now positions "Capital as a Force for Good", claiming that US$102 trillion in assets are now 'conscious' of ESG principles and align with the global Sustainable Development Goals in some form.[170]

169 Climate Bond Initiative, "2019 Green Bond Market Summary ," Climate Bond.net, February 5, 2020, https://www.climatebonds.net/resources/reports/2019-green-bond-market-summary.

170 Force for Good, "Capital as a Force for Good- Capitalism for a Sustainable Future," Force for Good, 2021, https://www.forcegood.org/frontend/img/2021_report/pdf/final_report_2021_Capital_as_a_Force_for_Good_Report_v_F2.pdf#toolbar=1.

CAPITAL MARKETS AND SUSTAINABLE FINANCE POTENTIAL IN CABO VERDE

Cabo Verde's capital markets remain quite limited in scope and scale. The Cabo Verde Bolsa de Valores (BVC – stock exchange), established in 1998 in the context of broader market reforms in the 1990s, currently lists but four companies whose securities are publicly traded on the exchange's equity market.[171] These include two commercial banks, a tobacco company, and a petroleum company, all of which are national companies registered in Cabo Verde. Nevertheless, the BVC is quite active as a bond listing platform, with 9 corporate bonds, 2 municipal bonds, and 182 treasury bills and bonds listed in 2019.[172] As a result, the total capitalization of the BVC stock holdings amounted to approximately 762.5 million USD in 2019, which increased to 881 million USD by 2021, representing an increase of 13,7% over a two-year span.[173] While perhaps not a large sum in comparison to other major stock markets and financial hubs in absolute terms, in 2021, the BVC's holdings represented 61.45 % of Cabo Verde's GDP, making this a significant actor in Cabo Verde's financing landscape.[174] With the removal of all remaining capital controls and the complete liberalization of capital movements and foreign exchange transactions under Decree-Law No. 3/2018 of June 22, 2018, Cabo Verde is now well-positioned to attract the investments necessary to develop their capital markets to promote sustainable development.[175]

The limitation of secondary markets is one of the key remaining impediments to further growth in this sector and the pursuant attraction of financial investments to Cabo Verde. Compared to the primary market, which registered transactions of approximately 87 million USD in the first quarter of 2021, the secondary market remains comparatively low at around 1.4 million USD in the first quarter of 2021, despite an increase of over 2500% compared to the same quarter in 2019. This increase is mainly accounted for (98%) by the BAI (commercial bank) purchase of treasury bonds.[176] The limitation of the secondary market arose, among other issues, from the capital controls associated with restrictions on capital movements, especially concerning foreign exchange transactions thought to be necessary to protect the credibility of the peg against volatility of foreign exchange markets and to avoid large fluctuations in foreign currency reserves required to maintain monetary stability.

171 Bolsa de Valores de Cabo Verde, "Relatório Extensivo De Operações Da Bolsa De Valores: Primeiro Trimestre 2021," Bolsa de Valores de Cabo Verde (BVCV, 2021), https://drive.google.com/file/d/1Q6o2NxvmJ0YFZVic53AYrSEVqeL4F8Ys/view.

172 Ibid

173 Ibid

174 Ibid

175 Conselho de Ministros, "Boletim Oficial Nº 42 Série: Decreto Legislativo Nº 3/2018, https://kiosk.incv.cv/1.1.42.2541/.

176 Bolsa de Valores de Cabo Verde , "Relatório Extensivo De Operações Da Bolsa De Valores: Primeiro Trimestre 2021," Bolsa de Valores de Cabo Verde (BVCV, 2021), https://drive.google.com/file/d/1Q6o2NxvmJ0YFZVic53AYrSEVqeL4F8Ys/view.)

Even though these antiquated restrictions were removed in 2018, the institutional legacy of capital controls persists. This is manifested by (1) the limited volume of capital and corresponding liquidity in absolute terms available in the domestic market and (2) relatively high transaction costs associated with the exchange of securities due to a trading mechanism relying on outdated technology, including the absence of a digital platform easily accessible to domestic and foreign investors. Jointly, these factors continue to hamper the development of high-volume transactions in the secondary securities market. Furthermore, the lack of a secondary market in bonds entails that the expected inverse relationship between the central bank overnight base interest rate and the interest rate on sovereign treasury bonds does not hold in the case of Cabo Verde. Whereas the Central Bank overnight lending rate to commercial banks has been lowered to below 0.5% as part of the state's COVID-19 response measures,[177] the treasury bond interest rate remained persistent around the 4% mark.[178]

Despite these structural market constraints, given the BVC stock's present weight in terms of share of GDP, capital market development offers a significant strategic opportunity for structural transformation to be supported by the INFF framework, especially in sustainable finance. In the context of COVID-19 recovery in Cabo Verde, a particular focus has emerged on financing sources and instruments for the accelerators such as the issuance of green, blue, and social bonds and further exploring the opportunities of diaspora investments and remittances through digital finance (FinTech) and inclusive finance. These have been explicitly identified within Ambition 2030, notably in conjunction with the SDG accelerators.

Particular opportunities have already been envisaged with regard to the Blue Economy. A 2020 World Bank report, for example, signals opportunities for launching sovereign blue bonds that can generate sufficient investment for large-scale projects across the blue economy:

> *The report concludes that the issuance of a blue bond would be a viable and interesting option for Cabo Verde—with its own merits and limitations. With the right amount (US$10 to US$15 million) and the right rate (close to the 3–4 percent range), a blue bond would be an adequate instrument to support the strategy of Cabo Verde to diversify borrowing sources, in anticipation of the transition away from concessional lending. The blue bond would be a developmental exercise for Cabo Verde and it would introduce the country to sustainable investors.*[179]

177 Banco de Cabo Verde, "Interest Rates," Banco de Cabo Verde (BCV, 2021), https://www.bcv.cv/en/Pages/Homepage.aspx.

178 Bolsa de Valores de Cabo Verde, "Resultados De Leilões e Ofertas Públicas," Resultados de Leilões - Bolsa de Valores de Cabo Verde (BVC, 2019), https://bvc.cv/pagina/resultados-de-leiloes-77.

179 World Bank, " Cabo Verde: Blue Bond Note," WACA (World Bank, July 2020), https://www.wacaprogram.org/sites/waca/files/knowdoc/ENG-Cabo%20Verde%20Blue%20Bond%20v9%20FINAL.pdf.

Financing will also be channelled towards the ecological conservation of marine protected areas that, via links to tourism, can also offer incentives for local communities to become more responsible stewards of their respective ecosystems. For example, Cabo Verde could build from Seychelles' experience in issuing a debt for nature swap resulting in the creation of new marine protected areas (MPAs). However, given the country's debt situation, innovative financial mechanisms emanating from the private sector, such as blue (corporate) bonds, funds, and equities, with demonstrable potential for impact investing, should be explored with a purview towards regional trade and integration, especially within the AfCFTA, ECOWAS, and SIDS frameworks. This can be achieved via a dedicated platform for blue economy sustainable finance in Cabo Verde, known as 'Blu-X'.

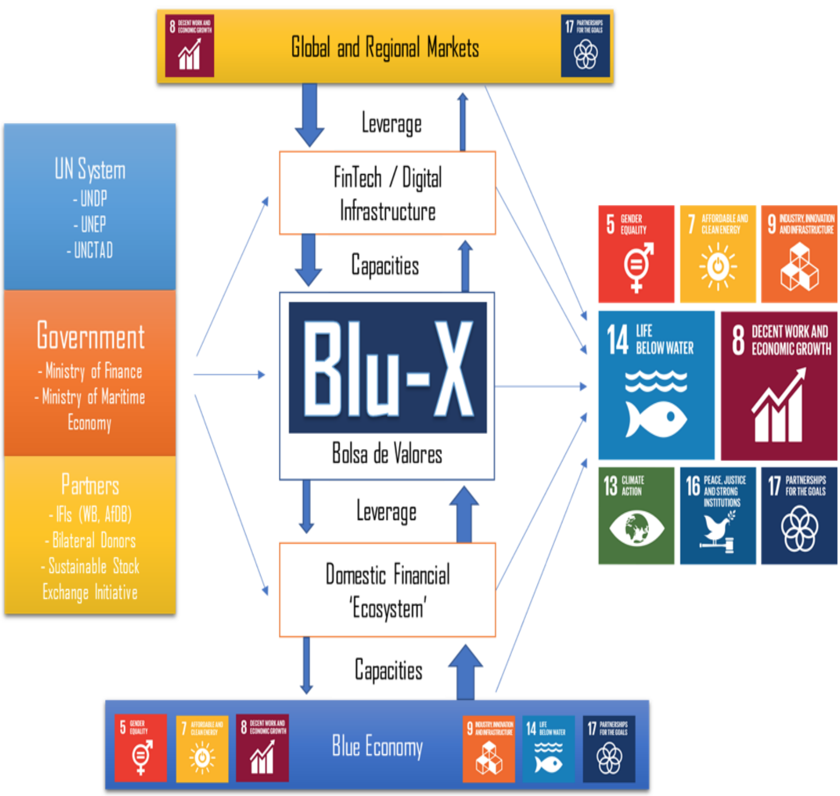


Figure 44: Blu-X as a catalyst for SDG acceleration
Source: Christopher Lilyblad

Based in Cabo Verde, Blu-X aims to become a regional platform for listing sustainable and inclusive finance instruments oriented towards the blue economy. Housed at the Cabo Verde Stock Exchange, the platform will facilitate investment in innovative and sustainable maritime economy projects, unlocking private finance for high-impact ventures. Having been formally established at the Bolsa de Valores in 2021, it is the world's first platform dedicated to developing and promoting financial instruments for the sustainable blue economy. The platform's aim is to eventually provide a central (inter-)regional marketplace for innovative blue economy financial products, including bonds, equities, and funds, providing investors with opportunities to deploy their capital with sustainability and inclusivity in mind. Through a user-friendly digital interface connecting the platform to regional and world markets, Blu-X seeks to capitalize on Cabo Verde's natural position as a strategic pivot between various regions with vast maritime economies spanning Africa, the Americas and Europe as well as its leadership role among the world's Small-Island Developing States (SIDS).

As the 10-year anniversary of the UN Sustainable Stock Exchange Initiative suggests,[180] sustainable stock exchanges are not new. Blu-X therefore builds on extant models developed in some of the world's leading financial centres and innovatively applies it to a rapidly growing economic frontier markets in Cabo Verde, Africa, and beyond. Blu-X provides Cabo Verde with an opportunity to be a pioneer in blue economy-oriented sustainable finance, while orienting private capital in ways that serve people and planet.

PIONEERING 'BLUE' SUSTAINABLE FINANCE IN CABO VERDE

As described above, Cabo Verde faces significant resource mobilization constraints and transforming the blue economy will only be possible if investments are mobilized that adequately capitalize innovative entrepreneurial activities beyond the traditional fisheries approach. Furthermore, current investments remain concentrated in tourism and fisheries concessions and uncertainty remains around how SMEs, which represent 97% of businesses, can participate more actively in blue economy opportunities. These challenges include limited awareness of blue economy business and investment opportunities in Cabo Verde, especially among international investors, as well as low capacities of small and medium-sized enterprises (SMEs), leading to a lack of investment-grade projects. Bound by high transaction costs and limited savings derived from surplus revenues, SMEs often lack the finance to implement or scale-up their ideas. Through Blu-X, Cabo Verde can demonstrate how a small ocean economy can successfully transition away from aid dependence, diversify its sources of finance, promote entrepreneurship, become more connected to key markets, and inspire other small island developing states. Yet significant

180 SSE Iniciative, "10 Years of Impact and Progresss - Sustainable Stock Exchanges 2009–2019," sseinitiative, 2019, https://sseinitiative.org/publication/united-nations-sse-initiative-10-years-of-impact-and-progress/.

challenges remain for mobilizing and attracting resources, especially from the private sector, to blue economy projects.

Cabo Verde is uniquely positioned to host Blu-X due to its high governance standards, strong institutions, and stable political environment, offering a potential leadership opportunity with respect to sustainable finance among African countries. As an archipelagic state, the ocean impacts every part of Cabo Verde's economy and society. The blue economy has been identified as an SDG "Accelerator" and the government's new blue economy strategy – a key component of its Ambition 2030 and Strategic Plan for Sustainable Development (PEDS) – maps out its catalytic potential across multiple Sustainable Development Goals (SDGs). While Ambition 2030 explicitly lists Blu-X as a priority within its innovative sustainable finance strategy for resources mobilization, the platform addresses the following PEDS objectives:

PEDS Objective	PEDS Description	Blu-X Contribution
Maritime Platform	Develop a logistics port for transhipment and supplies for international fleets of ships on their routes, and develop transport of quality, reliable, sustainable, resilient to support economic development and human well-being.	Offers platform for listing bonds, funds, and other investment instruments for the development of ports and shipping services.
Financial Platform	Transformation of Cabo Verde into a marketplace for international business, including the creation of an international financial centre.	Development of sustainable finance products, including blue, green, and other securities, attracting investments from regional and world markets.
Commercial and Industrial Platform	Develop a platform for business relocation and transformation in Cabo Verde within an international centre for business and attracting FDI and promoting the Endogenous Business Initiative.	Pipeline of investment-grade projects with sufficient absorption capacity for large-scale investment and identification of IPOs.

Digital and Innovation Platform	Transform Cabo Verde into a centre for the development of the Digital and Nanotechnological Economy, positioning the country as a reference in Africa, in terms of innovation and knowledge; develop human skills and promote a business environment around ICT and R&D.	Establishment of Blu-X as an accessible and user-friendly digital platform establishing links to regional and world markets in partnership with both existing and emerging ICT systems in Cabo Verde
'Ethnic' Investment	Develop conditions that can promote and increase the participation of Cabo Verdeans living abroad and, also, promote ethnic participation in economic and social development.	Digital platform offers easy access for diaspora and domestic population to investment opportunities and entry of innovative projects/ideas into investment pipeline.
Improved Business Climate	Reform policies, legislation and administrative processes that influence the business environment; Contribute to economic growth and creating more job opportunities by improving competitiveness and the business environment and boosting private investment and growth (weight) of the of the private sector in the Cabo Verdean economy.	Platform reduces risks and transaction costs in exchange by offering transparent and reliable information on investment products. Platform offers link between innovative public, private, and blended sustainable finance on the one hand and blue economy projects/companies seeking investments on the other.
Use of endogenous resources	Promote balanced, harmonious, and ecologically sustainable economic development, transforming each island into an economy according to its comparative advantage(s).	Investment pipeline will focus on endogenous resources and domestic capacities. Examples of future investment-grade projects include domestic maritime transport, aquaculture, expansion of fisheries industry, marine conservation for tourism, etc.
Sustainable Energy	Transition to a safe and efficient and sustainable energy sector, reducing dependence on fossil fuels and ensuring universal access and energy security.	Sustainable finance will include blue, green and sustainability bonds and funds adhering to strict norms and regulations in terms of energy consumption associated with their respective labels and/or standards. Financing will be oriented towards the renewable energy transition, especially in terms of water desalination.

Modern and secure infrastructure	Develop resilient, reliable and sustainable infrastructures, and ensure the conservation, use and maintenance of the infrastructure network according to these priorities to support economic and social development, focusing on equitable and affordable access for all	Mobilizing investment for the expansion of maritime transport infrastructures and the reduction of pollution, carbon emissions, and other environmental risks associated with maritime trade.
Conservation of Biodiversity and Environment	Promote and preserve biodiversity through the sustainable use of environmental resources for the promotion of economic sectors, namely tourism, agriculture, forestry, livestock, and fishing. Implement Management Plans for Protected Areas. Guarantee environmental quality, promote ecological awareness and strengthen environmental licensing and auditing systems.	Debt-for-nature swaps focusing on marine protected areas and their sustainable use within the tourism sector through investment and upgrades. Labels and standards (blue, green, ESG, sustainability, social, SDG, etc.) ensure adherence to norms, rules and regulations pertaining to environmental protection, biodiversity, and sustainable use of natural resources.

Table 24: Blu-X contributions to the objectives of the PEDS

In other words, the entire Cabo Verdean economy stands to benefit from these sources of financing oriented to a sustainable blue economy.

The recent development of a blue bond taxonomy in Cabo Verde outlines how this can be achieved.[181] Unlike their 'green' or 'social' counterparts, 'blue' bonds are currently not subject to a widely recognized and internationally accepted taxonomy of their own but are generally treated as a subsidiary category of green bonds.[182] As such, together with the Technical University of the Atlantic, the *Bolsa de Valores* and UNDP set out to establish a blue bond taxonomy in Cabo Verde that applies the principles of sustainable finance to the realities of the blue economy sector in Cabo Verde. In other words, practical empirical experiences within the blue economy sector were employed to inform the adaption of impact measurement frameworks in relation to environmental and social standards pertinent to maritime or marine commercial activities in local context. The taxonomy is envisaged to permit both credible labelling of blue financial instruments, especially bonds oriented to blue economy activity, as well as greater investment in blue economy projects that will help scale sustainable entrepreneurship and SMEs. Via complementary actions in the area of inclusive finance aimed at achieving greater financial

181 Document launch forthcoming in 2022.
182 LGX Academy training in Praia, Cabo Verde, March 2021.

literacy and access, Blu-X can therefore help ensure that society as a whole will be able to benefit from the generation of new opportunities, especially those most at risk of being left behind.

However, there is a further level of revenue and income that can be derived from this platform, which is the financial services sector itself. As demonstrated during an LGX Academy training on sustainable finance tailored to the capacity development needs of the *Bolsa de Valores* in March 2021 and financed by UNDP, listing and issuing blue, green, social, sustainable, or other forms of labelled bonds involves a laborious process and substantial resources. In addition to determining which projects might benefit from a particular bond, the prospective issuer is required to prepare a framework that corresponds to best practices in terms of disclosure, provide annual reports that contain advanced impact metrics, and continuously subject the bond to external reviews, including second-party opinions, ensuring that the bond actually fulfilled what it originally set out to do. This process is not only designed to ensure integrity and transparency of the bond itself and establish trust in its sustainability claims but requires substantial work.

In other words, the entire financial services sector in Cabo Verde stands to gain from new market opportunities. Consistent with specialization reflective of financial systems in advanced economies, this division of labour is expected to include an array of consultants, lawyers, sustainability experts, brokers, administrative assistants, communications personnel, etc. Given the requirements for issuing and servicing a single bond over its lifecycle, the development of the financial services sector in Cabo Verde has the potential to become a substantial multiplication factor as bonds, or issuances of other sustainable finance instruments, increase over time. As demand for these financial services increases, the entire undertaking will generate further demand for, and corresponding investment in, human capital to train and educate those who can provide these services to a growing industry that does not require significant physical resources beyond a computer and an internet connection. This is essential for a country like Cabo Verde with limited natural resource endowments.

In the short term, the establishment of the sustainable finance platform in Cabo Verde will require capacity-building initiatives offered by international partners, similar to those already offered by LGX Academy. Through partnerships with leading institutions like the LGX or integration into peer exchange structures like the UNSSEI, the Cabo Verde Bolsa de Valores can benefit from world-class knowledge and training as well as other mutually-beneficial arrangements like double listing of securities through ‘mirroring’ on the respective exchanges that opens opportunities for investment in foreign markets. Over time, Cabo Verde will be able to learn from these experiences and grow its market to a point where it will not only be an autonomous player but a leader in the regional sustainable finance marketplace. This is particularly pertinent in the West African (ECOWAS) context, which features operational stock exchanges in only three countries other than Cabo Verde – Ghana, Ivory Coast, and Nigeria – and none of which currently feature platforms dedicated to sustainable finance.

9. INNOVATION, DIGITALIZATION AND HUMAN CAPITAL

Successful diversification and transformation of the economy will require innovation. Innovation is considered a key driver of long-term growth across all economies[183] and it is particularly critical to the growth of African latecomer economies.[184] It is almost impossible today to point to a country that has achieved socioeconomic development without innovation, whether it is the United States, European countries, Japan, the East Asian Tigers or, more recently, China. There is now a consensus on the importance of scientific and technological progress and investments on innovation for national development.

Innovation is however not only about hard sciences and technology.[185] It includes advancements in management, and methods of production as well as organization. Within the Cabo Verdean context, it involves high, medium and low tech as well as finding better ways to solve problems. More importantly, it is about finding novel ways to solve key developmental challenges, ranging from providing access to potable water, building better cook stoves to ensuring national competitiveness in the global marketplace.[186] Rapid technological developments, including digital technologies present emerging markets like Cabo Verde with unique and unprecedented opportunities for innovation and economic development.[187] Cabo Verde does have some potential for the digital economy, given its indicators and achievements to-date in e-governance. Importantly, the digital economy could be a new source for growth and development for Cabo Verde.

INNOVATION AND HUMAN CAPITAL

Cabo Verde has always had to deal with multiple challenges due to its precarious initial conditions. The challenges have been further compounded by COVID-19 and the fragility of the Cabo Verdean economy is now on full display. Like other mono-culture economies on the African continent, Cabo Verde has overspecialized in one product. Over one-fifth of Cabo Verde's economy is derived from tourism. By grinding the tourism sector to a halt, the COVID-19 pandemic has brought to the fore the need to diversify the economy. The fact is that Cabo Verde

183 Rana P. Maradana et al., "Does Innovation Promote Economic Growth? Evidence from European Countries," *Journal of Innovation and Entrepreneurship* 6, no. 1 (October 2017), https://doi.org/10.1186/s13731-016-0061-9.

184 Olugbenga Adesida, Geci Karuri-Sebina, and Resende-Santos João, *Innovation Africa Emerging Hubs of Excellence* (Bingley, UK: Emerald Group Publishing Limited, 2016).

185 Anahita Baregheh, Jennifer Rowley, and Sally Sambrook, "Towards a Multidisciplinary Definition of Innovation," *Management Decision* 47, no. 8 (April 2009): pp. 1323-1339, https://doi.org/10.1108/00251740910984578.

186 Olugbenga Adesida, Geci Karuri-Sebina, and Resende-Santos João, *Innovation Africa Emerging Hubs of Excellence* (Bingley, UK: Emerald Group Publishing Limited, 2016).

187 Governo de Cabo Verde, "Cabo Verde: the Mid Atlantic Gateway to the World´s Economy," November 2018, https://peds.gov.cv/caboverdef4dev/wp-content/uploads/2018/12/TECHUB-CV-Sector-web.pdf.

now faces quadruple challenges linked to tourism: over-concentration of the nation's economy in tourism, the concentration of sources of tourists from a few European countries, concentration of its tourism sector in the hands of two major foreign operators, and the concentration of the tourism destination on two islands Boa Vista and Sal.

Now a middle-income country, Cabo Verde must chart a new development path forward in order to avoid the middle-income trap. The new path's growth model cannot rely on the basic ingredients of the past – ODA and remittances. Nor can the model rely excessively on its tourism sector, with its overconcentration and weak linkages to the rest of the economy, high leakage, and vulnerability to external shocks. Necessarily, the path forward must entail diversification of the economy, especially its non-tourism economy. Given its structural impediments to growth and development, the options are few.

Here, then, is the critical importance of innovation – of all types, in all areas and at all levels, from the household, to firms, to the public sector, to the national economy. Successful diversification and transformation of the economy will require innovation. Innovation is considered a key driver of long-term growth across all economies[188] and it is particularly critical to the growth of African latecomer economies.[189] It is almost impossible today to point to a country that has achieved socioeconomic development without innovation, whether it is the United States, European countries, Japan, the East Asian Tigers or, more recently, China. There is now a consensus on the importance of scientific and technological progress and investments on innovation for national development.

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188 Rana P. Maradana et al., "Does Innovation Promote Economic Growth? Evidence from European Countries," *Journal of Innovation and Entrepreneurship* 6, no. 1 (October 2017), https://doi.org/10.1186/s13731-016-0061-9.

189 Olugbenga Adesida, Geci Karuri-Sebina, and Resende-Santos João, *Innovation Africa Emerging Hubs of Excellence* (Bingley, UK: Emerald Group Publishing Limited, 2016)

190 Anahita Baregheh, Jennifer Rowley, and Sally Sambrook, "Towards a Multidisciplinary Definition of Innovation," *Management Decision* 47, no. 8 (April 2009): pp. 1323-1339, https://doi.org/10.1108/00251740910984578.

191 Olugbenga Adesida, Geci Karuri-Sebina, and Resende-Santos João, *Innovation Africa Emerging Hubs of Excellence* (Bingley, UK: Emerald Group Publishing Limited, 2016)

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INNOVATION AND CABO VERDE

The good news is that innovation is happening in Cabo Verde, especially government-led innovation.[194] The country does have an emerging ecosystem for innovation. Many individual pieces are in place. In addition, the state has made significant investments in digital and telecommunications infrastructure, from the data center to the technology park which is under construction. The reality though is that scaling and sustaining innovation in Cabo Verde remains hindered by several severe challenges. For example, despite a promising early start, the local ICT sector has stumbled. The same inhospitable environment confronts firms and entrepreneurs in all sectors. Whether it is the country's early mover advantage in electronic government or opportunities to develop and commercialize niche products, such as goat cheese, traditional rum (*grogue*), and coffee for the tourism industry and the underutilized diaspora market, the country has stand still while these opportunities slip away. Creative culture, and the cultural arts overall and not just music, has always been an area of strength for Cabo Verde. Yet it is neither diversified beyond music nor a sector where value-addition is captured.

While vision and ambition have never been in short supply, the country has been slow to move. The reason is not limited to lack of resources. Weaknesses in policy action and implementation continue to hobble the path forward. Weak governance effectiveness and low implementation capacity remain important challenges. Adding to the challenges are the structural conditions, which create both impediments to growth as well as reduce the scope of development options. The result is an economy with an exceedingly narrow productive base. As per the constraints

192 Maradana, Rana P., Rudra P. Pradhan, Saurav Dash, Kunal Gaurav, Manju Jayakumar, and Debaleena Chatterjee. "Does Innovation Promote Economic Growth? Evidence from European Countries." *Journal of Innovation and Entrepreneurship* 6, no. 1 (2017). https://doi.org/10.1186/s13731-016-0061-9.

193 Adesida, Olugbenga, Geci Karuri-Sebina, and Resende-Santos João. Innovation Africa Emerging Hubs of Excellence. Bingley, UK: Emerald Group Publishing Limited, 2016.

194 Ibid.

e e ct theectedonomyat Cabo Verde can capitments in digital and telecommunications infrastructure, from data center to techn analysis undertaken in 2010, Cabo Verde suffers from a few binding constraints to growth, including energy, transport, and geography. Finance and human capital were also flagged as constraints. While Cabo Verde shows high levels of financial intermediation as well as high levels of literacy and school enrolments, the study concluded that the lack of access to finance is a major handicap for SMEs and an inadequately educated workforce as a major obstacle for large size firms requiring trained skilled labour.[195]

Despite the high levels of liquidity in the financial sector, it lacks the necessary tools or instruments to invest in innovative start-ups and enterprises. This is partly due to the fact that the financial sector in Cabo Verde is dominated largely by the commercial banks operating in the country. Altogether, they hold over 85 percent of total financial sector assets in Cabo Verde.[196] In reality, commercial banks are not meant to fulfil the need for risk capital in the economy. Commercial banks operate largely on providing loans backed by collaterals while venture or risk capital is too limited to have significant impact in the market. The reality is that the poor financial sector is one of the most problematic factors for the development of the innovation ecosystem.[197] This is consistently reported in the World Bank's Enterprise Survey which usually rank limited access to finance as the most significant constraint for businesses.

The exciting news nowadays is that knowledge is more accessible. Getting on the technological or innovation ladder is much easier now than before. Although in some areas the complexity has increased significantly and the cost of entry is simply beyond the reach of many countries. However, in some areas like the adoption of mobile technology, Africa is quite advanced. In mobile payment, for example, Africa, a continent which historically tend to be a laggard on the technological front, is ahead. What is clear is that a nurturing environment can be created to facilitate scientific and technological progress as well as innovation.

Cabo Verde must nurture innovation and entrepreneurship ecosystem if it is to realize the economic transformation necessary and demanded from it as a lower middle-income country. This will require investing in infrastructure, research and development, and the development of high-quality human capital, especially in today's global economy that is driven largely by knowledge. Human capital is a core aspect of any innovation policy and agenda. It will also

195 Government of Cabo Verde, "Cape Verde: Constraints to Growth, Transformation and Poverty Alleviation," Cape Verde: Constraints to Growth, Transformation and Poverty Alleviation (2010), https://assets.mcc.gov/content/uploads/2017/05/CapeVerdeII_Ca_withCover.pdf.

196 Ministry of Finance, "Environmental and Social Management Framework Revision of ESMF P163015 – Access to Finance for Micro, Small, Medium Enterprises Project - Additional Financing," Environmental and Social Management Framework Revision of ESMF P163015 – Access to Finance for Micro, Small, Medium Enterprises Project - Additional Financing § (2021), https://mf.gov.cv/documents/20126/0/ESMF-+AF+MSME+Project+UGPE+_20210209+%285%29.pdf/bee4a834-3f8f-8e61-09c5-47a8bbfb355d?t=1613039801336.

197 World Economic Forum, "The Global Competitiveness Report 2018," ed. Klaus Schwab, weforum.org, 2018, http://reports.weforum.org/global-competitiveness-report-2018/.

require ensuring robust supporting institutions, a conducive policy environment as well as ensuring access to finance which has become a major hindrance to scaling up for start-ups in Cabo Verde.

The challenge however is that Cabo Verde's national system of innovation (NSI) is only emerging and continues to be plagued with major deficits. The NIS framework defines innovations as a complex set of relationships among stakeholders.[198,199] It sees innovation arising from dynamic and complex relationships among key actors, including governments and their agencies, universities, research institutes and firms (including industry and financial institutions). This suggests that an innovation ecosystem is a hybrid of different networks or systems. In fact, the NIS framework stresses that the flow of information and knowledge between the actors (including people, enterprises and institutions) are the key to the innovative process.[200] The key element of the process includes the entrepreneurial individuals within the various sectors—government, industry and academy—that help to connect and promote linkages between the various actors.[201] Interventions, either in the form of policy or development financing, must aim to understand and promote interactions among the actors as well as build an environment in which all actors can perform their roles. For example, despite ten universities, some nearly two decades old, university-industry research collaboration remains quite weak.[202]

198 Charles Edquist, "The Systems of Innovation Approach and Innovation Policy: An Account of the State of the Art," semanticscholar.org, 2001, p.12-15, https://www.semanticscholar.org/paper/The-Systems-of-Innovation-Approach-and-Innovation-Edquist/a7f9e570864ee75dd3bcca9ca86885190a0d5134.

199 Birol Mercan and Deniz Göktaş, "Components of Innovation Ecosystems: A Cross-Country Study," *International Research Journal of Finance and Economics*, no. 76 (2001): pp. 102-112.

200 Lundvall Bengt-Åke, *National Systems of Innovation: Towards a Theory of Innovation and Interactive Learning*, ilustrada (London, UK: Pinter Publishers, 1992).

201 Ihaba Business Enterprise, " Africa Innovation Summit," AIS, February 4, 2014, https://www.africainnovationsummit.com/uploads/reports/gcLAAvdnacaI00S5hTvxtfCIHmzKvfH1.pdf.

202 Alexandre O. Vera-Cruz, Gabriela Dutrénit, and Arturo Torres, "Technological Capabilities and Learning in Small Countries: The Case of Cape Verde Islands," reseach gate, 2005, https://www.researchgate.net/publication/241642424_Technological_capabilities_and_learning_in_small_countries_the_case_of_Cape_Verde_islands.

10. SOUTH-SOUTH COOPERATION

This DFA section examines SSC in Cabo Verde within the framework of Cabo Verde's declared commitment to sustainability. In the context of Cabo Verde's SSC engagement with the Buenos Aires Plan of Action (BAPA), the 1978 document that established SSC as a model for development cooperation amongst Global South states and, more recently, the Global Partnership for Effective Development Co-operation (GPEDC), the primary multistakeholder vehicle for promoting development effectiveness, this section asks how normatively coherent is SSC with the vision pursued by the PEDS, the SAMOA Pathway and the SDGs?

The 2030 Agenda for Sustainable Development contends that sustainable development implies a normative dimension of development, which is supposed to promote sustainability in the social, economic and environmental spheres.

This approach is fundamental for Cabo Verde. As an archipelago, the country is characterized by vulnerability in many ways including climate change and disaster risk management, energy dependence, water and sanitation, food security and waste management. The country's Strategic Plan for Sustainable Development 2017 -2021 (PEDS) responds to these challenges within the framework of the SDGs. The PEDS include four main objectives:

1) "Making Cabo Verde a Circular Economy in the Middle Atlantic," (connectivity, the blue economy, green growth, tourism development; and business, industry, and financial services),
2) Guarantee sustainable economic development (sustainable tourism, domestic industry and export promotion),
3) Assure social inclusion and reduce inequalities (education and professional training; health and social security; job creation and youth and gender equality), and
4) Strengthen democracy, justice and international diplomacy, and engage the diaspora.[203] Despite this ambitious plan, development in Cabo Verde is often approached in terms of economic well-being.

When discussing sustainability, however, the normative dimension is very important. Like many small island developing states (SIDS), Cabo Verde has embraced sustainable solutions to development challenges in its policy documents. The PEDS, in fact, coincide with Cabo Verde's support for the SAMOA Pathway (The Small Island Developing States Accelerated Modalities of Action Pathway) which is the programme of action for small island developing states for the decade 2014 - 2024. This programme reaffirms SIDS' commitments to transformative

203 Governo de Cabo Verde, "Cabo Verde: the Mid Atlantic Gateway to the World´s Economy," November 2018, p.6, https://peds.gov.cv/caboverdef4dev/wp-content/uploads/2018/12/TECHUB-CV-Sector-web.pdf.

development as defined by the SDGs. Specifically, it addresses multidimensional vulnerability by declaring inter-related development priorities which aim to reinforce socio-ecological resilience, including: climate change mitigation, poverty eradication; changing unsustainable and promoting sustainable patterns of consumption and production; promoting sustainable energy practices (including renewable energies) and improving food security, maintaining biodiversity, and protecting and managing the natural resource base for economic and social development. The PEDS also support Vision 2050 of The Economic Community of West African States (ECOWAS) of which Cabo Verde is a member.

Cabo Verde's development strategies are, in fact, fully integrated with its participation in the international community. In fact, the PEDS highlights the need for the support of the international community for its success. Two pre-conditions of the plan are:

1) A continuing partnership with the international community that supports national reform processes and a strengthened and modernized public administration and state apparatus;
2) examination of how concessional finance and technical assistance from the international community can be used to leverage private sector investment in Cabo Verde's economy, through new financial instruments and approaches such as blended finance.[204]

Within this context, the Cabo Verdean government has pursued a strategy of Global South-South Cooperation (SSC). Global South partners are mentioned in the PEDS with the same importance as traditional North-South development relationships. For example, the plan integrates the role of diplomatic missions in the following way: "Under the PEDS, the diplomatic agenda of Cabo Verde will have as an essential assumption create the political and cooperation conditions. that enable the dynamic insertion of Cabo Verde in the World Economic System. Thus, therefore, it is a priority of diplomacy to deepen political relations and cooperation with the dynamic Atlantic spaces, in particular with the European Union (EU) and the Eurozone, with non-EU European countries (including Russia), with countries of the North American Free Trade Agreement (NAFTA) (in particular, the US), with countries of West Africa, including, for the purposes of the PEDS, Morocco, Mauritania and the Economic Community of West African States (ECOWAS), and Southern Africa, with emphasis on Angola and South Africa."[205] China and Brazil are also explicitly mentioned in the PEDS as priority development partners. The specific roles for diplomatic missions identified in the PEDS are to establish or deepen cooperation agreements that facilitate the circulation of goods, capital, technologies and people between these countries or regions and Cabo Verde, to establish or deepen cooperation agreements in the field of human capital development and create conditions for the insertion of Cabo Verdean institutions into global networks for the production of knowledge and innovation.

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204 ibid

205 Governo de Cabo Verde, "Plano Estratégico De Desenvolvimento Sustentável (PEDS)," 2017, https://peds.gov.cv/sites/default/files/2018-10/PEDS%202017-2021%20-%20Vers%C3%A3o%20Final.pdf.

GLOBAL SOUTH-SOUTH COOPERATION: WHAT POTENTIAL FOR SUSTAINABLE DEVELOPMENT GOVERNANCE?

In her detailed history of Global South-South Cooperation, Emma Mawdsley identifies three distinct periods of SSC.[206] During the first, SSC emerged as a response to traditional development aid within the context of the Cold War. Due to the power imbalances which characterized global affairs during this period, it was relatively ignored by the international development community. The second period refers to the remarkable expansion of SSC from the early 2000s to the present. This occurred through the emergence of countries like Brazil, India, and China in bilateral development cooperation. This was followed by emerging states like Turkey, Indonesia, and Mexico. This period also witnessed the consolidation of new multilateral actors such as the Asian Infrastructure Investment Bank as well as heightened commitments to regional integration and the implementation of new development cooperation relationships, such as triangular arrangements. Following these developments, Mawdsley identifies the present as the beginning of a third period of SSC in which the concept is emerging with new commitments to standardizing norms.

A critical moment in the emergence of SSC was the signing of the Buenos Aires Plan of Action (BAPA) on 12 September 1978. This document addressed the need for and potential of technical co-operation among developing countries at four levels of governance:

1) *National level*: Technical co-operation and research exchange
2) *Regional level*: Reinforcement of Regional and sub-regional institutions, regional support for national capacity building and research
3) *Inter-regional cooperation*: capacity-building and technical cooperation through partnerships with developing states in other regions
4) *Global level*: The enhancement of national and collective self-reliance.[207]

Two important ideals emerged from this document. First, South–South cooperation was presented as a vision based on solidarity, horizontality, and mutual benefit. Second, Recommendation 38 of the document stated: "Developing countries should determine norms and mechanisms appropriate to them in the context of their participation in the financing of technical cooperation activities at the national, bilateral, sub-regional, regional and interregional levels, with due consideration for the constraints faced by the least developed, land-locked, island developing and most seriously affected developing countries and newly independent countries." This recommendation highlighted the need for development aid recipients to own

206 Mawdsley, Emma. "South–South Cooperation 3.0? Managing the Consequences of Success in the Decade Ahead." *Oxford Development Studies* 47, no. 3 (2019): 259–74. https://doi.org/10.1080/13600818.2019.1585792.
207 UNDP, "Buenos Aires Plan of Action," BAPA+40 (UNOSSC, 1978), https://www.unsouthsouth.org/bapa40/documents/buenos-aires-plan-of-action/.

cooperation processes, an approach that was eventually codified in the 2011 Busan Partnership for Effective Development Co-operation. This partnership also represents the first explicit mention of South-South Cooperation in international aid documents. This approach is pertinent for review of SSC in Cabo Verde because the country has achieved a reputation for ownership of traditional development aid. When asked whether Cabo Verde exercises an equitable degree of influence within the bilateral, regional, and international organizations linked to South-South Cooperation, most respondents interviewed for this report noted that SSC follows existing patterns of development cooperation in which Cabo Verde demonstrates ownership.

Unlike traditional development cooperation, however, SSC, is not standardized as various practices exist. Actors have differing priorities, investment targets and institutional arrangements. Most importantly, a common vision for SSC cooperation has yet to emerge. This is clear in the case of Cabo Verde where SSC development partnerships vary significantly. When asked about the main benefits of SSC for Cabo Verde, 7 of 9 respondents to a questionnaire (see methods section below) claimed that "SSC injects new ideas into development cooperation" and 8 of 9 respondents argued that SSC "diversifies development cooperation actors and relationships." Simultaneously, 6 of 9 respondents argued that SSC "diversifies development cooperation partnerships, introducing greater degrees of complexity" which presents numerous challenges to Cabo Verde's SSC landscape

Internationally, traditional development cooperation was conducted through inter-state transfers of public funds, while FDI and trade were considered separately. South-South cooperation is not segmented. It includes technical cooperation, research collaborations, development aid, private investment, all implemented through complex partnerships between governmental and non-governmental actors. De Renzio and Seifert divide SSC actors into two categories:[208] (1) larger and more autonomous development donors, such as Brazil, China and India, which openly reject the guidelines of the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) and (2) middle-income donors which are emerging, such as Mexico, Turkey, and Indonesia, which are not DAC members but do adopt the organization's principles. The PEDS identify both types of partnerships. On one hand, the development plan includes specific measures to deepen the development cooperation relationship with China, such as highlighting potential commercial relationships with Macao. The plan also identifies the reinforcement of trade relationships with MERCOSUR (*el Mercado del Sur*) through cooperation with Brazil as a means to promote development. At the same time, the PEDS mention triangular cooperation with countries such as São Tomé e Príncipe which fall within the second category of South-South Cooperation because they are sponsored by international organizations.

208 Paolo de Renzio and Jurek Seifert, "South–South Cooperation and the Future of Development Assistance: Mapping Actors and Options," Taylor & Francis, December 13, 2014, https://www.tandfonline.com/doi/abs/10.1080/01436597.2014.971603.

An alternate route to South-South cooperation would be via hegemony through regional integration. South Africa, for example, is well-positioned as a power broker and bridge builder within the Southern African Development Community (SADC) to enhance SSC and regional integration. Regional dominance, however, can also hinder regional integration. Kenya, for example, as the regional economic power in the East African Community (EAC) has come up against its regional partners on key issues of integration and its unilateral actions in trading with the West, for example the proposed Kenya - USA Free Trade Agreement in 2020. Cabo Verde has identified regional integration as an important motor for development in the PEDS, specifically targeting cooperation with ECOWAS and member states as well as Sub-Saharan African integration with countries such as South Africa and Angola. The risk of course is that free trade may dominate such integration processes. For example, the African Continental Free Trade Area (AfCFTA) came into effect in 2021 with the aim of creating a common market on the African continent and promoting industrialization. Like other free trade agreements, such as the North American Free Trade Agreement (NAFTA) and the resulting Central American Free Trade Agreement (CAFTA), this may undermine sustainability as defined by the PEDS and expose Cabo Verde even further to external economic shocks.

The difficulty with this landscape has been the lagging recognition of norms to explicitly establish SSC as a means to promote sustainability. The Global Partnership for Effective Development Cooperation has proposed four principles of effective development cooperation: national ownership, focus on results, inclusive partnerships and transparency and accountability. These guiding principles were utilized by Mexico's Development Co-operation Agency (AMEXCID) for the basis of their 2019 monitoring report on SSC. This report has now been adopted by Colombia's Presidential Agency of International Cooperation (APC) which has taken the leadership on promoting implementation of SSC effectiveness principles. While no direct relationships seem to exist between Cabo Verde and Colombia/Mexico, the principles promoted by these countries have been recognized by Cabo Verde's government. Respondents to a questionnaire utilized to gather information for this report confirmed that Cabo Verde respects a view of SSC that adheres to guiding principles for development cooperation established by international organizations, such as the United Nations and the OECD which focus on promoting the rule of law in SSC.

The analysis presented here incorporates the norms promoted through this agenda into a normative coherence for development approach to SSC evaluation. The study applied a blended methodology of data collection through examination of policy documents from Cabo Verde's national government as well as reports from international organizations, such as United Nations agencies, World Bank, The Economic Community of West African States (ECOWAS), the African Union (AU), and the African Development Bank. This was complemented by information published online by newspapers and news agencies. Some information was obtained through a questionnaire which was sent to development actors in Cabo Verde. Data was collected in accordance with internationally accepted practices for ethical research.

NORMATIVE COHERENCE FOR SUSTAINABLE DEVELOPMENT

While Cabo Verde's impressive economic growth has been supported by international collaborations, the country's development model has exposed it to external shocks. Official Development Assistance (ODA) amounted to USD 79 million in 2000 and it rose to almost USD 327 million in 2010.[209] Since then, it has declined to USD 84 million in 2018.[210] This dependence on external financial resources has compromised the country's ability to respond adequately to external shocks and diversify income. Remittances have responded to this need in part as Cabo Verdeans abroad have increasingly sent money back to the archipelago since 2010, reaching USD 216 million in 2019.[211] However, Cabo Verde's sustainability remains threatened by large public debt. The Joint World Bank-International Monetary Fund (IMF) Debt Sustainability Analysis[212] illustrated how Cabo Verde's risk of external and overall debt distress is rated "high." The public debt stock is presently 123% of GDP and it has not been below 100% of GDP since 2013.[213] The main creditors of external debt are multilateral institutions, namely the World Bank and the African Development Bank. Other issues which hamper sustainable development in Cabo Verde include dependence on energy, food imports, and trade imbalances. This is the context in which SSC has emerged in Cabo Verde. The NCSD approach questions whether SSC reflects shared normative commitments to sustainability or simply serves collaborative development relationships focused on market-growth. In order to address this issue, the report examines SSC practices in Cabo Verde in comparison with the country's commitment to sustainability as declared in the PEDS and the SAMOA Pathway.

CABO VERDE'S SOUTH-SOUTH COOPERATION STRATEGY

With the UNDP's assistance, Cabo Verde established an SSC strategy in 2019, entitled "Estratégia de Cooperação Sul-Sul de Cabo Verde". This strategy sets out Cabo Verde's vision for SSC involvement, legal and institutional governance for SSC, potential partnerships and political objectives. The goal of this strategy is to create an SSC platform for Cabo Verde in which

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209 World Bank, "Net ODA Provided, Total (% of GNI) - Cabo Verde," data.worldbank.org, 2021, https://data.worldbank.org/indicator/DC.ODA.TOTL.GN.ZS?locations=CV.

210 Ibid

211 World Bank, "Personal Remittances, Received (Current US$) - Cabo Verde," data.worldbank.org, 2020, https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=CV.

212 Joint World Bank, "Cabo Verde - Joint World Bank-IMF Debt Sustainability Analysis," *Open Knowledge Repository*, 2019, https://doi.org/10.1596/32575.

213 Ibid

the country both provides and receives SSC development cooperation. Specifically, this strategy aims to:

- Institutionalize SSC in the country to promote initiatives in greater numbers and with greater impact;
- Reinforce Cabo Verde's position as a model beneficiary of SSC, thus allowing an increase in the sources of funding for external resources (financial and non-monetary), in close articulation with the strategy of resource mobilization currently being prepared by DNP; and
- Lay the groundwork to enable Cabo Verde to achieve an international leadership role in the field of SSC, particularly within the scope of the SIDSAM group (Small Island Developing States and Madagascar).[214]

The strategy does in fact promote sustainability because of its normative coherence for sustainable development. First and foremost, the document links SSC to the PEDS, the SAMOA Pathway and the 2030 Agenda for Sustainable Development. In fact, SSC is above all defined as a political framework for sustainable development in Cabo Verde and other Global South states. It focuses heavily on the principles mentioned above: knowledge transfer, technical cooperation, solidarity, horizontal cooperation, and mutual benefits. For example, the strategy states: "SSC seeks the transfer of knowledge and capacity building within a framework of equality and promotion of self-sufficiency, following principles other than those of traditional development aid, based mainly on cash transfers. In fact, the better adequacy of solutions in the South, brought about by similarities in geographic, historical, cultural, socioeconomic or stage of development, potentially means greater impacts and lower associated costs. At the same time, for the countries of the South that have reached the status of middle-income economy, the new scenario of reduced public development aid, linked to the traditional North-South Cooperation (NSC), makes SSC even more relevant, even if this does not represent a substitute for NSC."[215]

The strategy also highlights potential SSC partners at three levels. First, it identifies multilateral relationships in which Cabo Verde participates as source of cooperation within the framework of the PEDS. These include the African Union, ECOWAS and its member states plus Mauritania and Morocco, the PALOPs and Timor-Leste and the SIDSAM group. Second, the strategy identifies potential bilateral SSC relationships through which the PEDS can be promoted, including China, Brazil, and South Africa. Third, the strategy identifies potential partners to which Cabo Verde can provide SSC, especially in the field of human capital development. These include some ECOWAS member states, SIDS and PALOP countries. The strategy notes that Cabo Verde already participates in triangular development cooperation relationships funded by Luxembourg as a form of SSC leadership.

214 Ministério de Negócios Estrangeiros e Comunidades, " Estratégia De Cooperação Sul-Sul De Cabo Verde," 2019.
215 Ibid

The supposedly normatively coherent SSC actors with which Cabo Verde has developed cooperation partnerships are the SAMOA Pathway/SIDSAM group and the African Union (AU). These two groups have the lowest scores for development effectiveness whereas the African Development Bank, China and the PALOP-TL partnerships are viewed as the most effective even though they are not considered to be as normatively coherent for sustainable development.

Further, perceptions highlight the fact that Cabo Verde has operationalized its SSC with larger donors more completely than it has with more normatively coherent partners. This actually could undermine SSC in the long-term by reproducing power/wealth relationships that already exist in North-South Cooperation at the expense of concerted sustainable development partnerships.

Moreover, respondents were also asked to evaluate SSC partners' commitments to SSC principles included in the BAPA framework. Results of the questionnaires showed prominence given to solidarity and horizontal cooperation while mutual respect, sustainability and consensus were de-prioritized as guiding norms. Non-alignment was barely mentioned. Results highlight the diversity of Cabo Verde's SSC partnerships.

In fact, the "Estratégia de Cooperação Sul-Sul de Cabo Verde" recognizes these trends. One of the most interesting aspects of the strategy paper is the SWOT (strengths, weaknesses, opportunities, and threats) analysis that the government conducted on SSC for Cabo Verde (see table 25). As table twenty five shows, the government fully recognizes the decentralized and uncoordinated nature of SSC and has correctly identified both strengths and weaknesses of this model for the country and for achievement of the PEDS. Opportunities and threats are mostly limited to geopolitical considerations.

• STRENGTHS	• WEAKNESSES
1. Good relations with international community 2. Long history of integration in clusters 3. Political, economic and social stability 4. Good governance model 5. "Good student" (long experience of SSC, with a positive balance - although below potential) 6. Actors keywords 7. Geostrategic position in Middle Atlantic	1. Lack of critical mass and institutional memory 2. SSC barely visible and not systematized 3. SSC without recognized leadership and coordination 4. Lack of a SSC strategy 5. Restricted diplomatic representation network abroad (particularly in Africa) 6. Linguistic barrier (in potential non-Portuguese-speaking partners)

• OPPORTUNITIES	• THREATS
1. Graduation of the LDC group (at the end of 2007): - search for new partnerships and sources of funding - position of reference for those who are still part of the group 2. Growing international emphasis on the theme of SSC 3. Globalization 4. Emergence of ‘powers ‘from the South (including two traditional Cabo Verde partners: Brazil and China) 5. Cabo Verdean diaspora in countries of the South	1. Reduced physical connectivity with neighboring countries on the west coast of Africa 2. Political instability in some partner countries 3. Insecurity in some countries in the Sahel region

Table 25: Cabo Verde SWOT matrix as a SSC actor

Source: Ministry of Foreign Affairs of Cabo Verde

GLOBAL SOUTH-SOUTH COOPERATION IN PRACTICE: NORMATIVE COHERENCE FOR DEVELOPMENT.

As stated above, the Cabo Verdean government has participated actively in all three types of South-South Cooperation mentioned above. There have been over 100 SSC projects in the country with just over half being financed by Northern donors or multilateral organizations. Unfortunately, there is no public register of these projects permitting evaluation. No public performance evaluations seem to exist either. Respondents to the questionnaire confirmed that there is budgetary oversight in parliament as part of the government’s annual budgetary review but no mention was made of performance assessment.

The three types of SSC practiced by Cabo Verde have generally supported sustainable development as defined in the 2030 Agenda and the PEDS. When asked which priority sectors of the PEDS benefited from SSC activity, respondents indicated that all sectors seem to have benefited financially, politically and substantively with the blue economy benefiting the most.

It is also important to note that policy coherence is mentioned in Cabo Verde’s SSC strategy framework, indicating a commitment to this idea. The document states: “It should be noted at the outset that the coordination of Cabo Verde’s SSC is understood in this Strategy as a means of providing greater coherence, better systematizing and leveraging current and forthcoming practices, as well as identifying gaps or constraints, and favoring synergies. It is not a question, therefore, of centralizing or bureaucratizing processes that often occur quite informally today.

On the contrary, the Strategy recognizes the diversity of agents, sectors, activities, modalities and approaches underway in the country's SSC as a factor of wealth and potential complementarities, as well as the importance of the dynamics of interpersonal relationships often underlying the initiation of activities and South-South partnerships." While the commitment to coherence as an underlying principle of SSC in the country is encouraging, it is understood narrowly as a means to improve development effectiveness through coordination. In fact, the Cabo Verdean government still needs to establish a public registry of projects, agents, sectors and activities, with explicit evaluation (or even description) of their contribution to the PEDS in order to highlight the normative impact of the SSC strategy. In fact, the document does not mention PCSD explicitly which undermines its normative impact as a signal of commitment to sustainability.

In fact, SSC contributions to Cabo Verde vary significantly in terms of their normative impact. Cabo Verde's commitments to sustainability through multilateralism are clear. National officials regularly meet with SIDSAM representatives in side-meetings during international or regional summits. Cabo Verde also participates in numerous international programs that promote sustainable development. For example, it is considered an overachiever in the Common Agricultural Policy of ECOWAS (ECOWAP) which is an instrument for implementing the Comprehensive Africa Agriculture Development Program (CAADP).[216] It also hosts the ECOWAS Centre for Renewable Energy and Energy Efficiency (ECREE) and the West Africa Institute (WAI) which is an ECOWAS think tank that promotes regional strategies for sustainable development in West Africa. This institute is supported by a post-graduate program in West African Regional Integration Studies at the University of Cabo Verde. Amongst the regional economic communities in Africa, ECOWAS presents the policy framework which is most coherent with sustainable transformative development as defined in the 2030 Agenda.[217] Cabo Verde has demonstrated a strong commitment to ECOWAS and regional development strategies, especially those integrating Guinea-Bissau and Senegal as well have supported sustainability in Cabo Verde.

At the same time, partnerships with other southern multilateral organizations have been characterized by mixed normative coherence for sustainable development. The African Development Bank (AfDB) has been one of the most important contributors to development in Cabo Verde. Nonetheless, its funding has focused significantly on two areas: large-scale infrastructure projects and economic and financial governance. Specific investments have included the expansion of Praia's port and airport as well as trade integration in larger ECOWAS

216 Danilson Varela et al., "Mechanisms Implemented for the Sustainable Development of Agriculture: An Overview of Cabo Verde Performance," *Sustainability* 12, no. 14 (2020): p. 5855, https://doi.org/10.3390/su12145855.

217 Harlan Koff, "Perpetuating Crises at the Source? (Inter)Regionalism and Normative Incoherence for Sustainable Migration in Africa," *Politikon* 47, no. 4 (January 2020): pp. 400-421, https://doi.org/10.1080/02589346.2020.1840026.

economies and the attraction of private investment. This is not necessarily incoherent with sustainability as the PEDS include the establishment of the country as a transportation hub as one of their priority policy arenas. However, links between the investments and green or blue economies is not explicitly clear, and the two priority areas of social inclusion and democracy are underrepresented. Moreover, the AfDB is Cabo Verde's second largest creditor (after the World Bank), contributing to public debt distress.

In terms of bilateral SSC, Cabo Verde's experiences have largely been normatively coherent with sustainable development. The country has traditionally partnered successfully with the Brazilian Development Agency on sustainable development programs, including academic exchanges, a "Support for Housing Development in Cabo Verde" program, the first human milk bank in Africa and the Agency for the Regulation of Pharmaceutical and Food Products which helped cap the cost of food and pharmaceuticals for Cabo Verdeans. Brazil has also financially supported technical exchange programs where experts from other African states have visited Cabo Verde for knowledge exchange programs and the South-South Network's HIV/AIDS program.[218]

Most recently, Cabo Verde's government has intensified SSC with China. While this relationship has existed since Cabo Verde's independence, it intensified in the early 2000's. Officially, the Chinese government's SSC foci are normatively coherent with the PEDS and sustainability in Cabo Verde. Important projects include the construction of a new campus for the University of Cabo Verde, Chinese investment in the Sao Vicente Special Maritime Economic Zone and China's US$1.5 million worth of technical help for the farming of seaweed in Santo Antão and Santiago. However, observers of Chinese development cooperation in Cabo Verde, such as Madeira, have highlighted the link between infrastructure investments and Chinese trade and private investment.[219] When viewed in this framework, SSC with China does not appear to be as normatively coherent for sustainable development. This is best exemplified by the $275-million casino complex currently being built by Macau Legend Development Ltd in Praia. This project has already left a significant ecological footprint as it is being constructed off the coast of the city. Also, the land and gaming concessions as well as the gambling licensing terms do not reflect solidarity or horizontal relationships as defined under BAPA.[220] Other major projects which have been planned include the proposed Sino-Atlantic Bank which is a proposed Chinese public finance institution.

218 Ministério das Relações Exteriores, "Projectos: Cabo Verde," ABC (Agência Brasileira de Cooperação, 2021), http://www.abc.gov.br/Projetos/CooperacaoSulSul/CaboVerde.

219 João Paulo Madeira, "O Dragão Abraça África: Relações Cabo Verde-China," *AUSTRAL: Brazilian Journal of Strategy & International Relations* 6, no. 12 (2018), https://doi.org/10.22456/2238-6912.76262.

220 Roncevert Ganan Almond, "Cabo Verde's Gamble: Chinese Island-Building in the Atlantic," The Diplomat, April 25, 2017, https://thediplomat.com/2017/04/cabo-verdes-gamble-chinese-island-building-in-the-atlantic/.

Finally, Cabo Verde is an established leader in triangular development cooperation relationships. Through its longstanding relationships with Luxembourgish development cooperation, it has formulated and implemented a project of triangular cooperation on training and employment through its Institute of Employment and Vocational Training (IEFP). The arrangement provides for funding by the Luxembourgish Development Cooperation Directorate and Cabo Verde implements the program. Unfortunately, triangular cooperation occurs on an ad-hoc basis in Cabo Verde with limited coordination, Sometimes, it results from local and civil society collaborations. For example, Praia participated in the Food and Agriculture Organization's 2017 City-to-City Cooperation Pilot Project on Micro-gardens aimed at fostering food security in growing urban areas. With better coordination, triangular cooperation could become a strategic niche through which to fund the PEDS at different levels of government.

The above projects have illustrated the significant potential for SSC in Cabo Verde within the framework of sustainable development. However, Cabo Verde's public debt has forced the country to intensify new revenue streams. The current focus on large donors rather than partner countries in Africa could be detrimental in the long run for normative commitments to sustainable development as defined in the PEDS. The country must reconcile a double bottom-line which attracts investment but promotes sustainability. Normative coherence for sustainable development can be viewed as common thread which can link these objectives.

NCSD Analysis of SSC: Quality of Governance

Cabo Verde has been lauded as a 'model of democracy' in the region and is ranked second out of the 54 African states, according to the 2020 Mo Ibrahim Index. A good quality democracy presents a stable institutional structure that realizes the liberty and equality of its citizens and strives to satisfy citizen expectations through the legitimate and correct functioning of its institutions and mechanisms. Democratic processes, and the degree to which they are implemented substantively (sometimes referred to as the outcomes of democracy), are essential in encouraging the growth of healthier, stronger democracies. The key democratic elements of transparency, vertical and horizontal accountability and participation, affirm trusting partnerships globally and foster cooperation of like-minded states. In essence, good quality democracy in a state is important because it legitimatizes the state domestically and in its international relations, for example in South-South Cooperation.

Cabo Verde has established a well-defined strategy for the governance of SSC (within the framework of its overall development cooperation framework) and the country has the democratic institutions in place that align national collaborative diplomatic efforts with domestic development strategies including those focused on the sustainable development goals. The Ministry of Foreign Affairs and Communities (MNEC), and in particular the National Directorate for Political, Economic and Cultural Affairs (DNAPEC), coordinate diplomatic and political partnerships with other states and international organizations for financing initiatives in development, technical, cultural, and economic cooperation. These structures are ably designed to ensure a successful interplay between national and global actors in South-South Cooperation. Moreover, the DNAPEC is legally required to involve the different state institutions, local authorities and civil society organizations in its planning. The Finance Ministry (MF), specifically the National Directorate of Planning (DNP) work with the MNEC (DNAPEC) in implementing strategy and are concerned with monitoring and evaluation.[221] Parallel to these structures in support of South-South Cooperation is a planned national monitoring committee that is expected to offer advice, supervise, and be a space for information exchange involving important local development actors, the public and private sectors, civil society and academia.[222]

Further horizontal accountability will be operationalized via a network of governmental and non-SSC local government agencies, involved in the implementation of development activities and initiatives in Cabo Verde. This network, referred to as Rede Pró-Sul, will encompass sectoral ministries, local authorities, civil society organizations, academic institutions and private entities. The network will be a platform for the exchange of experiences, fostering learning and synergies, the identification of new opportunities and the sharing of scarce human and financial resources.[223] The potential for reinforcing connections and cooperation as well as promoting participation at grassroots level and increasing visibility of actors involved in SSC through this network is important, especially given that few civil society organisations and grassroots associations that work explicitly within the SSC framework exist, and those that do are not dependent on government. When asked: "how equal is access for all social groups to the benefits of South-South Cooperation and how fairly are they represented" numerous respondents confirmed that access to SSC is not equal and there is a discrepancy in participation amongst social groups. At the same time, respondents confirmed that there is significant civil society participation and public oversight. Moreover, legal stipulations promote transparency through the requirement that local actors fulfill their reporting obligations on their SSC activities.

In terms of vertical accountability, two red flags exist. The first is in regard to public awareness on SSC. Publication of accounts and aid assistance are included in the State Budget but beyond this, there do not appear to be procedures or avenues for public consultation on government policy and legislation on SSC in particular and this has the potential to trigger public distrust in government activities in this regard. Most respondents to the questionnaire recognized that the national parliament is an adequate forum for the debate of SSC but it lacks mechanisms for effective democratic oversight.

The second SSC-related governance challenge has its roots in public participation, outside of public opinion being expressed through the act of voting in elections. An active and politically

221 Ministério de Negócios Estrangeiros e Comunidades, " Estratégia De Cooperação Sul-Sul De Cabo Verde," 2019.

222 Ibid, p.18

223 Ibid, p.20

involved citizenry is essential for the health of a democracy and for public oversight of SSC collaborative efforts. The most recent Afrobarometer survey on democracy in Cabo Verde (2019) revealed that general public participation in political life is tenuous at best. While 52% indicated that they would attend a community meeting "if (they) had the chance"[224] over three quarters of the population never or only occasionally discuss political matters political with friends or family, 82% have never contacted a municipality deputy about some important issue or for them to give their opinions, 88% have never contacted a deputy to the Assembly National and 80% have never contacted an employee of a political party. This lack of public political participation bears further scrutiny.

Interestingly, when asked which country, if any, in Africa or elsewhere in the world, would be the best model for the future development of Cabo Verde, the majority (42.6%) selected the United States over countries in the global south. Only 14.9% supported Portugal as the model to adopt, followed by China (14.3%); 12% indicated that Cabo Verde should develop its own model and only 1.7% chose another African state, South Africa, as a development model.

The majority of Cabo Verdeans are aware that China provides loans or development assistance to the government and 45% are of the view that the government of Cabo Verde is obliged to reimburse China for loans and development assistance. While two-thirds believe that China's economic activities have considerable influence in the island state, this influence is not perceived as being overly conditional. More respondents than not consider China's conditions on development assistance to Cabo Verde's government to be either equal to or less than those imposed by other donor countries.

Do you think that the economic and political influence of each of the following organizations (or states) in Cabo Verde is mostly positive or mostly negative?	Negative (%)	Positive (%)
AU	7.3	60.9
ECOWAS	5	61.8
UN	3.1	67.2
Portugal	4.1	85.3
China	3.8	85.2
Nigeria	14.8	35.4
Russia	13	34.9
United States	2.7	85.6

Table 26: Public opinion of external actor influence on Cabo Verde

Source: Data drawn from Afrobarometer

From Table 26, it is evident that while public opinion suggests a positive evaluation of external influences, the three standout state actors are the US, Portugal, and China, whereas the

224 Afro Barometer, "2021 Summary of Results: Afrobarometer Round 8 Survey in Cabo Verde in 2020," Afrobraometer.org, 2021, Summary of results: Afrobarometer Round 8 survey in Cabo Verde in 2020 | Afrobarometer

United Nations' agencies slightly dominate over the AU and ECOWAS in terms of international and regional organizations. Most responses in the Afrobarometer survey favored the use of foreign loans for the development of the country, despite the increase in foreign debt, as opposed to self-financing through national resources and increased taxes. However, the majority indicated that when other countries provide loans or development assistance to Cabo Verde, they must allow the Cabo Verdean government to make its own decisions about how to use the resources. Interesting to note is that there is a near 50/50 split in the public view on whether or not foreign donors must impose strict requirements to ensure that the Cabo Verdean government promotes democracy and respects human rights, or whether this should be left up to the Cabo Verde government to decide regardless of the aid origins.

PART IV - INFF ROADMAP AND FINANCING STRATEGY

11. PILLAR 1 – INTEGRATING PUBLIC AND PRIVATE FINANCE

The transition of Cabo Verde from being categorized as Least Developed Country to a Middle-Income-Country, unfortunately does not mean that its obstacles to sustainable development have been removed. To the contrary, the so-called “middle income trap” represents a continued risk that have only been amplified with the current challenges due to the global pandemic. The trap is especially precarious for developing countries that attain a certain per capita GDP threshold at which they no longer benefit from international commitments and agreements, particularly the allocation of concessional financing and preferential trade agreements, while simultaneously losing their competitive advantage in the export of goods and services due to rising wages.

The overall development path of Cabo Verde should thus be characterized by identifying strategies to diversify the economy, increase productivity and innovation, and identify new markets. Since Cabo Verde’s redesignation as a LMIC, ODA will constantly be shrinking within the mix of external financing. Given that ODA loans and grants are expected to fall in the medium-term, the challenge lies in mobilizing sufficient resources to compensate for this projected decline in funding. This is valid especially with regard to the need to recover from the Covid-19 induced crisis, the need to reactivate the economy, to mitigate social effects as well as to manage debt in the long-term. The first point of emphasis for the INFF is therefore the linkages between public and private, with a particular emphasis on debt reduction strategies through the integration of private actors, broadly defined, in the development finance process.

PUBLIC FINANCE

Over the course of the financing dialogues that informed this report (see methodology below) it became abundantly clear that Cabo Verde, drawing on its National Planning System implemented in 2014 already has a highly advanced integrated mechanism between its planning and budgeting systems within the Ministry of Finance. Unlike many of its African peers, Cabo Verde does not have a separate line ministry for planning but the National Directorate for Planning is fully embedded within the Ministry of Finance, through which it plays a leading role in establishing the long-term strategic vision and the mid-term programmatic plan, known as the Strategic Plan for Sustainable Development (PEDS).

As explained in detail in the section on public finance above, these planning instruments are financed from the public side via an intricate budgeting mechanism linked directly to the planning cycle. These, in turn, are further monitored, at a programmatic level, via a monitoring system implemented with UNDP and World Bank support. In short, integration between planning and budgeting has existed for quite some time in Cabo Verde.

The increase of efficiency and effectiveness in the use of public resources should be key in the political agenda over the coming years. This is especially valid with respect to public-private partnerships and state-owned enterprises (e.g. TACV, CV Interilhas, TICV/Binter, ENAPOR, etc.) but also for public administration more generally. The increase of performance orientation in the budgeting process, as well as the linkage between the monitoring and evaluation system with the budget cycle should be a key element in the ongoing reform on public financial management

Since domestic revenue is the backbone of a functioning state (especially the more the country advances in its development process towards a developed economy), the ability to effectively collect taxes and levies strongly will affect Cabo Verde's development. Therefore, an increase in domestic revenue mobilization through the ongoing reform measures of the national revenue authority (DNRE) will be fundamental. The reduction of tax avoidance, combating tax evasion, as well as the proper management of tax incentives, and participation in international fora are important pillars of the ongoing reform agenda.

In order to improve fiscal performance, possible savings through public administration reforms should be envisaged and, on an international level, diplomatic endeavours and technical discussions should pursue possibilities of debt deferment and swaps. Debt relief and forgiveness should only be pursued insofar as these do not adversely affect risk perception in international credit markets and adversely affect sovereign credit ratings (SCR).

The financing flows toward the country should be diversified and strengthened, focusing on the following areas:

- Continue transition from ODA through a focus on sustainable finance and impact investment (i.e. green, blue, sustainable, social, etc,), especially oriented to the blue economy
- Focus on private sector-based finance (e.g. corporate bonds and equity) to avoid additional stress to the already tight fiscal situation and public debt level.
- Improve Cabo Verdes capacity to access international climate finance funds and social protection finance. Thereby focus should be on revenue generating activities (e.g. renewable energy) or investment in key inputs for such activities (e.g. health and education to promote human capital).
- Capacity development for sustainable finance instruments on national level is key. On an individual and organizational level the country needs to build capacity to understand how the corresponding instruments work. The creation of a sustainable finance platform such as the Blu-X initiative will be conducive to attract financing flows.
- Continue diplomatic endeavours of Cabo Verde to maintain relationships with bilateral partners to keep mobilizing ODF and consider the possibility of liaising with partner countries to form a group of SIDS countries, raise awareness of their increased vulnerability and need to maintain exceptional clause as a SIDS in order to be able to maintain receiving concessional financing despite some SIDS' transition to LMIC.

How to cope with the situation of high debt distress:

- A reduction on government spending is difficult, since 80% of the spending is already compromised to pay salaries, social transfers, interest payments as well as contributions for investment projects with external financing.
- The current limit for increasing new internal debt is 3%. The government planned to increase this limit to 4,5%. The IMF warns that any borrowing over 1,5% is not adequate and puts sustainability at risk.
- The promotion of economic activity should be put a priority, since it decreases the debt to GDP ratio by increasing the GDP and represents a long-term and sustainable solution.
- Set up an INFF secretariat (see Pillar 6 below), anchored at DNP, that allows to unify and consolidate the different financing flows covered in this assessment (domestic public, international public (especially including ODA and OOF, domestic private, international private). In order to achieve developmental goals and especially in the context of rebuilding from the Covid-19 pandemic, it is ever more important to have an overview of current and future finance flows from various sources. This information is fundamental for decision making and coordination among the different national actors and development partners. – tax and non-tax revenues, bilateral grants, vertical funds, IFI and DFI related loans, domestic investment, FDI and remittances (see annex for notes on data).

Recommendations on public revenue side:

- Continue to implement tax administration's reform measures in order to increase domestic revenue collection, the reforms should focus on the enlargement of the tax base (see pillar 7 for further details).
- Initiate the process of elaborating a technical document for revenue forecasts. Combine this activity with technical assistance measures. Investigate within the sectorial ministries patterns of Covid-19 impact.
- Focus within the next 2 years on rather short-term revenue forecasts.
- Continue to eliminate or streamline inefficient tax incentives as well as implement recommendations of the latest IMF-TADAT assessment, especially reducing the high volume of tax arrears, improve timeliness in responding to requests for VAT refunds as well as resolving disputes and involving auditors in reviewing complaints.
- Increase the tax authorities participation in the tax revenue forecasting process.[225]
- Consider the taxation of high carbon goods and services in order to further align the

225 IMF, *Tax Administration Diagnostic Assessment Tool -TADAT Cabo Verde* (Washington, D.C.: IMF 2019), p. 7

fiscal policy with climate change commitments. The generated revenues should not automatically be assigned to NDC implementation but should increase fiscal space for discretionary spending. By avoiding earmarking principles of Good Financial Governance will be maintained.[226]

Recommendations on public debt

- Raise awareness that public debt service has a high opportunity cost, absorbing significant resources that could be applied to economic and social development.
- Improve debt sustainability and reduce external public debt that exceeded established limits.
- Reduce internal public debt that far exceeded the limits imposed by law.
- Continue efforts to renegotiate public debt with international multilateral (G20 and Paris Club Partners) and bilateral partners by gauging opportunities within initiatives such as the DSSI;
- Increase efforts to exchange debt for climate, an innovative modality that still needs to be worked on (see corresponding section).
- Ensure that contingent liabilities do not turn into public debt.
- Pay attention to the debt of public companies that may increase the State's responsibilities due to guarantees and guarantees provided.
- Privatizing or abolishing state-owned companies that are defunct, nearing bankruptcy, or incur high deficits is imperative to reducing the future risk of increasing debt.
- Pay special attention to the debt of municipalities – Local Administration that can be transformed into public debt.
- Reinforce the partnership with specialists from the World Bank and the International Monetary Fund, working on the sustainability of the Public Debt, reducing the debt/GDP ratio.

The sustainability of public debt is directly linked to wealth creation through the increase in GDP, allowing the creation of fiscal space for the contraction of debt aimed at productive investments. Therefore, a post-pandemic economic recovery plan, as well as measures to reinforce both endogenous and FDI investment, will be important for the development of the private sector and, consequently, the increase in State revenues.

The commitment to robust economic growth, anchored in the sectors chosen as accelerators of the economy and sustainable development, and a special attention to increasing the contribution of public investment to real GDP growth, are also decisive factors in the future sustainability of the debt.

226 OECD, *Principles of budgetary governance* (Paris: OECD, 2014), p. 5

Finally, the restructuring and consolidation of state-owned companies is an imperative to reduce the future risk of increasing debt.

Recommendations on public spending with relation to Covid response measures:

- Identify Covid-19 related spending and track the execution of Covid-19 related items. This will help to identify Covid-19 impacts on the baseline for the 2022 budget.
- Assess experience with budget-freezing measures of the 2021 budget execution. Dependent on these experiences, budget allocations can be made unavailable for spending and gradually be released dependent upon conditions with respect to macroeconomic and health situation. It has to be decided whether the freezing will take place with different intensity for certain non-priority sectors or whether it will be realized "across-the-board".
- Deliberate whether Covid-19 related special appropriations require a more intense-tracking. The spending of pandemic related appropriations, especially if there is a link to acquisition of goods and services, might bear a higher risk of malversation. Measures to assure or increase transparency, accountability and legitimacy of public funds should therefore be deliberated. The set-up of an public Covid-19 budget execution dashboard might be envisaged.
- Approve spending of Covid-19 related lump sum authorizations for the line ministries only against legal obligations for detailed monthly reports about the specific expenditure.
- Improve and scale-up risk management: providing comprehensive information on fiscal risks, mitigation measures, scenario analyses and stress testing to support the discussion of potential fiscal policy implications.
- Elaborate various macro-fiscal scenarios, especially impact of debt (ratings, concessional debt policy developments) and revenue forecasts. Elaboration of several upside and downside scenarios around a central baseline, which serve as a base for spending options.
- Revise the macro forecasts more often (this is done also in „normal" times, due to Covid therefore more often).
- Provide a more detailed budget documentation with regard to the impacts of Covid. This means, that different economic assumptions, scenarios (economically and in terms of the health situation) and risks are pointed out. Different contingency measures, policy options and conditionalities– for example – for freezing or unfreezing allocations could be integrated in the budget documentation. This will not only help the budget authority to better steer but also citizens and public institutions will perceive that the government has a long-term strategy in place, follows clear criteria and is aware of several contingencies.

Recommendations on development finance at the local level

As municipalities are financially dependent on the central government it is essential to support the efforts made by the municipalities towards diversification of revenue sources. There are several possibilities which should be assessed on its feasibility and prospected rate of additional revenue flows.

Subsequently, the development of individual and institutional capacity to the implementation of the measures and the long-term institutional capacity development of the municipalities in the area of revenue mobilization is crucial. Possible options could be:

- Increase of internal revenues in municipalities (review existing taxes, improve mechanisms to enforce current tax policy).
- Strengthen fiscal control within and of municipalities, including TdC and IGF.
- Recovery of outstanding debt.
- Improve analysis of municipality finance, including the consolidation of data on municipality indebtedness.
- Improve overall financing framework for municipalities:
    - Local authority to adjust revenues to the needed expenditures and in line with regulation of debt ceiling of central government;
    - Strong financial management and accountability systems; and
    - Efficient and timely transfers from central to local government.
- Pursue initiatives on innovation in municipality project and infrastructure finance:
    - Green Municipality bonds: explore the issuance of green municipality bonds. Issued by state government, these bonds can provide a positive impact on environment and can contribute to finance projects in the area of renewable energy, smart infrastructure, clean transportation, housing projects, etc.;
    - Social bonds: explore the issuance of social bonds. Issued by state government, these bonds can positively contribute to society. Propelled by global social movements the focus on social equity and contribution to underserved communities has been getting stronger. Social municipality bonds could contribute to financing projects in various areas such as affordable housing, accessible education, quality healthcare, etc. and thereby enable the achievement of the SDGs; and
    - Facilitate direct access to climate finance.
- Make the most of opportunities of international development partners:
    - International partners, including Luxembourg, Spain, and UNDP among others, are actively supporting public financial management reforms at local levels through capacity development and complementary financing initiatives like the decentralization fund;
    - Building on the PEMDS established through the SDG platform project funded

by Luxembourg and implemented by UNDP, the next phase of decentralization should focus on diversifying finance consistent with INFF principles, notably by attracting private and civil society engagement (see Pillar 7 for further details).

Overall, in order to implement the SDGs at local level and in line with an accelerating decentralization process, the role of municipalities in the provision of goods and services will increase and this, in turn, will raise the needs for the respective resources. To achieve these goals, one of the key priorities is the increase of institutional capacity of municipalities so they are empowered to increase tax collection (as described above) as well as to comply with the provision of fiscal transparency especially with regard to borrowing. Given the actual situation of high debt distress, this DFA recommends the reinforcement and stimulation of local economic activity and creation of new business and services, thus providing the municipalities to increase tax collection in its territorial base. To this end, business opportunities in the field of blue economy and sustainable tourism should especially be explored and the close collaboration among stakeholders such as the Chambers of Commerce, Trade Invest, ProEmpresa, Pro Capital, and the development partners should be facilitated.

Furthermore, as mentioned above, the competencies and responsibilities which the municipalities have acquired during the decentralization process should be evaluated concerning its implications up to now and subsequently be better defined. A current bill on decentralization tries to solve some of these questions. Currently, government prepares a new law for the regulation of municipalities (*Estatuto dos municípios*). The new law will include several reform measures in various policy areas such as environment, food and nutrition security, agriculture, forestry and livestock, tourism and fisheries. In the area of public finance it will reinforce municipalities revenues and improve rules and mechanisms for budget management, control and accountability municipality finances. A cornerstone of the reform package will be the increase of the municipality financing fund from an annual 10% to 15%. Moreover, there is announcement of a new law municipality budget process which aims to improves mechanisms for the management, control and budgetary and financial accountability of municipalities, as well as a new multi-annual funding line will be established, in collaboration with the ANMCV, to train municipality leaders in matters related to leadership, administrative, budget and fiscal management, urban management, planning and territorial planning, municipality postures and administrative police.[227]

227 Sara Almeida, ed., "Municípios Vão Receber Mais 2,8% Do Orçamento Do Estado Em 2021," n.d., https://expressodasilhas.cv/economia/2020/10/07/municipality-vao-receber-mais-28-do-orcamento-do-estado--em-2021/71624.

Recommendations on public spending

- Increase the ratio between government recurrent and capital spending towards higher capital spending. The economy took a sharp hit due to the impacts of the corona pandemic. Therefore, the public investment together with private investment is key to reactivate economy, increase employment and consolidate fiscal aggregates. Recurrent spending should be review in terms of possible efficiency gains.
- Promote instruments of blended finance: PPPs through Cabo Verde TradeInvest, and the Chambers Trade and Tourism for investment promotion.
- Accompany public finance reform with measures to strengthen transparency and accountability of the public finance system, especially measures such as publication of disaggregated data on spending, the distribution of resources, and – most importantly – the quantifiable data on the provision of public goods and services in order to keep up with citizen's right of access to public information and proof adequacy of governments response measure against the pandemic.
- Strengthen the role of Parliament (Assembleia) and Supreme Audit Institution (*Tribunal de Contas*) in such a way that they have political independence, institutional capacity, sufficient funds and technical capacity to carry out their functions.

Recommendations on budgeting and planning

- Improve budget credibility and reliability: Especially with regard to combat the impacts of Covid-19 as well as attaining development results it is key to better align actual spending with the government's development agenda. This means, that the outturn of budget execution as well as revenues collected need to better reflect the amount originally approved in the budget and the in-year reallocation of budget funds among budget categories should not vary substantially from the approved budget.
- Continue to implement programme based budgeting with linkage to the MTEF and MTFF.
- Incorporate the islands and regions in the national planning process. The elaboration of PEDS is an important process to define the needs for key public spending and investment in the SDG accelerator policy fields. Although islands and region participate, the process is centralized and top-down-driven. At the same time an entity responsible for coordinating the regional development should be identified and the necessary institutional capacity developed.
- Prevent corruption risks in the field of Covid: Ensure open and transparent contracting of Covid-related emergency procurement and be able to combat irregularities, identify conflicts of interest and guarantee fair prices.

*The challenge now is to close the circuit with the monitoring system (INFF block 3)***.** Where gaps remain on the public side, these perhaps mostly manifest themselves in closing the planning and budgeting loop through the completion and integration of the monitoring system to close the public finance circuit. Herein, Cabo Verde has the benefitted substantially from the budget support group (composed of EU, WB, AfDB, LU, PT, & CV) which conducts advanced analytical work on the country's public financing system and sets targets and indicators for public finance management as a condition for unlocking the disbursement of budget support tranches. The regular meetings of the Budget Support Group, in addition to the government's internal monitoring mechanisms, have provided an important form for external monitoring, accountability and transparency of Cabo Verde's public finances, including via PEFA assessments and the implementation of the ensuing recommendations. Meanwhile, a UNDP-implemented and EU-funded PALOP-wide project on public finance and strengthening of parliamentary oversight and supreme audit institutions has also contributed to a robust and functional public finance mechanism In this sense, we would be speaking of an integrated planning-budgeting-monitoring, which is not only an objective of the INFF in in the context of Building Block 3 (monitoring) but would render the Cabo Verdean state apparatus, once again, as a leader in public development finance mechanism, adding to its numerous governance accolades that have distinguished the country over the past decades.

As such, in an attempt to make this DFA most useful for Cabo Verde's development ambitions and the implementation of the INFF as well as in an attempt to orient this DFA towards the analytical frontiers of the development finance landscape we take this public-side planning-budgeting-monitoring mechanism as an extant whole to determine how this advanced and functional public mechanism can be integrated with areas where Cabo Verde faces more challenges relative to its peers.

Recommendations for international public finance

- In order to achieve sustainable development, Cabo Verde's financing mix needs to change. As a first step, the economy must be capable of replacing ODA finance by attracting new resources (non-concessional, other official flows, private finance). Therefore, the country needs to take on its responsibility of acquiring and managing the capacities and skills for its long-term development.
- Related to the aforementioned, it is important to consider new and more risk-mitigating instruments (blended finance, guarantees). Traditionally ODA-only donors should be encouraged to considering diversifying their funding modalities.
- Prepare a multi-year framework with donors as part of the medium-term expenditure framework process.
- Encourage cooperation partners to provide timely information of directly financed projects in order to establish transparency in the presentation of the quarterly and annual accounts of the State.

These challenges, as alluded to above, are particularly evident in the economic and revenue generation spheres, which are inextricably intertwined with the private sector, broadly defined.

PRIVATE FINANCE

The latest projections point to a solid recovery (5.8%) of the Cabo Verdean economy in 2021. Nevertheless, the high activity levels of the tourism sector from the past will take several years, since projections for full recovery for tourism in SIDS are currently foreseeing a four-year period before return to pre-COVID levels.[228] In the long term, Cabo Verde's economic recovery depends a lot on how the European economy recovers from the Corona pandemic since this will have two important consequences for Cabo Verde: first, the development of the migrant remittances and second, the recovery of tourism. The latter though will not only rely on travel and quarantine restrictions of the EU member countries and progress in vaccination programs but also be dependent upon the handling of the corona crisis "at home" since higher cases in Cabo Verde will have tourists looking for alternative destinations. Also, the development of the inflationary tendencies will be decisive to the development of the Cabo Verdean economy. The diversification of the Cabo Verdean economy should be the central point of reference for several specific policy reforms and could be structured alongside the following areas:

- Intra-sectorial diversification within the tourism sector through consolidation across islands and a transition towards sustainability.
- Investment and focus on the blue economy as the second pillar of sustainable and inclusive growth.
- Digitalization, human capital, and greening should be seen as cross-cutting dimensions permeating these activities.
- Promote bottom-up innovation and entrepreneurship through low-value grants and/or microcredit.

Recommendations for domestic private finance

- Stimulate the companies' recovery process, subject to meeting sustainability requirements/conditions, to accelerate COVID-19 recovery.
- Introduce improvements in the Financing Ecosystem to make up for some existing insufficiencies, especially for small businesses.
- Put the Economic, Social and Environmental Council in operation, which promotes

228 Jeffrey Sachs et al., "Sustainable Development Report 2021," *Cambridge University Press*, December 2021, https://doi.org/10.1017/9781009106559.

the sustainability of public policies for the private sector, aiming at economic growth.

- Continue and intensify the dialogue with the private sector, notably via the NEGOCIA Business Platform, in order to transfer or deconcentrate some state competences in the business sphere to the Chambers of Commerce and Tourism.
- Train entrepreneurs/entrepreneurs in management skills and create incentives to accelerate good business management.
- Operationalize the funds and financing instruments that allow the recapitalization of companies (namely the impact fund, the sovereign fund, morabeza fund) subject to sustainability criteria (ESG).

Recommendations for the private sector financing ecosystem

- Creation of a financial support and financing instrument that provides a financing alternative to companies due to the non-existence of a Development Bank.
- Commitment to innovative alternative sources of financing, such as thematic funds – Green Climate funds swaps, green and blue bonds, diaspora bonds, social bonds – (Possibility of the risk guarantee being covered by the sovereign fund).
- Operationalize alternative sources that enable MFIs to access financing at the local level;
- Operationalize financing solutions that can fill the gap in financing for Micro and Small Enterprises, in the financing transition between MFIs and Commercial Banks.
- Commitment to direct conceptual financing or through blended financing to finance the economy;
- Commitment to the mobilization of domestic resources.
- Use of digital technologies and innovation, in support of financing, as a catalyst for economic growth per se, or through the support they give to the simplification and acceleration of solutions in other sectors.
- Special attention to remittances from emigrants and to possibility of creating new products that can channel them towards investment.
- SME financing via the capital market, with products adjusted to the size of the companies, without major bureaucratic impediments and other transaction costs.
- Operationalization of the secondary market on the Cabo Verde Stock Exchange.
- Create a task force with private parties and not just the Ministry of Finance to be close to multilateral institutions and monitor opportunities and gain expertise in raising and mobilizing new financing.

Recommendations on international private finance

- Continue to invest in Foreign Direct Investment as a key strategy for sustainable economic and Social Development, through strong promotion of Cabo Verde in a proactive attitude.
- Promote endogenous investment, reinforcing endogenous business initiatives and creating a business class strong endogenous.
- Consolidate the reforms made to improve the business environment to promote competitiveness.
- Maximize the impact of FDI on development sustainable tourism.
- Strengthen the environmental protection regime.
- Continue to diversify business opportunities for investment in the various sectors of the economy and consolidate the NEGOCIA business platform to document all business opportunities by sector, by island and by municipality containing all information for investors.
- Continue to work on a balanced development between the islands in terms of investment.

12. PILLAR 2 – INTEGRATING FOREIGN AND DOMESTIC FINANCING

Under the second pillar, the INFF seeks to strengthen Cabo Verde's capacities to engage with a variety of foreign partners to build global partnerships and help address the financing challenges for its domestic sustainable development agenda. This foreign engagement for integrated development finance can be further categorized into three main areas: 1) Regional Integration, 2) Trade, Commerce and other crossborder economic activities, and 3) South-South (and triangular) Cooperation (SS(t)C).

While there is some degree of overlap between them, regional integration can be seen as a political process concerning the institutionalization of relations between states that consider themselves to have common characteristics based on geography, language, or other affinities and commonalities. In the case of Cabo Verde, the main forms of regional integration include African Union / AfCFTA, ECOWAS, PALOP, and SIDSAM, though a strong case can be made for Cabo Verde to act as an inter-regional 'pivot point' between Africa and other regions, notably Europe and the Americas, due to its positioning in the mid-Atlantic.

Closely intertwined to the question of regionalization is the economic dimension of crossborder trade and commerce, which requires a closer look at the policy framework within which foreign and domestic private sector operators interact and thereby generate resources for sustainable development in terms of the value that they produce either (1) directly in terms of people's material well-being and (2) the tax and customs revenues that these generate for the state. Given the importance of trade, especially imports, for a SIDS like Cabo Verde, understanding the trade-offs between trade liberalization versus the revenues derived from customs policies is essential for ensuring policies are appropriate for the country's sustainable development, notably given its blue economy-focused strategy.

Finally, South-South Cooperation offers a further dimension of domestic-foreign integration within the sustainable development agenda that can not only generate shared value and resources but also provide for common policy positions within key multilateral forums on sustainable development, e.g. articulating common SIDS positions in climate change debates that can result in additional climate finance concessions or debt relief. To mainstream these dimensions within development finance discourses, the INFF provides a forum, especially in conjunction with activities under pillars 6 & 7 (see below), for multi-stakeholder engagement on issues/obstacles in terms of (1) regional integration (African Union, PALOP, SIDS), (2) crossborder trade (especially within the frameworks of AfCTA, ECOWAS, PALOPS and SIDS), and (3) SS(T)C that can act as a bridge between domestic policymakers (notably development finance policy and new diplomatic paradigm) as well as at regional and global level to promote responsiveness to financing needs and challenges.

However, in a world predominantly organized around the concept of the sovereign nation-state, the notion of global or regional integration is often associated with a loss of sovereignty, national identity, and independence. This can lead to anxiety and apprehension among populations that have fought hard for the right to self-determination. Furthermore, globalization is often associated with increasing inequality and environmental degradation through climate change and biodiversity loss. As we have witnessed over the past years, migratory mobility and diversity are not cherished by everyone. The modern state and the organization of the international states-system, moreover, derive their legitimacy from the predominance of distinctly national understandings of identity that prevail over other identity constructs at local, regional, or global levels. Even within Cabo Verde, we witness a pluralistic and diverse landscape of identity constructs based, *inter alia*, on geography, heritage, race, class, and other social constructs. For example, regional differences between the northern Barlavento (windward) islands and the southern Sotavento (leeward) islands remain potent sources of collective identity, while the *Sampadjudu* and *Badiu* distinctions do not only demarcate distinct Crioulo dialects but also entail connotations related to physical features and appearance linked to ethnic heritage. *A fortiori*, we can expect such identity constructs to be even more accentuated as analyses are scaled from local to global levels.

When pivoting between and across regions, therefore, social cohesion and shared socioeconomic prosperity are vital in ensuring that regional integration does not result in counterproductive or reactionary movements defined on narrowly construed understandings of national or racial identity. To this effect, cultural and social aspects of cross border interaction and relations cannot be ignored but must be firmly embedded in our understandings of legitimacy and identity. For a country like Cabo Verde with its longstanding migratory tradition and sizeable diaspora dispersed between Europe, the US, and Brazil, culture and identity are already significantly affected by links to other regions and continents, which offers a further unique attribute when it comes to integration and building links between and across regions, especially to and from Africa.

NEW DIPLOMATIC PARADIGM

An effective foreign policy conducted via a reinvigorated diplomatic service will be indispensable if Cabo Verde is to finance its Ambition 2030 strategic objectives. The process of establishing new partnerships with foreign entities does not occur in a vacuum. To the contrary, the New Diplomatic Paradigm must be acutely aware of the global geopolitical arena in which it operates and confront its emergent realities. In this context, the construction of strategic bilateral and multilateral partnerships must be simultaneously targeted and purposive, while intelligently balancing the trade-offs that those choices may imply. For this reason, the new diplomatic paradigm has been integrated into the proposed INFF coordination structure under Block 4 (see Annex 2). In particular, economic diplomacy will have to assume a major role in the Sustainable Development Agenda and should focus on two main objectives: Mobilization of foreign direct investment and the promotion of Cabo Verde's economic and development interests. To achieve this, the state must sharpen its diplomacy to serve as a spearhead for resource mobilization and image projection in five key areas:

Strengthened Human Capital

A foreign service is only as good as the diplomats who drive it - the women and men who take pride in representing their country all over the world. This new Cabo Verdean Diplomacy must necessarily be anchored on the existing corps of experienced diplomats, who have served their country faithfully for decades and have helped craft an enviable reputation for the country. They constitute the core of human capital that must be refreshed with new knowledge, new perspectives and new ways of doing things. This emergent New Diplomacy should be firmly oriented towards the attainment of the SDGs and must embrace its role as a seeker of financial resources to achieve them.

To this end, reshaping the human capital is critical. Traditional foreign policy and international relations education and training focusing on doctrines of raison d'état and international legal frameworks will have to be supplemented with a thorough understanding of economic, social, and cultural processes that rule the new world of money. In the short term, technical specialists in trade, finance, and particular business sectors may need to be recruited to complement the corps's core members. This can be achieved by seconding specialists from other parts of the public service as attachés, the country's leading universities, civil society or even the private sector. While such a shakeup may cause some initial disruption, it should yield even greater rewards.

While diplomacy has in the past tended to attract the brightest and best of young graduates, competition is growing. Diplomacy now faces competition not only from a more lucrative private sector but also technology-driven innovative start-ups that offer creativity, autonomy and self-fulfilment through a combination of personal rewards and delivery of public goods. As such, Cabo Verdean Diplomacy must not only foster the right talent but also keep its service attractive and competitive relative to other opportunities.

Branding and Promotion

A new Caboverdean diplomacy must be the purveyor of a new-look Cabo Verde. The country's diplomats must be adept at marketing and branding in order to demonstrate the country's strongest traits, assets, and advantages through strong collaboration with Cabo Verde TradeInvest. Some countries have engaged in place and name branding in ways that mimic how leading corporations market their products to global audiences. Indeed, a flourishing industry has evolved over recent decades to support national branding efforts. This is in recognition of a well-known fact: symbols and slogans can be powerful in generating not only positive imagery but also inspiration, belief, and buy-in at home and abroad. Cabo Verde, like every other country, must decide which of its many assets it wants to project to the world. Is it the enviable track record of good governance and stability? Its advantageous geographical location, that places it within easy reach of Africa, Europe, North and South America? The variegated wonders of an archipelagic nation, the rich tapestry of landscape and cultures? A youthful nation attracted to, and driven by, innovation and enterprise?

These assets and so much more can be packaged and marketed in a concerted strategy to launch the Cabo Verde brand. In terms of strategic communication, this is already taking place within the context of the planned Ocean Race 2022 stopover in Mindelo. The Cabo Verde government made significant efforts to host the 2022 Ocean Race, including a 3 million Euro commitment, which they seek to use as an international platform to promote and diversify its economic structure through the blue economy and sustainable tourism. The Office of the Prime Minister has reached out to UNDP CO with a request to identify synergies between this event and its relevant programmes, notably as a means of promoting the Blu-X platform among impact investors and capital markets at regional and global levels. To this end, new strategic partnerships will be a crucial component for driving this initiative forward. Exuding Cabo Verde's inner confidence abroad will attract finance, investors, and corporations.

Public diplomacy and the power of the diaspora

Cabo Verde enjoys strong ties to other regions, notably to Europe, the United States and Brazil, due to its sizable diaspora as well as sociocultural and linguistic commonalities. Diaspora communities have often already built deeper connections, networks, and bonds within their host societies than a diplomat could in an entire career, much less a single tour of duty in a country. The purpose of public diplomacy in this sense would be to reach beyond and through the diaspora to engage deeply within the host society of the host state via the social channels that the diaspora community has already created. When it comes to business and financing, trust, personal connections, a mutual sense of duty and reciprocity are often just as important as the actual business transaction. The diaspora's intricate networks and personal relationships can therefore not only bring counterparts to the table but also help turn ideas into business and financing realities.

Multidimensional Economic Diplomacy

In the aftermath of the COVID-19 pandemic, with declines in ODA and greater competition for fewer resources in global financial markets, Cabo Verdean diplomacy must seek out strategic partnerships consistent with the country's financing strategy and adopt a central role in the mobilization of resources and economic promotion of Cabo Verde. One way to implement this vision, is for Cabo Verde to establish a network of trade and investment offices, through consular presence, in the major economic and financial hubs of the world. This will provide a sound base for monitoring and following up gains from the investment forums that have proven so successful in recent years but have been interrupted by restrictions on large gatherings.

The context within which the new economic diplomacy operates goes well beyond the trade rivalry between the world's two economic powerhouses, the United States and China. Recent decades have witnessed the rise of new geopolitical or geo-economic groups such as ASEAN, the BRICS, Commonwealth of Independent States and the Gulf Cooperation Council. The influence of these groupings, which have grown alongside traditional ones like the G7/8, OPEC and the EU, cannot be ignored. In addition to these groupings of states, high-net-worth individuals have emerged as financial powerhouses in their own right. Through philanthropic initiatives, like the Bill and Melinda Gates Foundation (which is among the top donors of the WHO) or the Ted Turner-inspired UN Global Compact, some rival traditional donors in the volume and quality of their development assistance. This requires a multidimensional approach to economic diplomacy.

Regional and Thematic Priorities

Through these turbulent political-economic times, Cabo Verde must continue to consolidate its longstanding partnerships while pragmatically searching for new opportunities. Cherished partnerships with the likes of Portugal and Luxembourg must be protected, while also making more of its advantageous access to the world's largest markets, via the United States's AGOA mechanism and the Generalized System of Preferences with the European Union. Cabo Verde should particularly look to these long-standing partners to learn from their experiences and technical expertise in the area of sustainable finance – a rapidly growing market segment that offers prosperity, while protecting people and planet.

However, arguably the greatest long-term perspectives in terms of building autonomy and economic resilience lie in regional integration, particularly with Africa. In this sense, Cabo Verde must insert itself into the continent's dynamic economic trajectories and explore all of the potential that its geostrategic position off the West African coast provides. Just as the United Kingdom once benefitted from its position as an entrepot between Europe and North

America, Cabo Verde should benefit from being a gateway to and from Africa, given the right infrastructure and institutions. This should particularly include the pursuit of common markets within ECOWAS and the African Continental Free Trade Area. Within the latter, other regional partnerships, especially by building on existing links with the Portuguese-speaking countries in Africa, or PALOP, could provide further indispensable allies in the pursuit of common sustainable development objectives.

Finally, via its new diplomatic paradigm, Cabo Verde should seek to position itself as a leader among SIDS and SSC, especially when it comes to climate diplomacy, sustainable finance and the blue economy. Such initiatives will help vulnerable communities tackle the triple threat of climate change, debt, and exogenous economic shocks, whether caused by pandemics, financial crises, or other threats as yet unforeseen.

REGIONAL INTEGRATION AND TRADE

In the case of Cabo Verde, the main forms of regional integration include African Union / AfCFTA, ECOWAS, PALOP, and SIDSAM, though a strong case can be made for Cabo Verde to act as an inter-regional ‘pivot point’ between Africa and other regions, notably Europe and the Americas, due to its positioning in the mid-Atlantic. Along these lines, Cabo Verde could play a pivotal integrator role between African and other regional markets, including the European Union, United States and NAFTA, and Mercosul due to its relative proximity to major ports within these markets. Via key infrastructure investments and upgrades, underserviced Cabo Verdean ports could help alleviate some of these bottlenecks through shorter, direct routes to a variety of West African ports through an advanced logistics service centre linked to an inter-regional maritime economy that acts as a gateway to and from Africa.

General recommendations on the integration to AfCFTA

There are several policy implications of the mentioned simulation results showed at the section on regional integration that must be considered for the full realization of the potential welfare benefits of the provisions contained in the AfCFTA. AfCFTA members should adopt a well-articulated and phased program to reduce all non-tariff barriers to the maximum extent possible (administrative, logistic, non-standard sanitary and phytosanitary rules, etc.) The simulations assume partial, albeit significant, elimination of non-tariff barriers, and there is much to be gained from further reducing these barriers. The non-tariff barrier reduction program should include addressing a wide range of barriers that hamper trade, including infrastructure gaps and an improvement in the business environment in Africa. The quality of ports, air transport and other infrastructure measures where efficiency is relatively low in Africa, compared to other regions, needs to be addressed. Reducing land transport costs is critical to stimulating intraregional trade, given the continent's geographic configuration. Furthermore, Cabo Verde needs also to address the costs and flow intensity of the transport's connections among islands and with the continent. Other areas, such as customs efficiency and other administrative procedures required for international trade, also need reform to improve efficiency. Furthermore, creating a favourable business environment would be particularly relevant to facilitating intraregional trade. In this area, reducing the cost and time needed to create new businesses is important. Finally, concerted efforts are needed to increase the depth of financial inclusion in Africa to match it with other regions, as well as to promote access to finance to create or expand businesses. The access to finance in Cabo Verde is a noted problem blocking the private sector growth and the country's development. It is hoped that all these efforts and initiatives will help advance the AfCFTA agenda.

AfCFTA members must limit the extent and scope of exemptions for tariff reductions. This is a very relevant consideration, as the AfCFTA proposes to liberalize only 90 percent of tariff lines. Intra-African trade is concentrated in a few products, and much of it is already tariff-free, focusing on existing free trade areas. If a substantial part of the remaining trade is contained in the remaining 10 percent of the tariff lines, the potential welfare benefit of the AfCFTA would be reduced, especially if the potentially exempt sectors were the most protected. To fully realize the welfare benefits of AfCFTA, member countries need to remove all tariff lines, even if it is done in a phased manner over the medium term.

In the long term, to fully leverage the economic opportunities of the AfCFTA, it is necessary to adopt supportive policies to stimulate structural transformation. Some countries will have to reduce their exports dependence on commodities and move up the value chain. Furthermore, Cabo Verde needs to diversify its exports from the fishery sector. Policies to encourage structural transformation could include training programs for workers to ensure a smooth reallocation of labour and capital to sectors most likely to grow, such as industry. Only then will the continent be able to use the AfCFTA as a mechanism to claim its place in the global value chain.

Recommendations for trade and regional integration

- Strengthen the national agreement monitoring framework. The implementation of the agreements requires close monitoring. This task falls to the national structure, whose composition and powers must be expanded and strengthened. All stakeholders (public and non-state actors) must be represented. It should also benefit from capacity building in terms of impact analysis in order to effectively contribute to monitoring the implementation of the Agreements. This structure will have to seek greater adherence to international standards and the development of an economy of logistics services. More generally, the national framework will ensure the coordinated management of regional and multilateral trade-related commitments.

- Establish a program to improve economic competitiveness. The simulations carried out show that, without a substantial and well-targeted public investment program, the impact of Free Trade Agreements on most economic variables will be negative. This program should gradually accompany the liberalization of trade with Africa with the main objective, gains in competitiveness. Improving competitiveness also involves reviewing the industrial policy for active participation in the AfCFTA and formulating a trade policy adapted to the new context. Emphasis should be placed on the repercussions of the new situation on activities generally dedicated to women, in particular artisanal fishing, trade, and agricultural products.
- Demand that stakeholders integrate the AfCFTA /ECOWAS dimension into their policies, strategies and interventions. The new situation will have multiple repercussions, particularly in production, trade, and public revenue. Consequently, each actor, in particular public decision makers, must consider in any strategic reflection the effects of the entry into force of the AfCFTA /ECOWAS Agreements. The national strategic plan for sustainable development should be revised to give more space to the new situation, analysing the impact and prospects for foreseeable negative effects, and how to mitigate them through flexibility measures. It will need to be equipped with cost and profit equalization mechanisms.
- Strengthen companies' capabilities. The Cabo Verdean market is very small, with a high poverty rate. Perspectives must be sought in opening to foreign markets, hence the need to strengthen the competitiveness of companies to access African and other markets. Specific programs and incentive mechanisms are recommended for strengthening the capacity of companies and their integration into international trade.
- Develop domestic productive potential. This requires the implementation of a public investment program consistent with the entry into force of the Free Trade Agreements with Africa and the countries of the region (ECOWAS). This program should focus on the sustainable exploitation of Cabo Verde's productive potential and infrastructures and services supporting trade with Africa.
- Strengthen the capacity of the private sector. This is a requirement for the beneficial application of the agreements. The efficiency of the private sector is largely dependent on the implementation of the government's recently adopted strategy, in particular the pursuit of the overall program to improve the business climate.
- Development of sectors exposed to competition. This is the case of the primary sector, whose products can be strongly challenged by international competition. Efforts must be made to increase them, in productivity and competitiveness.

SOUTH-SOUTH COOPERATION

Cabo Verde is well-placed to be a leader in SSC. As stated above, South-South Cooperation is entering a new phase in which participant states are discussing the establishment of governing principles which should guide both the objectives and implementation of SSC. While some countries that are part of this process are members of the OECD, such as Mexico and Colombia, SSC norms should not necessarily be viewed as a transposition of OECD-DAC principles. These norms, in fact, overlap with BAPA perspectives on SSC and the two positions should not be considered mutually exclusive. While Cabo Verde may well influence the establishment of SSC norms internationally, some important reflections concerning domestic implementation must be raised.

First, as mentioned above, Cabo Verde is currently intensifying SSC relations with larger donors, such as China or Brazil. In strict terms, development investments are normatively coherent with the PEDS, particularly with its priority of economic development. Nonetheless, some private sector investment seems to threaten normative commitments to sustainability. While SSC is proposed as an alternative to traditional North-South development aid, similar power patterns seem to emerge. Cabo Verde shares much in common with SIDSAM countries and for this reason, it adheres to the SAMOA pathway. However, this pact should become more than a simple declaration. Cabo Verde could establish leadership in SSC by promoting the transformation of the SIDSAM's into a sub-regional group of like-minded states. Regional organizations in Africa have generally been organized around geographic proximity. However, the vulnerability of the SIDSAM countries to external shocks and their relative economic and ecological symmetry, should prioritize political commitments to sustainability and resilience. By acting as a sub-regional block, the SIDSAM states may promote more sustainable SSC models that also create innovative collaborative domestic sustainable development opportunities that diversify economies.

Until now, Cabo Verde has made political statements with SIDSAM partners regarding resilience and even hosted a major summit in 2015. However, concrete projects remain linked to large SSC donors and triangular cooperation through international organizations. "Like-minded" agendas and sustainability remain low on the list of values identified by respondents as priorities for SSC in Cabo Verde. Long-term political vision needs to surpass short-sighted economic gains for sustainability to be achieved, especially in the context of the recently implemented AfCFTA. For autonomy to be prioritized, regional integration, as presented in the PEDS, in association with SIDSAM states, ECOWAS and AU, can provide the blueprints for sustainable policy strategies. SSC projects from large donors simply reproduce traditional development relationships and they may similarly augment public debt. In order to avoid this, public performance assessments of SSC based on normative coherence for sustainable development should be carried out on an annual basis and a parliamentary committee review analysing SSC impacts on sustainability as defined by the PEDS should be conducted yearly as well. The purpose of this review is not to adjudicate the quantity of SSC development finance but to prioritize its quality. For this to be effective, Cabo Verde should link an evolving domestic SSC evaluation process with regional integration SSC frameworks. Building on the ProPALOP approach,[229] Cabo Verde could position itself as a leader in SSC by promoting citizen monitoring and legislative oversight amongst regional organizations. In other polities, such reviews are carried out by legislatures or courts of auditors (i.e. the European Court of Auditors). Cabo Verde can examine potential assessment models from existing practices and adapt them to SIDSAM contexts.

In this way, SSC could actually provide an example for broader mechanisms for regional financial transparency. Via knowledge sharing networks and mobilizing experiences and expertise to build institutional and human capacities, the INFF will enable Cabo Verde to become a pivotal player in expanding the BAPA+40 institutional framework for SSC and promoting Cabo Verde as an emerging south-south partners connecting Latin America with Africa, including in relation with the AfFTCA. In this regard, complementary links are also being established to the Global Partnership for Development Effectiveness through an initiative focusing on SSC Development Effectiveness led by Colombia. Herein, Cabo Verde has been invited to join the *Country-Led Pilots to Assess the Effectiveness of South-South Cooperation*, which would be an opportunity to assess and share its SSC and regional integration experiences, successes, and challenges within a peer support framework.

In terms of domestic implementation, Cabo Verde's strategy framework for SSC positions the country well because it provides a clear institutional framework, it respects the role of non-state and local actors and invites academics to participate in knowledge exchange with government. The strategic framework also clearly establishes procedures for SSC policy definition and implementation.

It seems, however, that this framework has not been fully implemented. As stated above, public information on SSC in Cabo Verde remains fragmented at the moment. The country should establish annual reports on SSC which provide detailed information on partnerships, investments, program content and when possible, the link between programs and sustainable development impacts. In fact, the quality of democracy analysis presented above highlights three important issues to be addressed. First, Cabo Verde should implement an increased public awareness campaign on SSC with a view to deepening engagement with the wider public and

229 UNDP, "Project for Strengthening Technical and Functional Skills of Supreme Audit Institutions (SAIs), National Parliaments and Civil Society for the Control of Public Finances in the PALOP and Timor-Leste (Pro PALOP-TL SAI, MPs, and CSO)," info.undp.org, 2014, https://info.undp.org/docs/pdc/Documents/CPV/PRO%20PALOP-TL%20SAI-ISC%20-%20PRODOC_ANNEX%20I%20(DRAFT%2007)_EN.pdf.

all stakeholders. Second, the country needs a robust engagement with parliamentary oversight mechanisms in support of transparent and accountable SSC foreign aid initiatives. It is striking that parliament is not mentioned in the SSC policy documents and this should be clarified. Third, the SSC strategic framework includes policy definition and implementation, and there is mention of monitoring, however, evaluation remains absent. The framework should include evaluation mechanisms more explicitly. These evaluations should include: Process Evaluation, Outcome Evaluation, Impact Evaluation, and Cost-Benefit Evaluation and they should be made publicly available (see pillars 4 & 5 below). This could be promoted as a template for SIDSAM states and other SSC participant countries. With the implementation of these measures, Cabo Verde could build on existing strengths to position itself strategically as a leader in SSC, by providing SSC cooperation partnerships with guiding principles and operational evaluation methods aimed specifically at fostering sustainable development.

	Institutional	**Economic**	**Social**	**Environmental**
Global	UN, WB, IMF, WTO & other IOs	Global markets; Bilateral trade relationships; Diaspora	Global citizenship; Diaspora networks	Climate Change
Regional	African Union; CPLP; EU Special Partnership	AfCFTA; CPLP; EU GSP+; US AGOA; China's BRI	Pan-Africanism; European heritage; Transatlantic identity	Deforestation; Pollution & Waste; Vast natural and mineral resources
Sub-regional	ECOWAS; Sahel; PALOP; Macaronesia	ECOWAS; trade with Angola and Guinea-Bissau; trade with Canary Islands and Azores	Portuguese Africa; West African identity; Atlantic islands	Desertification / Drought; Natural and mineral resources; Ocean and marine resources; Agriculture
Sovereign	Government of Cabo Verde	Domestic market but with divergent internal market systems/dynamics	Cabo Verdean national identity	Desertification / Drought; Ocean and marine resources
Local	Municipalities	Sotavento; Barlavento; Sal & Boa Vista	Sampadjudo (Barlavento); Badiu (Sotavento); Island identities	Desertification / Drought; Ocean and marine resources

Table 27: – Multi-scalar Summative Matrix of Foreign-Domestic Integration Processes

13. PILLAR 3 – GLOBAL-LOCAL NEXUS: INTEGRATING THE SDG ACCELERATORS WITHIN THE FINANCING STRATEGY

Integrating the accelerators with a focus on blue as a key economic diversification and integration pivot point with spillover effects and catalytic potential across all other sectors. The Cabo Verde MAPS/INFF scoping mission identified financing alternatives for the SDG accelerators from the MAPS exercise, both existing sources which can be (when needed and possible) aligned with the accelerators and additional actionable financing sources.[230] Whereas the UN Maps mission identified five SDG accelerators with specific action points, the resultant SDG roadmap did not offer a clear prioritization or sequencing of actions pertaining to the accelerators and specific action points within them. Rather, these tend to run in parallel with limited insights on the potential for recursive catalytic effects and mutually reinforcing effects. For example, the 2021 NDC calls for 2 billion Euros in resources over the next ten years to implement the climate mitigation and adaptation measures. However, this amounts to approximately 1/3 of the Cabo Verde annual state budget (based on 2020 rectified budget) over the next ten years. While some of the resources can be made available by reorienting public resources directly towards these measures and other activities can be 'greened', most of the costs currently covered by the state budget are already factored in and accounted for by recurring ordinary annual expenditures (e.g. pensions, salaries, etc.). In this constrained public financing landscape, additional resources must be generated either via economic productivity or other forms of financial flows (e.g. grants, loans, debt-for-nature swaps etc.) that the green transition and circular economy alone are not able to generate. As such, opportunities must be sought for actions that address various SDG accelerators concomitantly to maximize the impact from investment, wherein economic growth in tourism, blue economy, or digitalization, arises in a manner that not only conforms to green principles but also spurs further progress towards climate priorities by generating additional revenues for complementary non-revenue generating actions that require public subsidy to remain viable (e.g. biodiversity protection). Along these lines, this DFA analysis seeks to go a step further by developing outline of how they might be mutually reinforcing and interdependent through possible catalytic effects within and across accelerators, with the blue economy at the radial epicentre of a horizontally and vertically-integrated development process (see figure) .

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230 Orria Goni, "Building a First-Class Monitoring System in Cabo Verde," INFF, January 9, 2020, https://inff.org/news/building-a-first-class-monitoring-system-in-cabo-verde.

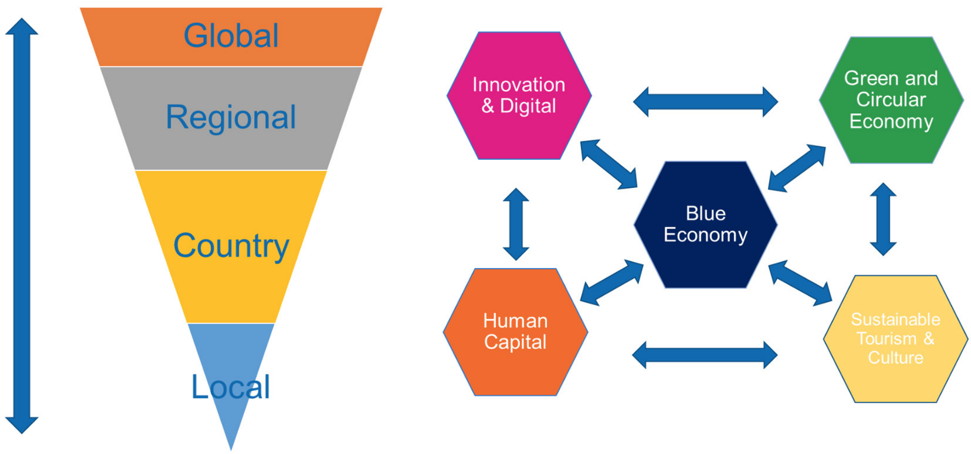

Figure 45: Vertical and Horizontal Integration of SDG Accelerators in INFF Financing Strategy
Source: Christopher Lilyblad

BLUE ECONOMY

The guiding documents of Cabo Verde's national sustainable development strategy already integrate a set of development ambitions, strategic policy intentions and concrete projects that are supported by natural oceanic and coastal assets and are geared towards blue economy activities.

In fact, the country has a set of preconditions that allow it to scale its national sustainable development strategy by anchoring in developing blue economy activities and others with short-term or medium-term launch conditions.

However, in the sphere of Cabo Verde's public policies, a set of necessary conditions for the success of the national strategy for sustainable development anchored in the blue economy is identified that do not yet exist, namely (1) an integrated and simplified legal and regulatory system for the sectors of activity of the blue economy, (2) an integrated statistical system for the sectors of the blue economy, feasible with the satellite account of the blue economy, among other statistical tools, (3) an integrated planning system for the maritime and coastal space and blue economy activities, (4) prospective and economic-financial feasibility studies for anchor projects, structuring blue economy activities.

The success of Cabo Verde's national sustainable development strategy anchored in the blue economy depends on unblocking some institutional constraints (quality and transparency of public institutions), economic (context costs and scale of operation), infrastructural (oriented towards improving competitiveness economic), training (human capital formation oriented towards the blue economy) and financial (access to finance for blue economy investments and activities). In this context, an additional effort to develop the national private sector to operate in blue economy activities is also relevant, either through business training or through the promotion of business cooperation, which takes advantage of synergies and increases the scale of operations.

The restrictive framework for financing possibilities for national public or private investment is well known, within the scope of Cabo Verde's traditional financing mechanisms, whether due to the reduced possibility of growth in the currently available fiscal space, whether due to the constraints on internal or external public indebtedness, or due to the difficulties access to bank financing by the national private sector. However, the country has several financing opportunities that have not yet been used in the context of alternative mechanisms for financing development that it should seek to explore.

Knowledge, Policy and Coherence

The effective exercise of sovereignty over the ocean's natural assets and the anchoring of the sustainable development strategy in these assets require the observance of a set of conditions. The first condition is knowledge concerning the ocean's natural assets. The production of this knowledge involves (1) strengthening human capacities in science and technology aimed at the different activities that make up the blue economy and (2) strengthening the statistical, scientific and technological system aimed at research and development in the blue economy.

The second condition is knowledge-based policy. The knowledge produced should contribute to (3) the integral and systematic mapping of the natural oceanic assets and the human activities that operate on them - which can be seen, among other instruments, (4) in the satellite account of the blue economy -, as well as (5) the redefinition and coordination of the respective public policies, those with an impact on the maritime space and its assets.

The third condition is the coherence between policy and action. This coherence requires (6) the development of integrated systems for the long-term planning and management of maritime space and terrestrial space, based on public policies derived from knowledge, for better management of maritime space and coastal zones. The effectiveness of these planning systems will always depend on (7) strengthening the monitoring and control systems of natural oceanic assets and the activities that operate on them.

Context, Resources and Capabilities

The country's endowment of natural oceanic assets, by itself, does not generate wealth, create employment, or reduce poverty. In pursuit of these goals through the blue economy, the endowment of oceanic natural assets needs the collaborative participation of other assets.

The first of these assets is human capital. The strengthening of capacities for the different levels of blue economy operators is critical for improving the levels of productivity and international competitiveness, which allow for sustainable benefits from the exploration of natural oceanic assets. (1) investment (public and/or private) in education and professional training, as well as in science, technology and innovation for the country's blue economy is a priority.

Another such asset is physical capital. The reinforcement of infrastructure and equipment capacities allows the reduction of some context costs, the leverage of the volume of operations and the improvement of the productivity levels of economic activities. (2) integrated investment (public and/or private) in infrastructure and equipment in the maritime space and coastal zones, aimed at improving the levels of productivity and international competitiveness of the country's blue economy activities is a priority. The decision on public infrastructure investments must be supported by (3) technical and economic-financial feasibility studies and by (4) economic, social and environmental impact studies. For this purpose, efforts should be made to ensure (5) the reinforcement of the technical-scientific capacities of the national teams to support decision-making or the use of international technical-scientific capacity.

Finance capital plays a critical role as an intertemporal facilitator in investment decision-making processes (public and/or private) and exploration (public and/or private) in any economic activity. Considering the constraints in the country's fiscal space, as a mechanism for mobilizing resources to finance the development of blue economy activities, priority should be focused on (6) efficiency of public expenditure on investment within the framework of the current fiscal space, in the (7) efficiency of public expenditure in grants to private investment within the current fiscal space, (8) use of alternative development financing mechanisms for infrastructure projects, (9) development frameworks for investment and operation of infrastructure in partnership with the national and international private sector (financial and/or non-financial).

Finally, institutional capital. The quality of public institutions is a critical success factor for the private sector, whether by producing public goods such as security and trust among economic agents, or by issuing efficient signals for the mobilization and coordination of resources for development, such as coherence and discipline in the implementation and coordination of public policies, whether in the quality of the support services they provide to the community, or by improving the territory's competitiveness, by reducing context costs, among other reasons. Within the framework of the development strategy anchored in natural oceanic assets, it is expected (10) the systematization, harmonization and simplification of the legal framework for the blue economy sectors, (11) the reinforcement of stability and confidence in the justice system, (12) the stability of political will and the coordination of policies for the blue economy, (13) the strengthening of economic diplomacy to attract foreign investment for the blue economy, (14) the planning and comprehensive planning of maritime space and coastal zones, (15) coordination between public institutions, (16) improving the management and transparency of public institutions, (17) strengthening resources and improving coordination in the surveillance of maritime assets and activities.

CLIMATE, CIRCULAR ECONOMY, ENVIRONMENT, AND BIODIVERSITY

In its second iteration of the Nationally Determined Contribution anchored in the Agreement of Paris ratified in May 2017.[231] Cabo Verde embraced the challenge of sustainability and the commitment to climate change, which requires global and joint action by all countries in terms of adaptation and mitigation, two aspects worked on at the level of At the same time, in addition to linking Cabo Verde's entire development strategy to being aligned with the 2030 Agenda for sustainable development of the United Nations, Cabo Verde has been developing a Blue Economy development strategy anchored on biodiversity and ocean resources aimed at economic development and country's resilience.

Circular Economy

The concept of Circular Economy is strategic and is based on new circular flows of reduction, reuse, recovery and recycling of materials and energy, therefore it is closely linked to the whole issue of climate change and as such constitutes a key element to promote decoupling between economic growth and the increase in the consumption of resources, a relationship that has hitherto been seen as inexorable. The Circular Economy therefore promotes a reorganized economic model, through the coordination of production and consumption systems in closed circuits, taking inspiration from the mechanisms of natural ecosystems. When taking into account the benefits and impacts that the Circular Economy can bring, it can be said that this model is understood as providing short-term benefits and long-term strategic opportunities in the face of challenges such as:

- Volatility in the price of raw materials and limitation of supply risks;
- New customer relationships, take-back programs, new business models;
- Improve the competitiveness of the economy - "first move advantages"; and

231 Assembleia Nacional, "Boletim Oficial Nº 25 I Série, Resolução Nº 35/IX/2017, https://kiosk.incv.cv/V/2017/5/12/1.1.25.2328/p571.

- Contribute to the conservation of natural capital, reduction of emissions and waste and combating climate change.

The opportunities within the Circular Economy also constitute business opportunities for the private sector, as well as the possibility of reducing production costs, making products and companies more competitive. Cabo Verde has been addressing issues of circular economy within a global climate change strategy linked to climate. Certainly, climate change requires global and joint action by all countries in terms of adaptation and mitigation, two aspects worked on at the level of the second NDC- Nationally Determinded Contribution.[232] This document has as its genesis and is anchored in the Paris Agreement, a United Nations treaty aimed at combating climate change, which stipulates the need to achieve carbon neutrality by the end of the century, as a condition to maintain the increase in the global average temperature on the planet (relative to pre-industrial levels) below 2°C and make efforts to limit this increase to 1.5°C. It should be noted that Cabo Verde ratified the Paris Agreement in May 2017.[233]

The 2nd NDC prepared by the government of Cabo Verde with the support of Luxembourg Development Cooperation and UNDP responds to the objectives of sustainable development and the 2030 Ambition of Cabo Verde responding to the following commitments:[234]

- The commitment, by 2030, to reduce greenhouse gas (GHG) emissions throughout the economy by 18% below the "business as usual" (BAU) and to increase this target to 24% on condition of obtaining support appropriate international;
- The long-term commitment to achieve a decarbonised economy by 2050 and to boost electricity generation from renewable energies, including the construction of pumped storage and other energy storage capacities;
- Commitment by 2030 to progressively shift to low-carbon public transport, including active modes and international maritime transport;
- Commitment, by 2030, to reverse the trend of habitat degradation, substantially improve biodiversity, water retention, strengthen soils and restore forests and coastal wetlands;
- Commitment by 2030 to use renewable energy (RE) to mobilize the water supply and to ensure a sustainable and resilient water management system;

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232 Minister of Agriculture and Environment, "Cabo Verde 2020 Update to the First Nationally Determined Contribution," UNFCCC (UNFCCC, February 2021), https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Cabo%20Verde%20First/Cabo_Verde_INDC_.pdf.

233 Assembleia Nacional, "Boletim Oficial Nº 25 I Série: Resolução Nº 35/IX/2017, https://kiosk.incv.cv/V/2017/5/12/1.1.25.2328/

234 Minister of Agriculture and Environment. "Cabo Verde 2020 Update to the First Nationally Determined Contribution." UNFCCC. UNFCCC, February 2021. https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Cabo%20Verde%20First/Cabo_Verde_INDC_.pdf.

- Committed by 2030 to design and develop the ocean-based economy in a low-carbon way - encompassing transport, fisheries, coastal infrastructure and coastal energy, tourism - by enhancing nature-based solutions (NbS), conserving and restoring habitats natural;
- The commitment, by 2025, to prepare a specific Roadmap for 'Responsible Tourism in the Circular Economy' defining a target for 2030 to reduce the sector's GHG emissions;
- Commitment, by 2025, to build a monitoring system to track climate change-related risks to public health and integrate climate change resilience goals into a single national health policy framework; and
- Commitment, by 2025, to create a strong platform for the empowerment of youth, women and society as a whole in formulating climate change policies and implementing climate change responses, promoting knowledge, skills and sustainable jobs.

Current situation of the circular economy in Cabo Verde

Taking into account Article 2 of the Paris Agreement to "strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty,"[235] the creation of wealth through the Circular Economy in Cabo Verde can have a transformational and cross-cutting effect permeating the entire economy. However, its link to the tourism sector is imperative as a comprehensive approach to responsible tourism and the circular economy becomes increasingly relevant and vital to the economic prosperity of the country and its coastal communities.

The tourism sector can generate negative impacts on climate change but also has the potential to generate positive impacts subject to certain conditions. Among these, the circular economy has been proposed in recent years as a model that can help make tourism more sustainable, as the tourism sector has the ability to combine economic, social, cultural and environmental dimensions with sustainability and contribute to their mutual improvement. We can thus refer to the circular tourism sector and its ability to trigger and stimulate circular flows with the aim of aligning the tourism sector and sustainable resources management as an integrated solution that can respond to future needs.

On the other hand, the Circular Economy can be aligned with industry, renewable energies, land, sea, and air transport, as well as the issue of solid waste treatment and water treatment. It should be noted that in these areas, Cabo Verde has been working on several projects in the spheres of the blue economy, industry, and waste treatment.

235 United Nations and Canada, *United Nations Framework Convention on Climate Change* (New York, NY: General Assembly, 1992).

Cabo Verde has been working to adapt coastal and marine tourism and industry to local climate threats to increase its environmental and climate benefits. UNDP Cabo Verde, through the Energy, Environment and Climate Change portfolio entered in the "Country Program 2018-2022"[236] a pipeline of projects to be implemented in order to support the government:

- Concept Note preparation under Project Preparatory Facility for submission to the Green Climate Fund (GCF) on Climate resilient agriculture in Cabo Verde through the promotion of irrigation utilizing reuse water (treated wastewater).
- Proposal preparation to Luxembourg for «Enabling mechanisms for NDC Implementation in Cabo Verde through local innovation» for municipality-level climate resilient solutions for water and energy.
- Joint proposal (UNDP-UNICEF) preparation for an integrated Climate Change Adaptation, Disaster Risk reduction and WASH project to enhance the policy, regulatory and economic environment to increase national resilience to climate risks with a focus on gender equality and child-centered approaches.
- GEF - UNDP/FAO- Preparation of new project in the field of climate change - Agriculture and land degradation, biodiversity conservation and coastal zones management for the new GEF 7 Cycle.

Financing for Climate and Circular Economy: Linking the NDC-FF with the INFF

According to the updated NDC, financing needs amount to €2 billion, with €1 billion for mitigation and €1 billion for adaptation (see Figure 46 below).[237] Given that this figure is equivalent to approximately 1/3 of the rectified state budget for 2020 over the next decade, extravagant costs implicated in efforts to deal with climate change exceed the capacities of the state budget and public resources alone. Furthermore, there is a risk that efforts in terms of stimulus through public spending and investments aimed at post-COVID recovery will generate further negative externalities in terms of environmental degradation, including both climate change and biodiversity, which would in turn require further public spending to deal with the consequences of the initial public investments.

236 Global Environment Facility, "Managing Multiple Sector Threats on Marine Ecosystems to Achieve Sustainable Blue Growth," TheGEF (UNDP, 2020), https://www.thegef.org/projects-operations/projects/9705.

237 Minister of Agriculture and Environment, "Cabo Verde 2020 Update to the First Nationally Determined Contribution," UNFCCC (UNFCCC, February 2021), https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Cabo%20Verde%20First/Cabo_Verde_INDC_.pdf.

5 Mitigation Contributions	1 000 Mio Euro
#1: Reducing energy intensity and fostering energy efficiency	
#2: Increasing renewable energy targets	
# 3: Lowering the carbon intensity of mobility	
# 4: Shifting towards responsible tourism and circular economy	
# 5: Fostering the natural sink function of ecosystems	
9 Adaptation Contributions	**1 000 Mio Euro**
#1: Improving water security and natural replenishment while reducing water carbon intensity	
#2: Enhancing sewage, solid waste and wastewater treatment	
#3: Increasing and sustaining land-based food security through regenerative agriculture	
#4: Increasing and sustaining ocean-based food security through regenerative fishing	
#5: Extending marine protected areas	
#6: Defending marine resources and coastal zones	
#7: Using spatial planning as an ally in climate change mitigation and adaptation	
#8: Mitigating climate related disaster risks and vulnerabilities	
#9: Confronting climate related health risks	
Total estimated funding needs for NDC 2020-2030	2 000 Mio Euro

*to be confirmed and detailed in the upcoming NDC Implementation Road Map 2021

Figure 46: Financing Needs estimate for NDC (Source: Cabo Verde NDC Update 2021)

Source: Cabo Verde 2020 NDC Update

To avoid such a vicious cycle, climate, environment and other sustainability consideration must be embedded within the development finance process at the outset. In the case of Cabo Verde, this entails integrating the NDC financing within the broader INFF. Fortuitously, as depicted in Figure 47, the NDC-Financing Framework (NDC-FF) and INFF process are currently unfolding in parallel as both processes have commenced in 2021 during the early recovery phase of the COVID pandemic (as depicted in red). However, the integration of NDC and the broader sustainable development agenda requires more than mere synchronization and temporal alignment.

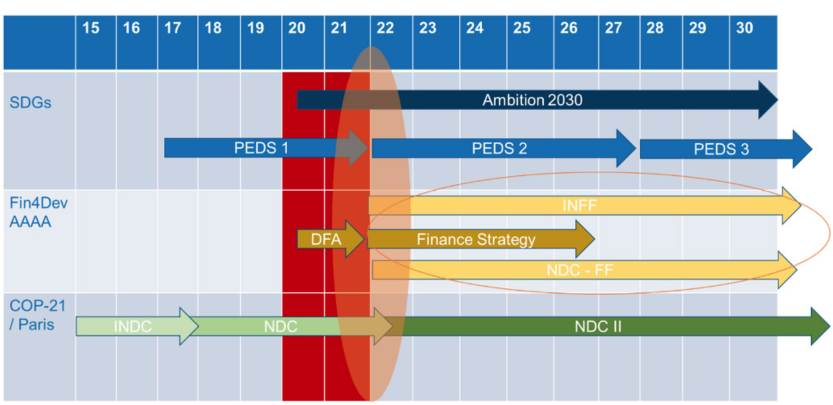

Figure 47: Timeline comparison of strategic frameworks (Source: Christopher Lilyblad)

Rather, the various components of the NDC-FF must be cross-fertilized through harmonization with the corresponding building blocks of the INFF to arrive at a holistic financing framework that results in positive-sum outcomes for climate and sustainable development objectives, as opposed to frameworks that by virtue of being set up in opposition to each other end up competing for finite resources. Figure 48 outlines how the five components of the NDC-FF may be properly integrated and sequenced with the INFF building blocks to this effect. This integration and linkage between is particularly important with respect to:

- Avoiding duplication / overlap:
    - Efficient use of resources for the financing frameworks themselves;
    - Establishing a division of labour rather than hiring consultants or expertise with the purpose of achieving the same or similar results; and
    - Maximizing expertise and specialization of actors through functional differentiation in each issue area.
- Fungibility:
    - Climate Finance, even when earmarked, ultimately derives from the same resource pool and cannot be treated in isolation; and
    - There must be clear coherence, prioritization, sequencing, choices, and trade-offs with respect to other sustainable development objectives.
- Endogeneity
    - If X = Financing (inputs) and Y = Sustainable Development Objectives (output), then climate change (including mitigation and adaptation) affects both simultaneously;
    - Since climate impacts both the X and Y variables, climate change, including financing, cannot be analytically separated since it will have impacts on the resources available (e.g., economic losses and damages due to natural disasters, expensive adaptation measures, etc.) for sustainable development but is also a goal of sustainable development (SDG 13); and
    - Understanding how climate change and sustainable development are endogenous to each other can lead to financing of projects and programmes that address both issues simultaneously, leading to economies of scale and resource maximization, thus lowering the financial needs.
- Calculation Problem
    - Impact investment, ESG and double bottom-line approaches, especially those incorporating private sector financing and/or activity, suggest that climate action is not only a cost but also a source of revenue / income;
    - This recursive approach suggests that costing / financing models must account for revenue-generating potential within a dynamic system; and
    - The private sector angle therefore introduces a dynamic sequencing dimension that is not incorporated in public budgeting approaches to climate change but must be accounted for, especially in the context of public debt.

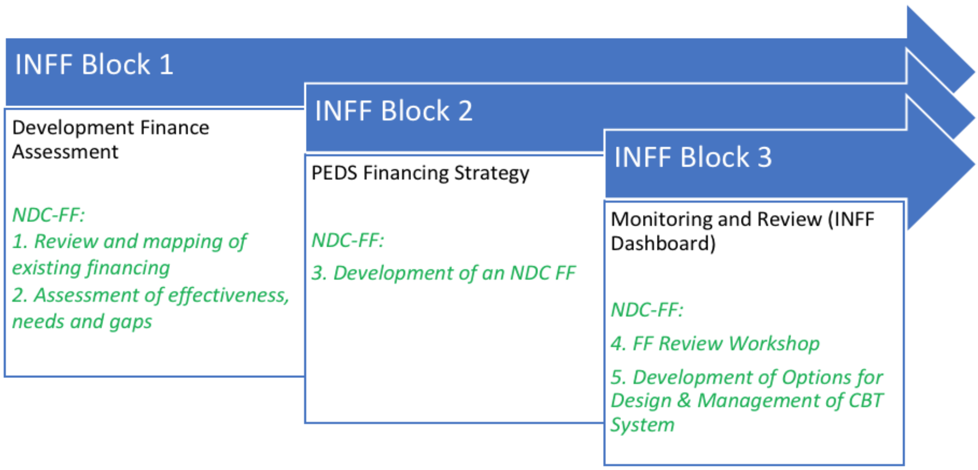

Figure 48: Integration of NDC-FF within INFF

Source: Christopher Lilyblad

Accordingly, the integration of the NDC-FF within the INFF process suggests a mirroring of the financing streams treated within this DFA with a focus on climate change and related environmental issues.

Climate in domestic public finance

Such an approach could include the creation of a specific national fund for adaptation financed through the state budget. This fund would be able to streamline the process of mobilizing international resources, including international climate funds, by reducing transaction costs, creating scale and generating a learning curve that will allow an optimized management of financial resources, using internal public resources and international donations as leverage in a blending (pooling of resources) with other financial resources to finance actions and projects aimed at fulfilling the objectives of the NDC.

International Public Finance

International support to meet the rising costs of dealing with losses and damages with risk transfer mechanisms is essential. The financing of the Circular Economy and the Climate, involves knowledge of the various sources of financing existing at the international level and the capacity to prepare specific and complex files for access, so that they can be eligible. Several international partners, including NGOs and international foundations, provide funds not only for adaptation issues, but also for climate change mitigation. However, there is a weak capacity of Cabo Verde to access green funds via bilateral and multilateral are even more difficult. The solution involves the creation of a specialized unit for mobilization of climate resources at the Ministry of Finance with the participation of the Ministry of Agriculture and Environment.

According to a study by the Ministry of Environment with funding from UNDP - NDC Financial Mobilization Strategy, resources can be mobilized for Climate financing via NDC[238] through:

a) Bilateral sources

Cabo Verde's Development partners can provide resources for financing, mainly in Technical Assistance for the preparation of documents, but also for the implementation of a Climate management structure and mobilization of climate resources through donations, concessional loans, non-concessional loans, export credits, credit lines/framework agreements, among other instruments.

b) Multilateral sources

There are several forms of financing made available by the international community through multilateral funds, inside and outside the UNFCCC, namely:

- Green Climate Fund (GCF)
- Least Developed Countries Fund (LDCF)
- Fundo Especial para Mudanças Climáticas (SCCF)
- Adaptation Fund (AF)
- Pilot Program form Climate Resilience (PPCR)
- Forest Investment Program (FIP)
- Special Climate Change Fund (SCCF)

c) New sources of financing

It is necessary to resort to new sources of financing for the economy that exist today, and with the help of the Cabo Verde Stock Exchange and the Ministry of Finance, new instruments can be developed, namely:

- Blue bonds[239]
- Green bonds
- Debt swaps
- Fiscal credits to private sector investors

238 Estratégia de mobilização financeira NDC – UNDP Cabo Verde
239 Relatório Nº AUS0001012 – 2020 Banco Mundial – Cabo Verde - Nota do Título Azul (Blue Bond)

Weaknesses in mobilization of funding for the areas of climate adaptation and circular economy:

- Donor coordination to avoid duplication of efforts, in line with internationally agreed principles and mechanisms for aid effectiveness according to the Paris Declaration;
- Insufficient national capacities for project preparation and formulation of "pipe-lines" for financing;
- Insufficient technical knowledge for mobilizing climate resources; and
- Low degree of private sector integration in circular economy efforts.

d) Debt-for-nature of debt-for-environment swaps

In conclusion to the analysis above, and given the Cabo Verdean political and institutional environment, the following guiding questions help decide for or against the design of a debt-for-nature/climate transaction:

- Which donors could be approached concerning a possible debt swap?
- What are the estimated transaction costs to set up the swap scheme?
- Do those transaction costs of setting up such schemes justify the ends?
- Does the Cabo Verdean Ministry of Agriculture and Environments and Ministry of Finance have the necessary institutional capacities to design and implement the swap scheme?
- Under which aspects the conditionalities attached to possible swaps need to be examined against their alignment with policy-based lending or other debt relief initiatives?

Based on the inputs of the questions above, the DFA recommends Cabo Verdean authorities to continue with the following steps:

Prepare a pre-feasibility study for the DFES, including debt profile and debt sustainability identification of possible creditors, estimation of the potential revenue streams, design of government structure for managing resources.

- Launch multi-stakeholder national and international consultations.
- Apply for technical assistance to donors or international institutions.
- Launch informal consultations with targeted creditor countries.
- Begin formal negotiations with the first creditor and elaborate draft for Memorandum of Understanding.

e) Potential multilateral climate finance sources:

- Luxembourg Climate and Energy Fund
- AfDB: SEFA Fund (Sustainable Energy Fund for Africa), resources available: (1st resource envelope 116M + 90M new commitments in 2020 – overhead costs of new commitments 7M – already approved operations 79M= 120M currently available

(not considering restrictions due to pending disbursements of new commitments and approvals of new operations)

- Global Fund to Fight AIDS, TB, and Malaria (GFATM)
- Global Alliance for Vaccines and Immunizations (GAVI)
- Global Environment Facility (GEF)
- Green Climate Fund (GCF)
- Fund for African Secondary Education (FASE) (under review by the African Union)
- Fund for African Health Delivery (FAHD) (under review by the African Union)
- Caritas Internationalis
- Islamic Development Bank Partnership for the SDG
- Global Environment Facility (GEF)-7
- Green Climate Fund

Recommendations on climate adaption and circular economy financing

- Integration of the circular economy throughout the economy's value chain, defining indicators and targets that allow measuring its contribution to the economy.
- Involvement in all phases and awareness of the Private sector, namely companies in the creation of wealth and reduction of factor costs through the use of circular economy flows.
- Generation of new investments, value and resources via sustainable finance instruments
- Establish clear linkages with blue economy strategy for sustainable growth.
- Definition of a pipeline of actions and projects/programs that prioritize investments to be made within the NDC horizon.
- Identification of the existing funding gap and match of actions/projects/programs, according to their nature, with the profile of funding sources.
- Capacity building, institutional strengthening and stakeholder engagement.
- Clear definition of roles and responsibilities of different actors.
- Reinforcement of dialogue, coordination and sharing of information with potential funding sources.
- Strengthening of the planning, monitoring and evaluation of climate projects.
- Create protected areas at sea, to promote tourism and fishing at the same time.
- Specialize a climate resource mobilization unit at the Ministry of Finance with the participation of the Ministry of Agriculture and Environment.
- Creation of a specific national fund for adaptation.

INNOVATION, DIGITALIZATION AND HUMAN CAPITAL

Cabo Verde can diversify and transform its economy. However, its success is dependent on the ability to quickly build up its innovation ecosystem. Moving Cabo Verde up the innovation value chain will require new approaches, a strategic agenda and the engagement of all the key stakeholders. There are several policy options that could be explored by decision makers in Cabo Verde to facilitate the development of the nation's innovation ecosystem. However, here we focus on the financing hurdle and the skills challenge. Proposals are also made with respect to the diaspora and putting in place programs to promote collaboration among actors.

But first it is important for Cabo Verde to get the basics right. Innovation is not just another thing that must be done. It is not an add on. It must be at the centre of development management. It is not just about technology; but a way of getting things done. Innovation must permeate the society and be the basis for problem solving. It is therefore crucial that Cabo Verde get the basics right by focusing not just on doing innovation but building a culture of innovation. This will require:

- Decision makers translating talk into action.
- Clear and robust strategy for innovation.
- Investment in building institutions, while also ensuring consistency and stable policy environment.
- Go local where feasible and bet on local products.
- Reforms must become priority and the government should set up a system for policy impact analysis and project evaluation.
- Ensuring that the nation's limited resources are used judiciously.
- Focus and to be a bit more selective rather than spreading the little resources that it possesses thinly without impact.

Addressing the financing challenge

The lack of access to finance is raised in almost all African countries as a major challenge. The lack of access to risk capital is particularly devastating for tech start-ups in Cabo Verde. It hinders their capacity to grow and to scale. The usual solution of the government—interest rate subsidy and partial risk guarantee—are not fit for purpose in the technology sector. For a start-up building a new product to roll out across the PALOP countries, Africa or the world, a government-backed loan is not sufficient. In fact, it is simply not feasible as the government guarantee has a limit and the start-up will still have to come up with collateral of about 150% for the remaining value, which is not feasible for most entrepreneurs trying to build their first enterprise. It is also clear that the government of Cabo Verde does not have the financial resources to finance start-ups, given its own fiscal and budget limitations.

It is therefore crucial that government makes funding start-ups a potentially profitable endeavour for the private sector. The private sector can and should be empowered to come up with solutions:

- First, this will include allowing the setup of funds and reducing the bureaucracy and regulations.
- Second, the government must redesign ProCapital, the government owned venture capital entity, and with the right capacity in order for it to be more innovative and flexible to seek funding from partners, as well as raise venture capital funds targeting the diaspora and others to have resources for investment. There is also a need to bring on board professional investors with experience in venture capital world to work in ProCapital.
- Third, its investments rules of basing amount invested on social capital does not make sense.
- Fourth, ordinary citizens and companies should be encouraged to invest in technology companies and deduct their investment from their income before taxes up to agreed percentage annually. The incentives could include friends creating investment clubs and opening it to other investors so that a fund can be raised to invest to grow and scale tech companies.
- Fifth, there is a need to be strategic and proactive in seeking FDI. Investing in Africa by US and European venture capital funds is on the rise. Funds emerging out of Africa are also increasing and they are also targeting African countries. The challenge however is Cabo Verde is largely not among the focus area for most if not all of these funds. Cabo Verde needs to market itself to the world and specifically targeting the Africa-focused funds. Cabo Verdean officials need to target these funds and investors. The nation's image is that of a tourist haven. While it is a good beginning, it is time now to pivot and begin a national marketing and branding efforts that will lead to tech investors targeting Cabo Verde.

In short, there are various ways to facilitate access to financing. What is needed is creativity, openness, and willingness by policy makers to reduce stifling bureaucratic regulations. Importantly, Cabo Verde needs a robust strategy and decision makers must become proactive and have tailored strategies to target specific investors and funds.

Engaging the Cabo Verdean Diaspora

Addressing the financing and other issues requires engaging with the sizable Cabo Verdean diaspora that has been a keen contributor to the nation's development. What is needed now is a change in approach. The fact is the diaspora is one of Cabo Verde's most important and reliable development resources. The country's extensive and heterogeneous emigrant communities historically have played a vital role supporting households, reducing poverty, and providing external financing and hard currency. As in the global COVID pandemic and previous crises, Cabo Verde's emigrants have helped the country mitigate these crises by increasing the amount of money and goods they send. Even while tourism receipts and foreign investments collapsed in 2020, emigrants increased their monetary remittances. Cabo Verde's emigrants have over $600 million dollars deposited in the country's commercial banking sector, providing liquidity for much needed domestic credit for the economy.

The diaspora continues to engage and invest in Cabo Verde. Emigrants are emerging as an important segment of foreign direct investors, from real estate, to transportation, and other small and medium enterprises in a variety of sectors. A number of policy initiatives and incentive schemes exist to attract emigrant investment. Aside from the special legislation and erstwhile subsidized interest rates for the emigrant deposits accounts, it is unclear whether these other initiatives have had a substantial impact. The scale and rhythm of emigrant investments has its own inner momentum. A major unknown is whether such emigrant engagement – from remittances to direct investments in the real economy – will continue into the future.

Yet policy must take a proactive approach to encourage and incentivize some portion of this emigrant investment to strategic areas that strengthen innovation activities. Many of the actions and reforms needed will benefit both emigrants and residents alike, national enterprises and entrepreneurs as well as foreign investors: reforms such as greatly reducing regulatory burdens, improving public sector efficiency, reducing the costs and procedures at customs, reducing or eliminating customs duties on the importation of technologies and designated equipment and materials in strategic areas. Fixing the national transportation bottleneck. Such reforms benefit everyone, including emigrants. Emigrants – whether individuals returning for vacation or investing – universally criticized three areas: poor and unreliable transportation; excessive and slow-moving bureaucracy, and maddeningly excessive, costly, opaque, prolonged customs procedures. Bureaucracy and customs administration alone have been the leading disincentives for emigrants who want to invest. As such, one common thread of intervention is the urgent, overarching need to improve and reform customs administration and public administration service delivery.

Additional reforms and targeted incentives for emigrants can be introduced. First, Cabo Verde can establish innovation fairs and prize competition that include nationals and diaspora participants. This will be a useful mechanism and platform for knowledge sharing, networking. Second, targeted Outreach of Emigrant Entrepreneurs and Professionals in Innovation-intensive areas: Through the network of embassies, consulates, the offices of the President and Prime Minister, a dedicated effort must be made to identify and facilitate outreach to emigrant professionals, business owners, inventors, investors, and researchers in innovation-related areas.

Building a critical mass of talents

Cabo Verde has talents. There is an emerging pool of skilled people. The only issue is the country does not have enough nor does it have critical mass of high-level experts. There is a need to recalibrate the educational system.

First, there is a need to focus on critical thinking skills, creativity and problem solving. The educational curriculum at all levels must be reformed. With this the focus will shift to learning to solve problems and problems that are critical for the future of Cabo Verde.

Second, there is a need to ensure that there are standards and assessment along the way from pre-school to tertiary level.

Third, there is a need for positive discrimination to promote STEM majors and what is relevant for the needs of Cabo Verde, including the market and national agenda. Public financial support mechanisms, along with other educational funding, should be realigned such that support is directed both at the needy as well as to promote strategic areas of study and research.

Fourth, universities must prepare students such that, no matter what they study, they should be able to enter the job market from day one. Programs must include not only theory but also practical activities. It must include projects as well as group activities. Reforms should also include having a common core of subjects that all first and second-year students must take, including courses in Computer Science, Mathematics, Ethics and Business. From third year, students can begin to specialize in their chosen field of study.

Fifth, given the relatively large number of universities in Cabo Verde, quality is spread too thinly between institutions. There is a need for rationalization so as to ensure the schools left have a critical mass of qualified professors and instructors as well as to allow the state to concentrate its resources to ensure success. Lastly, there is a need for reconversion for the many graduates already in the market but with no skills and have no jobs or under-employed. This will require a massive program that is adapted for Cabo Verde's realities, including its budget.

Promoting ongoing learning, applied research and collaboration

Building critical mass of talents also requires a deliberate strategy to facilitate ongoing learning, applied research and collaboration among the various actors within the innovation ecosystem. There is a need to deliberately build platforms to ensure that actors are learning, relating, interacting and actively collaborating. Beyond platforms, government within its limited budget must set up an applied research fund. This can come from the taxes collected on telecommunications in Cabo Verde. Or possibly an innovation tax applied to the tourism sector or imported luxury items. The revenue collected should be used in funding applied research. This could be set up to allow private sector firms and universities to compete for funds and funding should be provided to joint teams that bring together academia and private sector. The funding process should be competitive and there should be a process of anonymous review by experts to ensure best ideas and teams that are in alignment with objectives set ahead are funded. Such a process could also facilitate meet ups and conferences on results as well as further nurture collaborations which are key to building a robust national innovation ecosystem.

INTEGRATED FINANCING STRATEGY

Building on the first three pillars of this INFF Roadmap in particular, the nexte step of the INFF is to establish an Integrated Financing Strategy within the PEDS II framework that clearly links realistic public and private financing options to the PEDS programmes informed by Ambition 2030 and the SDG accelerators.

The overarching principles for designing the integrated financing strategy should be sustainable economic recovery through improving the business environment, enhancing revenue mobilization, increasing transparency in executing funds with relation to Covid-19, containing non-priority spending as well as fiscal risks, and continuing to rely on concessional borrowing. The following table (27) summarizes public instruments to assist companies affected by Covid-19 to achieve sustainable economic recovery, with special emphasis on the SDG accelerators:

Credit Line Description	Conditions	Amount
Support line for Large Companies (in any sector of activity)	Maximum credit amount per company – 40.000.000 Interest - Rates not exceeding 3% Grace period for capital and interest - Up to 6 months Amortizations - Up to 6 years Financial Guarantees - From the State - operated through Pro-Garante	1,000,000,000 CVE (one billion escudos)
Support line for Some Large, Small and Medium Enterprises - They are intended to support companies and businesses whose activity has stalled due to the outbreak of COVID 19, particularly in the sectors of Tourism, Restaurants, Travel Agencies, Entertainment and Similar, Organization of Events and Related Services and Transport.	Maximum credit amount per company - 20,000,000 CVE (twenty million) Interest - Rates not exceeding 3% Grace period for capital and interest - Up to 6 months Amortizations - Up to 6 years Financial Guarantees - From the State - operated through Pro-Garante	1,000,000,000 CVE (one billion escudos)

Support line for Small and Medium Enterprises in all sectors of activity	Maximum credit amount per company of 10,000,000 CVE (ten million) Interest - Rates not exceeding 3% Grace period for capital and interest - Up to 6 months Amortizations - Up to 6 years Financial Guarantees - From the State - operated through Pro-Garante	1,000,000,000 CVE (one billion escudos)
Support Line for Microenterprises	Maximum credit amount per company - 1,500,000, with possible disbursements in tranches Interest - Rates not exceeding 3% Capital and interest grace period of up to 6 months Amortizations - Up to 6 years Financial Guarantees - From the State - operated through Pro-Garantes	300.000.000 CVE (three hundred million)

Table 28: Financing instruments of the Cabo Verdean government to assist companies affected by Covid-19
Source: ProEmpresa

Private sector investment-grade project pipeline

Building on the Cabo Verde Investment Forums (CVIF) held in Sal and in Boston prior to COVID-19, a complete pipeline of investment-grade projects across the 5 accelerators should be mapped out. Out of 41 investment projects presented at the Cabo Verde Investment Forum in Sal and Boston, Table 28 demonstrates the projects that have been approved by Cabo Verde Trade Invest. The government and private sector actors are well advised to focus on realizing these investment opportunities and further expanding this pipeline by enhancing the capacity of CVTradeInvest. The projects placed in the pipeline should also be categorized in accordance with their potential and/or eligibility for sustainable finance instruments issued at the BVC (i.e. blue, green, social, sustainable, etc.), diaspora finance, and/or FDI.

Project	Investment (EUR)	New jobs projected	sector	Island	Source of Capital
Four Points by Sheraton & Le Meridien	61.900.000	500	Tourism	São Vicente	USA
Navio Atlantis Antão	8.950.000	12	Transportes Marítimo	São Vicente	Turkey
Sena's Aparthotel	1.101.509	12	Tourism	Santiago	Cabo Verde

Esplanada Captain George's	47.159	10	Tourism	Maio	Cabo Verde
Maio Hotel	7.200.000	60	Tourism	Maio	France
Viveiro	5.000.000	60	Tourism	Sal	Italy
Total	**83.097159**	**654**			

Table 29: Key investment opportunities for Cabo Verde

Mainstreaming Sustainable Finance

Substantial new sources of private investment for sustainable development will be required to complement existing public finance, particularly in terms of the strategic objective of establishing the blue economy as the next pillar of economic development and the radial centre of the SDG accelerators. As Figure 49 clearly illustrates, compared to other SDG accelerators, the blue economy is lagging behind in terms of ODA contributions.

Rather than reallocating scarce public resources to a sector with potential for largescale private investment, low ODA flows to the blue economy can be compensated through initiatives like the Blu-X platform and other means of leveraging capital markets, sustainable finance, and impact investment that draw on a combination of public (non-ODA) and private sources of finance, especially foreign direct investment and possibly diaspora finance.

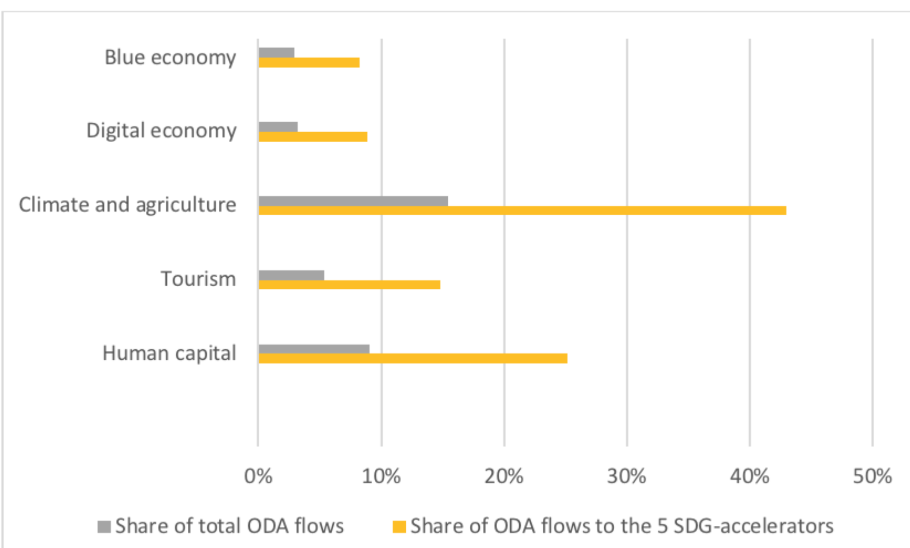

Figure 49: Projections of ODA flows to the 5 SDG-accelerators (2021 to 2025)

Source: Projections of Reinhard Engl derived from MF/DNP data

Herein, the coordination of sustainable finance initiatives with a view towards establishing a sustainable finance framework and launching a blue bond is crucial. The necessary technical assistance to draft a blue bond framework and submit it to external review should be ensured. Also, all technical and legal requirements for issuing and listing a blue bond on the Cabo Verde stock exchange need to be identified and implemented.

INFF FLAGSHIP INITIATIVE 1: SUSTAINABLE FINANCE AND IMPACT INVESTMENT

A further dimension of public-private integration arises in the form of sustainable finance and impact investment, which offers synergies with all aspects of the INFF/DFA and thus offers an innovative dimension woven into the entire development financing approach.

The institutional and governance reforms established via the INFF should also support the implementation of an innovative flagship sustainable finance platform dedicated to the blue economy. Consistent with Cabo Verde's Ambition 2030 and the Strategic Plan for Sustainable Development, these sources of innovative sustainable finance would be oriented towards, inter alia, upscaling of sustainable maritime shipping that reduces GHG emissions and pollution, a next generation sustainability-focused mid-Atlantic logistics hub acting as a crossroads between Africa, Europe and the Americas, greening ports and other maritime infrastructures, sustainable fisheries and responsible aquaculture, marine protected environments for tourism, etc. As such, Blu-X should seek to unlock finance for the blue economy by offering a dedicated platform for listing and trading certified 'blue' and other 'sustainable' securities, both domestically and internationally.

The first step in this process – currently being implemented under the INFF framework – is the establishment of the sustainable finance platform, identifying relevant strategic partnerships, and establishing a pipeline of investment-grade projects eligible for sustainable finance at national and regional level. Within the scope of the overarching governance and institutional framework of the INFF, the platform will be encapsulated within a broader reform of the legal and institutional framework for sustainable finance. However, significant work remains to be done in order to operationalize the platform and make it viable over the long term.

Recommendations for the development of Blu-X

The platform will list securities from private and public entities as well as support public-private partnerships, including the possibility of debt-for-nature swaps in the form of internationally guaranteed bond issuances with clear environmental and social use-of-proceeds impact indicators focusing on Marine Protected Areas.

In partnership with credible and established actors in global sustainable finance, Blu-X should develop a clear taxonomy of 'blue', sustainable, or other labels with internationally recognized standards and/or principles (e.g. ICMA and/or SDG Impact), including metrics and targets based on the latest scientific and data collection methods, to ensure both impact and transparency. In this context, partnerships such as peer learning and dual listing agreements with established sustainable exchanges, through the UN's sustainable stock exchange initiative or bilateral agreements with exchanges in partner countries should be further explored.

Blue' instruments specifically oriented to SMEs should also be developed, including bundled fund listings that will reduce risk through diversification and facilitate access to new market entrants. However, SMEs will not only benefit from bundled funds but also from new market opportunities, or 'spillover effects', derived from demand for complementary goods and services stimulated by a consolidated domestic market with greater direct or indirect access to regional economic systems Blu-X should seek to reinforce Cabo Verde's position as an inter-regional, or arguably even global, pivot point. The platform not only seeks to serve Cabo Verde's domestic market capitalization needs but also serve the wider African and Atlantic regions. Through Cabo Verde's membership in ECOWAS, and the Community of Portuguese-Language Countries (CPLP), as well as privileged access to US and EU markets, the platform seeks to attract new market participants ranging from impact investors to brokers, fund managers, SMEs and entrepreneurs. The operationalization of AfCFTA and its leadership role among SIDS, especially in the Atlantic and Indian oceans, will provide further access to growing markets and upscaling opportunities.

Blu-X should seek to target the diaspora, which is concentrated in several strategic locations including the Netherlands, Luxembourg, US, and Brazil by offering viable investment products and opportunities for capital acquisition. This will build on the government's work to strengthen links with its diaspora, including the diaspora bond study completed with UNDP support in 2017.

In addition to the socioeconomic transformation, Blu-X should also place climate change mitigation and adaptation measures at the forefront. According to the EU: "Maritime transport emits around 940 million tonnes of CO2 annually and is responsible for about 2.5% of global greenhouse gas (GHG) emissions (3rd IMO GHG study). These emissions are projected to increase significantly if mitigation measures are not put in place swiftly. According to the 3rd IMO GHG study, shipping emissions could under a business-as-usual scenario increase between 50% and 250% by 2050, undermining the objectives of the Paris Agreement." However, carbon dioxide emissions are not the only externality that negatively impacts the environment as the pollution that ships produce in ports and while at sea, including shipwrecks and use of unrefined oil, can have devastating effects on local and regional ecosystems.

In this context, linkages to NDC financing and other environmental programmes (e.g. GEF-7 biodiversity) should be further explored.

Challenges and risks that could impede Blu-X implementation

- Lack of guarantees on sustainable financial instruments to reduce risk perceptions, resulting in higher interest rates and less competitive issuances compared in regional and global markets
- Difficulties establishing a comprehensive and consolidated pipeline of investment grade blue economy projects with sufficient scale to merit a bond issuance (as opposed to traditional bank loan)
- Weak linkages to regional and global markets to achieve economies of scale due to failure to offer accessible and user-friendly digital interface or similar FinTech solutions that enhance access
- Failure to establish a secondary market for trading of securities
- Inability to establish key strategic partnerships with peer exchanges
- Weak interest or failure to position Blu-X in global capital markets due to inadequate communications strategy and marketing efforts

14. PILLAR 4 – MONITORING AND EVALUATION VIA AN INFF DASHBOARD

The current Cape Verdean public finance M&E system already links performance information concerning budgetary programmes and results of policy implementation to the Strategic Plan for Sustainable Development (PEDS) and the SDGs of the Agenda 2030 through the Cabo Verdean Ambition 2030 strategy. Nevertheless, for the achievement of sustainable development goals in Cabo Verde, Cabo Verde relies on further financing flows that are only partly identified in the present M&E system or not at all. These include, most notably, project-type official development aid, remittances, foreign and domestic investment, including sustainable finance of public and private origin. Therefore, the government and development partners alike, need to be aware of progress in policy- and programme implementation, budget execution, revenue and financing flows forecasts as well as several type or risks to policy implementation, including those beyond the spectrum of direct public intervention or interaction.

To this end, the Integrated National Financing Framework seeks to aggregate various sources of information and provide the foundation for joint decision-making through a common basis of information offered via the INFF dashboard. The INFF dashboard coordinates the data collection process by identifying key indicators and variables concerning public and private, foreign and domestic financing flows. Via joint monitoring and evaluation mechanisms, including joint data analysis and systemic planning exercise, joint reviews, joint mobilization, or joint assessment missions the alignment of the contribution of national and international sources of funding (public and private) to implementation of PEDS and Ambition 2030 will be strengthened. Also, the design of flagship initiatives within the already defined SDG accelerators will thereby be facilitated and promoted, including the development of country-specific impact criteria and labelling requirements for sustainable finance. The creation of information platform under INFF block 3 aims to reinforce the coordination system (pillar 6) through the provision of regularly updated technical and financial information throughout the implementation process and programming cycles.

Recommendations for M&E:

- Continue to improve the generation of performance information and use it at several stages of the budget cycle (e.g. executive's budget proposal or additional supporting documentation, year-end reports, etc). Thus, in order amplify the use of performance information in the budgeting cycle, Figure 50 proposes a model, which incorporated to the existing model of M&E extends the use performance information at various use cases in the budgeting process. Thereby, the allocative and technical efficiency of the budget process get strengthened and all 4 aspects of the budget cycle get improved towards contributing to the efficient and effective provision of public goods and services.
- Begin with the selection of few performance indicators, covering the dimension of effectiveness, efficiency, economy, coverage and quality. Those indicators should be mea-

sured regularly and demand for the performance information within the different users of the M&E system should be generated. It should be avoided to generate too many indicators (overloading the capacities of producing and using performance information) since this consumes to much institutional resources and might be demotivating if the added value of the indicators, which means, concrete usage for decision making is not apparent.

- Focus on few indicators which show most added-value for decision making. The time--consuming exercise of generating and measuring performance indicators should have a clear and evident purpose. Otherwise the M&E system risks to be seen as a mere time-consuming bureaucratic exercise of little concrete use.
- Focus initially on desk evaluations rather than more complex impact evaluations. This allows to gradually grow a culture of performance orientation and results evaluation within the DNP. Once sufficient institutional capacity is build inside the DNP, more complex impact evaluation could be outsourced to private consulting firms and academic institutions.
- Create demand for performance information and results/impact evaluation outside the executive, that is, Parliament, Civil society and academia. In the long term, academia should be able to provide independent impact evaluations on behalf of the DNP. Thereby the learning and knowledge exchange between academia and government should happen in both directions. Through the organisation of regular capacity building, seminars and public events where impact evaluations are presented and interpreted, a national culture of results-orientation will take place. This in turn will strengthen the quality of public spending, services delivery as well as the accountability of government action and in the long term contributes to national development results.
- Start gradually to develop capacities for costing of programmes and services. First pilot costing exercises should be carried jointly with sector ministries which show most progress in the monitoring and evaluation system. The capacity for costing is not only important to have a better understanding of the budgetary implications to implementing the SDGs, but also to advance gradually to a system of performance budgeting, whereby budgetary decision such as reallocation of funds or restructuring of programmes are taken based on indicators of efficiency and economy (relation between financial inputs and outputs). Under activity-based costing, organizational units and programs are segmented into discrete, quantifiable activities to estimate unitary costs and measurable productivity units (for example, number of hours work compared to units produced).
- Improve the institutional capacity of the statistic producing entities of the National Statistics System (SNE), especially the National Institute for Statistics. The indicators and inputs, which the INE elaborates are important for the measurement of the achievement of several SDGs. Therefore, also the M&E system should work more closely with the actors of the National Statistics System.

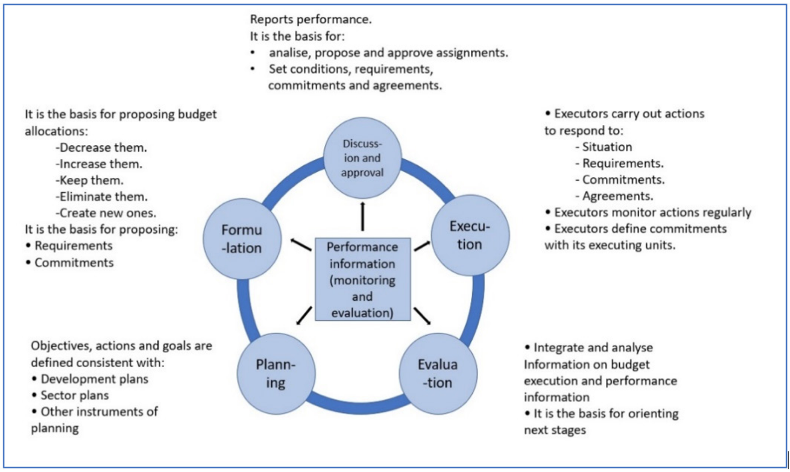

Figure 50: The integration of the M&E system with the budget cycle and the use of performance information
Source: Reinhard Engl

Recommendations for the statistics system:

- Evaluate the implementation of measures of the National Strategy for Statistical Development (ENDE) for the period 2017-2021, especially with regard to its strategic goal and activities which bear relation to production of SDG indicators.
- Review logical framework and performance indicators of the budgetary programs of the statistics producing entities (especially INE) in order to include measurement of operational efficiency and institutional performance.
- Increase capacity building measure of the technical staff of the INE in order produce high-quality and internationally comparable statistical data on time. Therefore an capacity needs assessment should be carried out in order to identify the deficiencies among the institutions composing the SNE.
- Continue to make efforts in the production of ODS indicators and depict those efforts with respective performance indicators in the strategic planning for the national statistics system (ENDE) but also in the strategic and operational planning of the statistics producing entities. In the current planning and management documents, there are no indicators which reflect the number of global SDG indicators which need to be produced and for which data needs to be gathered.
- Carry out data gap analyses in order to identify pending SDG indicators and pathway/methodology to achieve their production such as modification of census methodologies, etc.
- Increase the degree of detail in statistical production. Especially in line with the "leave no one behind" principle of the Agenda 2030 the enhancement of geographical detail and disaggregation of social groups is required. Furthermore, the frequency and regularity should be improved, which means that surveys carried out every five years and the

censuses carried out every 10 years do not provide the necessary inputs for a thorough SDG monitoring and more access to micro-data is needed to.

- The aforementioned will require to improve the predictability of financial resources required by INE and ODINE.
- Increase the culture of data sharing between agencies of the national statistics systems. This includes strengthening the integration of Information Systems and allow its access in order to produce statistical data from administrative sources in different areas.
- Create the position of principal coordinator for national SDG indicator monitoring within the INE. The coordinator should work in close coordination with the member entities of the national statistics system and in close coordination with DNPs monitoring and evaluation unit.
- Promote the inter-institutional exchange of the statistics producing entities which focus on the monitoring of the achievement of Agenda 2030 and the production of its respective SDG indicators.
- Continue to strengthen the technical exchange between the DNP and INE in order to improve the incorporation of statistical information into the monitoring and evaluation system, including:
    - Improve coordination between INE, ODINE and DNP, in terms production of statistical data[240] with relation to SDGs and to establish a dialogue between producers and users of statistical information, in order to cover the information needs and to minimizing possible redundancies in production of statistical information.
    - Assessment of statistical data in terms of their quality and appropriateness.
    - Identification of new statistical data in order to facilitate measurement of the SDGs.
- Maintain and increase good diplomatic relations with development partners in order to increase funding in the short- to medium term for the development of the worldwide statistical development effort thereby highlighting Cabo Verde's coordination role within the UN-Praia Group for Governance Statistics. In the long term the financing of Cabo Verdes Statistical System should be generated by internal financing so that risks of dependence on external donor financing are eliminated. To this end, Cabo Verde is actively involved in the Global Partnership for Sustainable Development Data, a global network working together in the area of data and sustainable development and moreover Cabo Verde joined in 2020[241] the Inclusive Data Charter (IDC), to mobilize political commitments and meaningful actions to advance inclusive and disaggregated data.

240 The peer-review report on statistics of the AU suggests reflecting on the possibility of the Ministry of Finance becoming an delegated body of the INE due to the high generation of statistical information by the latter.

241 IDC, " Two Years of the Inclusive Data Charter," data4sdg.org, March 11, 2021, https://www.data4sdgs.org/resources/inclusive-data-charter-two-years.

15. PILLAR 5 – DEVELOPMENT FINANCE IMPACT ANALYSIS

It is not possible to separate financing, as an essential input for sustainable development along with human capacities, institutions, and other factors, from the actual outcomes and impact it generates. This includes the way in which these outputs establish new synergies, multiplier effects, externalities, and other recursive effects that can either reinforce financing (i.e. generation / attraction of new or additional resources) through gains or undermine financing as a result of losses or mal-investment with high unseen costs (opportunity costs, transaction costs, or inadequate understanding of potentially increasingly marginal returns on additional investments). Ultimately, these processes and our understandings of them should lead to better insights regarding implications for coherence, effectiveness, and impact in terms of sustainable development. As UNDP Administrator Achim Steiner has suggested in the framework of a dialogue at the Center for Global Development in 2018, development organizations and agencies have been "scrambling to try and prove the value of development by increasingly [moving towards] a quantitative narrative – the indicators of development, the return on invest, the performance indexes. … One of the challenges," he continued, "is that we have created a type of contract between funders and recipients that is *increasingly driving development funds into areas that are measurable instead of those that are actually most transformative in development terms*."[242] Along these lines, in addition to the short-to-medium-term M&E framework illustrated above, it is essential to consider the long-term effects of integration at various scales in relation to the institutional economic, social, and environmental dimensions of sustainable development and how all of these are interconnected.

While global, regional, and national frameworks for sustainable development – in the form of Ambition 2030, AU Agenda 2063, and the SDGs respectively – continue to orient our objectives, these approaches must also include an understanding of the broader measurable and immeasurable, including subjective, dimensions of human development within and across communities and societies. To this end, we must venture beyond the traditional 'north-south' donor-client relationship centred around Official Development Assistance as determined by the OECD Development Assistance Committee (DAC) to look into the effectiveness and impact of genuinely global development processes and their sources of financing.

242 *What Is the Role for the UNDP in Development? Center for Global Development*, 2018, https://www.cgdev.org/event/what-role-undp-development.

MULTIDIMENSIONAL VULNERABILITY INDEX

MVIs are a form of analytical methodology with the aim of understanding “vulnerability”. As Assa and Meddeb have recently suggested:[243]

> *In terms of dimensions, all vulnerability indices cover one or more of the following dimensions: Economic, Social, Environmental, Governance, Peripherality. Some indicators can be included under different dimensions. For example, ‘transportation cost’ (which is related to remoteness) is classified as an economic indicator in one index but as a peripheral indicator in another. Likewise, ‘victims of natural disasters’ is primarily an environmental indicator but is often included in economic vulnerability indices.*

They further illustrate that at least 12 different vulnerability indices have been established to date, including one official U.N. index; namely, the Economic and Environmental Vulnerability Index (EVI) created by the U.N. Committee for Development Policy (CDP).[244] Hence, the term vulnerability is associated with significant conceptual and methodological heterogeneity associated with social groups at various levels of organization or governance, with vacillating areas of thematic concentration depending on the focus of the particular index and its specific purpose(s).

While there have been many approaches to vulnerability, including diverse attempts for quantifying and measuring the concept, the focus tends to rest at the nation-state level in an effort to compare vulnerability levels between countries. In addition to the one offered by Assa and Meddeb, the UNDCO, under the epistemic leadership of Jeffrey Sachs, seeks to demonstrate how SIDS in particular are more vulnerable based on a selection of economic, social and environmental indicators, compiled in quantitative datasets to demonstrate that SIDS may be more vulnerable to contemporary challenges like climate change or COVID due to preexisting vulnerabilities. By illustrating how some countries are simply more vulnerable due to factors beyond their immediate control, such indexes can be particularly useful devices to construct narratives around the need, with equitability principles in mind, for additional resource allocations to countries based on these ‘vulnerability measures’. They can also serve as measures or indicators to track change over time, including the impact of an INFF, once properly implemented and operationalized, on the specific conceptualization of vulnerability. This work should be further development in conjunction with the INFF process to ensure that financing addresses the most acute sources of vulnerability in Cabo Verde.

243 Jacob Assa and Riad Meddeb, *Towards a Multidimensional Vulnerability Index: Discussion Paper*, 2021, New York: UNDP. (p. 3)

244 Ibid

MULTIDIMENSIONAL POVERTY INDEX

Despite their shared use of the terms multidimensional and index, the MVI and the Multidimensional Poverty Index (MPI) are different tools to measure different sets of issues and should therefore not be conflated. MPIs constructed via the Alkire-Foster method developed at the Oxford Poverty and Human Development Initiative,[245] use a capabilities-based approach, derived from Armatya Sen's and Martha Nussbaum's theoretical work,[246] to better understand and quantify what non-monetary resources individuals and families have access to in order to understand poverty at a micro level and use this as a basis of understanding sustainable development trajectories. A notable difference is that an MPI can be territorially disaggregated (e.g. at municipality or island level, or even rural vs. urban areas) focusing on capacities at the family/individual level, whereas MVI is a country-level aggregate to compare vulnerability between states. Furthermore, MPI also differs from the World Bank's and other traditional approaches to poverty measurement in the sense that it does not focus exclusively on a (sometimes arbitrary) monetarily defined poverty lines, even though it is still largely materialist in its approach.

Hence, it is important to highlight the methodological and conceptual differences between MPI and MVI. As Santos and Alkire suggest in their training materials for implementation in practice, the key purposes of an MPI include the following:[247]

> *To measure acute poverty: the proportion of people who experience multiple deprivations and the intensity of such deprivations. Components: In the version presented in the global HDR, ten indicators belonging to three dimensions: health, education and living standards. … The MPI is a very versatile methodology that can be readily adjusted to incorporate alternative indicators, cutoffs and weights that might be appropriate in regional, national, or subnational contexts.*

In addition to the standard approach comparing MPIs between countries at national level, MPI allows for poverty measures to be adapted to specific contexts at various levels of governance or social organization, including local and regional structures. Accordingly, such measures can be "created by adapting (or using forms of) the method upon which the MPI is based to better

245 Sabina Alkire and James Foster, "Counting and Multidimensional Poverty Measurement," *Journal of Public Economics* 95, no. 7-8 (2011): pp. 476-487, https://doi.org/10.1016/j.jpubeco.2010.11.006.

246 Stuart Corbridge, "Development as Freedom: The Spaces of Amartya Sen," *Progress in Development Studies* 2, no. 3 (2002): pp. 183-217, https://doi.org/10.1191/1464993402ps037ra. ;Martha C. Nussbaum, "Creating Capabilities: The Human Development Approach and Its Implementation," *Hypatia* 24, no. 3 (2008): pp. 211-215, https://doi.org/10.1111/j.1527-2001.2009.01053.x.

247 Sabina Alkire and Maria Emma Santos, "Training Material for Producing the Multidimensional Poverty Index (MPI)," https://www.ophi.org.uk/wp-content/uploads/OPHI-RP-31a.pdf (Oxford Poverty & Human Development Initiative, 2011), http://hdr.undp.org/en/2021-MPI.

address local realities, needs and the data available.... Their purpose is to assess multidimensional poverty levels in specific countries or regions in the components most relevant and feasible locally."[248] Moreover, since 2019, OPHI and UNDP have partnered to establish MPIs as a tool to inform the SDGs and policy orientations with regards to poverty eradication and related socioeconomic measures.

Unfortunately, Cabo Verde currently does not have the statistical data collection processes in place to produce an MPI. As such, while significant data may be available via the most recent census data collection process in 2021, developing an MPI would likely entail the organization and financing of a further largescale exercise such as the Demographic Health Survey or similar exercises employed to inform the MPI methodology with empirical statistical data. This exercise would be particularly pertinent for Cabo Verde due to the variegated and unconsolidated character of socioeconomic development across the various islands comprising the archipelago with significant income disparities, while discrepancies also persist within islands due to persistent rural-urban divides and even intra-city territorial poverty concentrations. Furthermore, no systematic analysis of poverty has been conducted since 2015 (the World Bank's annual figures rely on estimates). While a suggestion for including territorially-cognizant poverty measures was already included in a concept note on outlining a partnership between the INE and the Global Partnership for Sustainable Development Data in 2020, the latest version of the next phase of the Luxembourg-funded local development and decentralization programme starting in 2023 also includes MPI in the concept note for the local level data collection process. The latest MPI methodological note outlines the possible regional and local applications of MPIs that would be suitable for analysis by island or municipality,[249] thus integrating a corporate UNDP offer within the next stage of the local development and decentralization programme at country level.

SUSTAINABLE FINANCE HARMONIZED IMPACT INDICATORS

In the case of sustainable finance, these norms and rules are being pushed for by private market actors themselves in the form of voluntary reporting and labeling, rather than being implemented via government regulation. Indeed, sustainable finance principles, standards, frameworks, and labels are the result of a diverse set of market actors and certain non-profit organizations (i.e. norm entrepreneurs) establishing institutional frameworks determining 'what counts as' green, social, sustainable, etc. At least in their initial stages, these institutional frameworks were not laid down by governments or legislatures via laws and regulations. For example, it was only

248 Idem.

249 Sabina Alkire, Usha Kanagaratnam, and Nicolai Suppa, "The Global Multidimensional Poverty Index (MPI) 2021', OPHI MPI Methodological Note 51," OPHI.org (Oxford Poverty and Human Development Initiative, October 2021), https://www.ophi.org.uk/wp-content/uploads/OPHI_MPI_MN_51_2021_3.pdf.

after this bottom-up process had gained a foothold in markets and acquired a certain level of attention and recognition among market actors and their international associations (e.g. ICMA) that governments and regulators are now catching up to create 'harmonized' frameworks like the EU's sustainable investment regulation or the IFC's work on impact investment.[250] In this emerging field of sustainable finance, appropriate mechanisms for understanding impact are still being developed via a proliferation of frameworks across a panoply of private and public organizations – including most recently a UNDP-OECD SDG impact standard but also IFC, World Bank sustainability framework, SDG Impact, EU regulation on sustainable investment, ECB/EIB, national frameworks for investment, etc. – in the context of an as-yet malleable and rapidly shifting environment.

In the context of Cabo Verde, the legal and regulatory framework as well as the development of a corresponding taxonomy defining eligibility and impact for sustainable finance remains in nascent stages. While a regulation exists specific to green bonds,[251] there is currently no regulation specific to other types of bond frameworks (blue, social, sustainable, sustainability-linked, etc.) or other forms of sustainable finance, including ESG funds. The creation of a green bond regulation has also established somewhat of a legal 'grey zone' in terms of regulatory authority for other bond types. As suggested above, the taxonomies for labelling financial instruments according to specific sustainability criteria and taxonomies was, initially, a primarily market-driven, bottom-up process based on the evolution of the financial frameworks determining appropriate sustainability criteria. In Cabo Verde, the opposite approach was adopted wherein the regulation for green bonds has been developed but no bond has been issued to date, despite efforts by Luxembourg Development Cooperation to do so in the energy sector. In this sense, while the issuing of labelled bond does, in theory, not require a legal regulatory mechanism to validate the issuance as long as it conforms to established principles or standards (e.g. ICMA green bond principles) and verified by an independent third party through an external review, the establishment of a precedent in the case of green bonds has rendered the regulatory authority, *Auditoria Geral do Mercado de Valores Mobiliários (AGMVM)*, disinclined to accept the issuance and listing of instruments that do not have an established regulation based on a clear taxonomy. In this context, within the context of the INFF process, UNDP is supporting an initiative to establish a more comprehensive legal and regulatory framework that creates an institutional basis more conducive to the issuance of bonds by reducing transactions costs, especially those arising

250 European Union, "Legislative Act 198," *Official Journal of the European Union* 63 (2020), https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2020:198:FULL&from=EN.; International Finance Corporation, "Leading Impact Investors Make Progress Toward Harmonized Impact Measurement with Release of Joint Indicators," pressroomifc.org, March 16, 2021, https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26260; OECD and UNDP, "Impact Standards for Financing Sustainable Development," *Best Practices in Development Co-Operation*, 2021, https://doi.org/10.1787/744f982e-en.

251 Governo de Cabo Verde, "Boletim Oficial Nº 126 | II Série | 05-08-21,"Imprensa Nacional de Cabo Verde (Praia: 2021)

from regulatory gaps or legal uncertainty, while simultaneously strengthening safeguards against 'greenwashing' by putting in place impact metrics based on a clear sustainability taxonomy and corresponding indicators.

For this reason, UNDP is supporting, via the Blu-X platform, the establishment of a taxonomy for blue bonds led by the Technical University of the Atlantic. This taxonomy is intended to inform the subsequent development of a government regulation specific to blue bonds. The culmination of this process would render Cabo Verde a global front-runner in the area of 'blue' sustainable finance by adopting a taxonomy that is (1) a homegrown product developed in local context and (2) will provide a foundation to better understand what projects, activities, and actions on the part of public and private agents, 'count as' sustainable blue economy and are therefore eligible for financing via instruments eligible for a 'blue' label. In this context, the procedure for preparing a bond framework will correspond to established best practices at the global level in terms of disclosure, providing annual reports that contain advanced impact metrics, and continuously subjecting the bond to external reviews, including second-party opinions, ensuring that the bond actually fulfills its claims. This process is not only designed to ensure integrity and transparency of the sustainable finance product and establish trust in its sustainability claims of the blue label but also to develop a taxonomy suitable to measuring the impacts that projects and organizations, especially those within the private sector that are more difficult to measure at present, using blue sustainable finance have in terms of impact on sustainable development and blue economy in Cabo Verde and beyond.

To this end, the indicators within the blue bond taxonomy seek harmonization and alignment with established principles and standards, impact indicators, and regulatory taxonomies referenced above in order to ensure compatibility and comparability from an impact measurement perspective across countries and regions. These initiatives should be further developed in close coordination and consultation with the *Conselho Nacional de Desenvolvimento do sector Privado* (National Council for Private sector Development) and the *Conselho Nacional de Desenvolvimento do sector Financeiro* (National Council for Finance sector Development) that the Ministry of Finance established and proposed for financial reinforcement within the 2022 state budget.[252]

252 Governo de Cabo Verde, "Orçamento Do Estado 2022- Resiliência e Desenvolvimento Sustentável ," Ministério das Finanças (DNOCP, January 12, 2022), https://www.mf.gov.cv/web/dnocp/oe-2022/-/document_library/mewo99g8gMwP/view_file/2343414?_com_liferay_document_library_web_portlet_DLPortlet_INSTANCE_mewo99g8gMwP_redirect=https%3A%2F%2Fwww.mf.gov.cv%2Fweb%2Fdnocp%2Foe-2.

16. PILLAR 6 – STRATEGIC COORDINATION

Each of the key strategic frameworks – Ambition 2030, PEDS, and INFF – foresee the establishment of governance structures that offer strategic and policy guidance, oversee the technical work that leads to the implementation of these policies, as well as coordinate between the various partners and stakeholders within this pluralistic and inclusive sustainable development landscape comprising domestic and foreign, public and private actors. As such, the purpose of these ToRs is to offer a consolidated, streamlined, and agile strategic policy dialogue, aligning financing in a Strategy Coordination System (SCS – see annex two for complete terms of reference).

The overarching purpose of this system is to have a enabling environment for policy and strategic financing alignment in a coordination platform, both at political and a technical level, among national and international development partners to ensure coherent policy dialogue for attaining Cabo Verdes SDGs, articulate and mobilize support to the country sustainable development and to avoid duplication, while also reducing financial and transaction costs associated with multiple structures with overlapping responsibilities. Installing an institutionalized framework for the strategic coordination for sustainable development will therefore ensure that an appropriate structure for dialogue between the state, and key international partners such as the UN, the WB, EU, Luxembourg to name a few. This should happen in a reinforced way at policy and technical levels, ensuring integration of international partners that contribute to sustainable development in Cabo Verde, technically and financially through different instruments under the national strategic orientation (including planning financing, and budgeting) for sustainable development, maximizing the impact of existing strategic partnerships and facilitate the mobilization of new partnerships, including the private sector, that will produce synergies for meeting shared objectives.

Jointly, the Ambition 2030 strategy, PEDS, and the Integrated National Financing Framework (INFF Integrated National Financing Framework, in its English acronym) - under preparation by the government with the support of the United Nations (under the technical leadership of UNDP), the World Bank and the European Union – will therefore serve as references for the coordination of partnerships at the policy, technical, and financial levels, comprising three interlinked and interdependent coordination groups. Ambition 2030 will serve as the overarching reference framework of the entire SCS. This approach also inspires the implementation and monitoring of the sustainable development process, through the 35 PEDS programmes and their monitoring via the 2018 and 2021 Voluntary National Review (VNR).

In addition to the data fed by the national statistics system, the work of the SCS will be informed by the various COVID-19 response and sustainable development strategic guidance documents, such as the Development Finance Assessment, the multiphase expanded Post-Crisis Needs Assessment (PCNA+), the "Leave no one behind" assessment (scheduled for April 2021), and interim the National Plan for Response, Recovery and Promotion of the Economy, acting as a stopgap instrument until the PEDS II is in place. At the regional and global level, the SCS work will take into account the social, economic and environmental conventions and agendas of which Cabo Verde is a part, first and foremost Agenda 2030, as well as the Africa Union 2063 Agenda, the SIDS SAMOA pathway, the nationally determined contribution (NDCs), South-South Cooperation, among others among others.

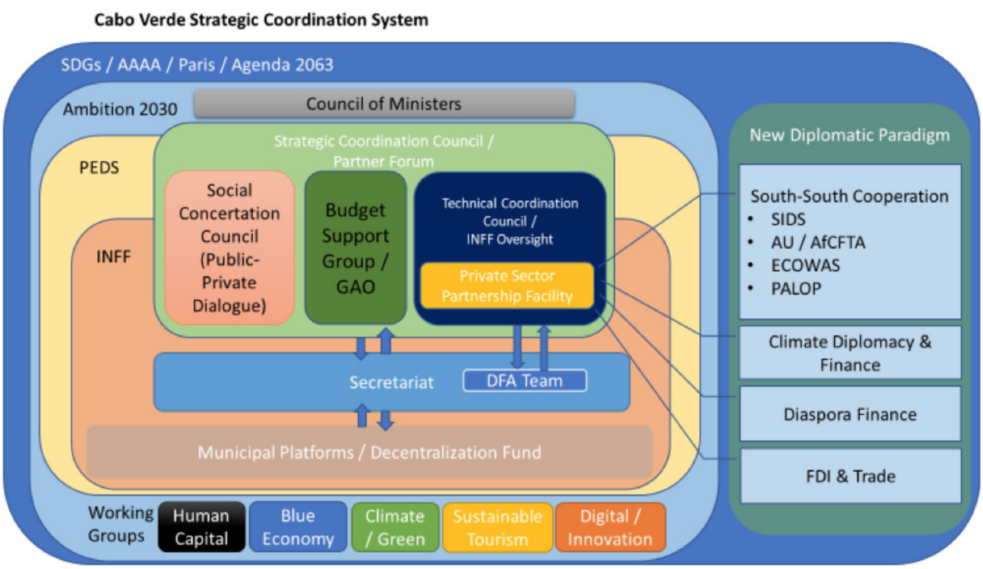

Figure 51: Cabo Verde Strategic Coordination System

Source: Christopher Lilyblad

Given the structural and institutional constraints that it has been facing since elevation to LMIC status, Cabo Verde will only be able to achieve its ambitions through transcendental structural change, rather than piecemeal or patchwork interventions. The INFF therefore offers an integrator platform for supporting convergence and alignment between complementary initiatives in the areas of innovative sustainable finance, South-South Cooperation and regional integration, as well as supporting innovation with a focus on youth and women, digitalization, SMEs/private sector, diaspora finance, and human capital. The INFF Strategic Coordination System, especially through its secretariat and coordinator, will support Cabo Verde in preparing implementation strategies (national and regional) through technical assistance to key institutional partners and related advisory services to utilize market opportunities presented in the AfCFTA, ECOWAS and SIDS. Such interventions will be focused on the priorities in support of the 2030 Agenda, notably deployment of innovative financing instruments to increase resource flows at-scale for integrated solutions and systematic scaling-up of innovative solutions to provide substantial added value to country level SDG efforts.

A significant focus will be placed on the need for a collaborative effort where all key players have a voice and are actively engaged towards solving the common challenge through a sound coordination mechanism provided via the INFF that will facilitate the coming together of multiple partners to address thematic issues. The approach will be based on multi-sectoral intervention (cross-sectorial/cross ministerial initiative) supported by a wide range of partners. The INFF is ideally placed to play an *integrator function* in this area, bringing multiple partners together to ensure challenges are addressed through cooperative and coordinated means, ensuring the creation of platforms that will connect partners and different entities to knowledge, exchange programmes, initiatives and promoting alliances. To this end, innovative partnerships will be a crucial component for driving this initiative forward and catalysing youth, women, and civil society empowerment efforts that can catalyse the next generation of structural change and transformation.

As part of the INFF process, the UN system will support the government in reaching out to public and private partners that can help catalyse developmental processes, including through investment platforms and forums like those in Sal and Boston in 2019 as well as through targeted, sector-specific missions. This must be carried out in close cooperation with Cabo Verde's network of diplomatic missions and its new paradigm for diplomacy.

17. PILLAR 7 – STRUCTURAL TRANSFORMATION THROUGH INSTITUTIONAL REFORMS

Finance is not a static, zero-sum game wherein a finite resource pool is divided across competing priorities set off against one another. Rather, it is about a dynamic and cyclical process of generating value and recursively allocating the resources derived from this towards productive purposes, thus generating greater value to meet people's demands and objectives. These demands and objectives are not inherently fixed (*cf.* utility maximization in neoclassical economics) but encapsulate a large range of material and immaterial values that may differ from one individual or collective to the next based on preference or choice sets derived from a hierarchy of values (i.e., value is subjective). The perennial question in this regard concerns the type, structure, and optimization of institutional mechanisms that allocate resources to a wide range of public and private, domestic and foreign actors to simultaneously generate value for themselves and others while pursuing their values. Herein, the focus for the INFF/DFA lies in establishing a framework conducive to this value-generation process through cooperation, trade, and exchange of goods, services, capital, and ideas. This can only be achieved by creating an institutional framework with appropriate incentive structures for all actors involved leading to a vibrant, dynamic, and interactive marketplace not only of goods and services but also ideas and knowledge that work for sustainable development.

Indeed, the financing dialogues in Cabo Verde highlighted several challenges when it comes to enacting this dynamic process. Several workshop participants suggested that "Cabo Verde is good in planning but not in doing". According to the Secretary of State for Finance during the closing session of the FDs, the lack of an appropriate incentive environment was purportedly leading to a situation where "everyone is pushing the problem to someone else" and individuals in positions of responsibility were "not taking control of [their] own entity". The situation is ostensibly leading to "a lot of decisionmakers but no decisions," perceptions of an overly paternalistic and top-down economic structure concentrated among elites, and a "large gap between the financial system and the real economy" marked by an advanced government and IFI-supported financial ecosystem but insufficient demand for their services. Some participants stressed the significant discrepancy between the financial resources that entities like ProGarant and ProEmpresa have at their disposal, when compared to actual demand for their services. The situation appears to be leading to a recognition, also discussed at length during the financing dialogue sessions, that when it comes to economic empowerment and prosperity "the state cannot do everything, especially when you have a state with limited resources." This has the potential of leading to an instance of moral hazard when a public authority signals that it assumes responsibility for people and human development but, from an empirical perspective, lacks the adequate means and resources to fulfil these promises.

As such, a key aspect of structural transformation in Cabo Verde must focus on changing the narrative of sustainable development. This requires establishing the types of institutions – understood to be the norms, rules, and laws that collectively stipulate the 'rules of the game' – and corresponding messaging that together ensure, in accordance with the principle of subsidiarity, that people are ultimately responsible for themselves and each other. Indeed, the INFF roadmap for Cabo Verde adopts the premise that people ultimately know their own context best and that development finance should rely on decentralized knowledge and citizens' capacities to take matters into their own hands. This logic assumes that "the poor" possess significantly greater agential capacity than predominant sustainable development discourses generally give them credit for. From a policy perspective, this requires economic institutions that not only promote but reward agency and initiative within a vibrant and dynamic market where people can interact and exchange to meet their espoused ends.

As illustrated above, one of the predominant challenges in Cabo Verde is that resource scarcity and finite internal production capacities limit financing opportunities for prospective entrepreneurs with new and creative ideas. This occurs in two important ways:

1) Low levels of real savings derived from production and surplus value prevent entrepreneurs from accessing the types of financial resources necessary to launch their businesses and turn their ideas into monetary value. This situation is further exacerbated by a risk-averse banking system that appears to be reluctant to invest in new entrepreneurial activities and, when it does, charges high interest rates (ranging from 7.5% to 20%) compared to the price of credit in advanced capital markets.

2) Cabo Verde's market size limits absorption capacity for innovative designs and ideas. This poses a challenge for producing and supplying innovative goods and services at scale, not because there is insufficient demand for goods or services but because consumer demand is stifled by low purchasing power and corresponding choice constraints that force trade-offs.

Those struggling to meet basic needs have little choice as domestic and foreign supply of goods, services, and – importantly – capital and finance is oriented to those markets where they fetch the highest premiums.

The INFF Roadmap seeks to break this vicious cycle. As the Addis Conference outcome document stated in 2015, "We recognize the important contribution that direct investment, including foreign direct investment, can make to sustainable development…. government policies can strengthen positive spill-overs from foreign direct investment, such as know-how and technology, including through establishing linkages with domestic suppliers, as well as encouraging the integration of local enterprises, in particular micro, small and medium-sized enterprises…, into regional and global value chains."[253] In other words, real savings derived from surplus revenues are necessary to enhance capital investment, which in a domestic economy with a perennially limited resource base and low factors of production stifles entrepreneurship and innovation.

The Index of Economic Freedom, for example, lists Cabo Verde as 'moderately free', ranking 77th in the world.[254] While in the top five among sub-Saharan countries, Cabo Verde should aim higher than its regional peers, especially considering its comparative *dis*advantage in terms of natural resources and primary goods. While economic freedom is an end in itself, it is particularly important as a means for Cabo Verde's sustainable development in light of structural constraints that include resource scarcity, high youth unemployment, and insularity. These structural constraints require innovative and entrepreneurial approaches across society to generate new value and opportunity. Notably, in terms of institutional reform, the Index of Economic Freedom report further suggests:[255]

> *To achieve greater economic freedom and remain a leader in sub-Saharan Africa, the government needs to strengthen the rule of law by implementing further institutional reforms to bolster property rights, judicial effectiveness, and government integrity.*

Since markets have shown to produce variegated outcomes, especially in early phases of liberalization, it is essential to ensure open access to encourage widespread participation through enabling and inclusive structures promoting initiative and offering corresponding rewards that ensure no one is left behind. Accordingly, structural transformation addressing these challenges will require institutional change and reforms – both internally and in multilateral settings – to produce a vibrant economic and decentralized framework that is open, dynamic, and innovative. In this sense, it is important to recall that innovation and creative destruction are inherently decentralized processes. Good ideas can come from anywhere and they usually arise from real-world, practical problems that people face within their daily and local situations. Along these lines, the INFF Roadmap envisages a virtuous cycle between inclusive finance, access to markets, and sustainable growth consistent with the triple-bottom-line of prosperity, people, and planet.

253 United Nations. "*Addis Ababa Action Agenda - Financing for Development.*" New York, US: General Assembly, 2015.

254 The Heritage Foundation, "Cabo Verde Index of Economic Freedom," Heritage.com, 2021. https://www.heritage.org/index/country/caboverde.

255 Idem

INSTITUTIONS: ESTABLISHING THE RULES OF THE GAME

Despite the consensus regarding the importance of direct investment – whether domestic or foreign – for sustainable development, in 2018 approximately half of Cabo Verde's GDP resulted from public resources of domestic or foreign origin.[256] FDI comprised just over 5% of market share.[257] Among other priorities, therefore, the Cabo Verde INFF must focus on increasing the proportion of private enterprise and investment in the Cabo Verdean economic system to begin reducing dependence of an omnipresent state, circumscribed by high indebtedness, in the capital structure of the economic system. In contrast to public investment, this will be a more challenging task because private finance cannot be driven or channelled – it can only be attracted within the context of incentive structures determined by prevailing institutions.

To a significant degree, as described in Part II, Cabo Verde's institutional framework has been shaped by the legacy of Portuguese institutions derived from its colonial past and, thereafter, from several decades of an inward-looking economic structure derived from its geopolitical proximity to the former socialist bloc that succumbed in the early 1990s. The institutional path-dependence inherited from this period has led to the persistence of an inward-looking and heavy-handed state edifice in the economic realm that allocates resources and opportunities based on discretionary, as opposed to rule-based, practices. The current situation not only leads to inefficiencies and skewed incentive structures in the market but also leaves many market segments and businesses reliant either on direct state patronage or indirectly as a service provider to public institutions, meaning that the public sector still accounts for an overwhelming share of economic production.[258] The challenge, therefore, will be creating an incentive environment conducive to the movement of people, goods, finance, and ideas *within* and *across* Cabo Verde's borders.

Herein, *rules* are the fundamental basis for constructing a level playing field that produces transparent results and facilitates transactions that can be repeated over time.[259] As the 2018 decree-law removing the remaining capital controls that were in place for foreign exchange stability and safeguarding the credibility of the peg suggests, Cabo Verde has been on a gradual path towards open markets and free trade since 1992.[260] The institutional and legal reforms creating a special economic zone for maritime economy centred around Saint Vincent and neighbouring islands is a further evident step towards the lowering of trade barriers and the creation of new

256 See chapter on public finance in Part II

257 Idem.

258 See chapter on private finance in Part II

259 Douglass Cecil North, *Institutions, Institutional Change, and Economic Performance* (Cambridge, D.C: Cambridge University Press, 1990).

260 Conselho de Ministros, "Decreto Legislativo Nº 3/2018", Boletim Oficial nº 42 (2018), https://kiosk.incv.cv/1.1.42.2541/

incentive structures to attract foreign investors and businesses.[261] A similar initiative is currently being considered for the digital sector for the southern islands centring around Santiago Island and the capital of Praia.[262] While these initiatives may help address inherent economic and social variegation between islands and the concentration of economic resources and investment on the islands of Sal and Boa Vista (see discussion above), they are perhaps best seen as transitory measures towards a fully consolidated domestic market that, consistent with the PEDS strategy of establishing Cabo Verde as a mid-Atlantic hub, has strong links to neighbouring regions and beyond.

In other words, it is not just the transformation and production costs or prices determined by the laws of supply and demand that matter. Rather, transaction and opportunity costs matter in decision-making among financial actors, which Cabo Verde can reduce by making economic exchange more efficient, both in its domestic markets and across borders, through a variety of complementary formal and informal institutional and legal reforms. Recent initiatives to promote the business environment through the establishment of the financing ecosystem (*ProEmpresa, ProGarant* and *ProCapital*) are a step in the right direction to reduce direct state involvement in private economic transactions, without neglecting the need for offering support to a fledgling market structure with domestic businesses, notably MSMEs, that require technical and financial support to compete in an open market.

However, this approach is also not without risks. The Cabo Verdean banking system remains highly risk-averse despite high levels of capital liquidity and appears reluctant to invest in financial products that are not issued or supported by the state (e.g. treasury bonds or other securities benefitting from a public financial guarantor) or lend to private entities in absence of a state guarantee. Despite the intention of promoting private enterprise, therefore, the unintended consequence of this approach may entail a *de facto* role of the state as a gatekeeper to market entry if lending becomes restricted to entities with a state guarantee or public seed capital (selected by the agencies of the financial ecosystem). This institutional *status quo*, in effect, disadvantages entities that are either ineligible or not selected through this system due to restricted access to domestic capital markets or higher premiums on interest rates that make them uncompetitive. In this sense, the widespread use of state guarantees (ProGarant) or capital investment (ProCapital) should only be seen as a transitory measure to arrive at market institutions that facilitate access to capital on equal terms as private lenders are willing to take more risks in lending practices due to trust in their clients and confidence in expected returns, not state guarantees.

261 Imprensa de Cabo Verde and Assembleia Nacional, "Lei nº 94/IX/2020", Boletim Oficial nº 82 (2020). https://kiosk.incv.cv/1.1.82.3314/

262 Governo de Cabo Verde, "Cidade Da Praia Vai Albergar a Zona Económica Especial Tecnológica De Cabo Verde," Governo de Cabo Verde (Governo de Cabo Verde, August 7, 2020), https://www.governo.cv/cidade-da-praia-vai-albergar-a-zona-economica-especial-tecnologica-de-cabo-verde/

To achieve this, economic rules and institutions should be clearly delineated and fully transparent for all involved and applied homogenously to all actors across the entire archipelago. Such homogenous, transparent, and consistent rules that avoid discretionary practices and *ad hoc* decision-making by authorities are essential for creating an institutional framework that is open and inclusive to ensure equality of opportunity and access for all, especially those 'furthest behind'. This is particularly important because rules also determine the costs involved in a transaction, which allows individuals and organizations to determine whether a particular action is worthwhile or not. High transaction costs, including administrative burdens, complex contracting procedures, dealing with multiple actors simultaneously, uncertainty of outcomes, search and information costs, extensive decision-making processes when rules are ambiguous, unclear, or discretionary etc. all increase the likelihood that businesses will look for other options to maximize their opportunities.

This will require reforms of the institutional landscape that enhance certainty and trust in exchange. These can derive from informal or customary practices that reshape norms (for example, increased confidence in the success of private lending transactions are repeated over time and increasingly lead to greater returns in a maturing market economy) or from formal enforcement mechanisms that protect investors against fraud or other malpractice on the part of lenders. As actors and organizations adapt to these rules over time, incremental changes or adaptations are necessary when rules have become obsolete, are easily circumvented, or do not have the intended effect as a result of ineffectiveness due to largescale incompliance, inefficiency due to jurisdictional overlap or duplication of functions, or widespread non-observance (i.e. de jure vs. de facto application), etc. The following sections offer some initial recommendations on how this approach may unfold.

INSTITUTIONAL ARRANGEMENTS AND LEGAL REFORMS IN CABO VERDE

In a world with many different options for regional and global players, transaction, opportunity, and marginal costs can be the difference-maker. Understanding these various sources of "unseen" financial costs involves imagining the potential value foregone by allocating finance or resources in one area as opposed to another. As suggested above, effective investment and collective action for sustainable development requires enhanced cognizance of the varied effects or externalities that rules generate, including transaction costs, opportunity costs, and the law of marginal returns. We must also recognize the role of cultural norms and informal or tacit rules that make transactions possible by building trust and confidence, including the importance of time and certainty in accomplishing transactions. As part of Cabo Verde's INFF, therefore, institutional reforms establishing the right incentive environments will allow players to make the most of their choices within the context of the opportunities and constraints they face, beginning with the following reforms:

- In general, the government should endeavour to reduce public interferene in markets and streamline administrative procedures to increase effectiveness, efficiency, and scale:
  - Avoid the establishment of monopolies, including via PPPs, through government regulation or subsidized concession agreements as this encourages rent-seeking, increases risks of corruption, undermines competitive markets, risks high losses when price ceilings are set below operating costs, and contributes to government spending to cover losses guaranteed under the PPP, which exacerbates debt.
  - Draft a new law to strengthen the role of the Ministry of Finance's Directorate National Planning as a Monitoring and Evaluation entity across all government ministries and agencies, thereby reinforcing the role of the national planning system concerning its accountability, transparency, and efficiency.
  - Establish a formal instrument or mechanism for articulation between public and private actors within the strategic coordination system (Block 4), which could be based on the development of the existing private sector-led 'Negocia' Business Platform launched in 2021 with UNDP support (see box below).
  - Create incentives that will induce reduction of informal sector activity through the generation of non-punitive interest to formalize businesses, including facilitating access to services such as banking, loans, recourse to judiciary, property rights, and foreign market access.
  - Implement the World Bank's suggested reforms in terms of competitiveness, business environment, and FDI.[263]
  - Integration of digital platforms aimed at improving a favourable business environment for the private sector, including:
    - Consolidation of the tax-payer registry;
    - Continue simplification of constituting a formal business (services of Casa do Cidadão); and
    - Improve capacity of CVTradeInvest to closely monitor the mobilization of prospective investment (e.g. commitments and MoUs signed at investment forums) and to support their transformation into actual investments.

263 World Bank, "Cabo Verde Economic Update, April 2021: Rebounding from the Crisis - Restoring Fiscal Sustainability and Leveraging the Private Sector for a More Resilient and Sustainable Recovery," *Open Knowledge Repository* , April 2021, https://openknowledge.worldbank.org/handle/10986/36255.

- Reduce institutional restrictions that undermine the scaling of cross-border trade, especially for SMEs and microentrepreneurs:
  - Analyse trade-offs with regard to deadweight / societal loss as well as consumer and producer surplus vs. tax revenue when it comes to tariffs and customs duties on foreign trade, especially in the context of establishing policy coherence to promote export-led growth and value-added services to supply chains as well as service exports (e.g. financial industry).
  - Consider removal of trade barriers for all non-consumer products in order to incentivize imports of primary and intermediary products to develop local manufacturing industries.
  - Lowering transaction costs arising from regulatory burdens (i.e. extensive registration or declaration forms, application procedures, permits, etc.) associated with trade can be a source of competitive advantage relative to regional peers when establishing a trade and logistics hub in the mid-Atlantic.
- Enhance efforts towards decentralization through institutional deconcentration at local level:
  - Implementing the legal concept of municipal autonomy through clear assignment of responsibilities between central and local government, favouring municipal autonomy and decentralization in line with the principle of subsidiarity.
  - Reinforce title and property rights, including reduction of transaction costs in their transfer, to incentivize investment in properties (including maintenance) and their use as collateral/mortgages as loans, particularly through recognition and registration of titles as well as enforcement of dispute-resolution mechanisms.
  - Create a comprehensive portal to map property rights across islands based on a single common land register shared among all municipalities (drawing on work already initiated under Millennium Challenge Account-II that expired in 2017).
  - Provision of technical assistance facilities focused on the enabling framework for successful public-private partnerships, infrastructure development and access to climate finance.
  - Avoid the creation of an additional layer of bureaucracy through a regionalization policy in favour of an incremental strategy focusing on intermunicipal cooperation in the delivery of certain public services (syndicates and other structures along functional or issue-specific lines) to produce economies of scale and save on public expenditures.
  - Over the mid-to-long term, mergers of municipalities, particularly on less populated islands with smaller towns, should be considered as a further reduction of the

burden on public resources without foregoing or even enhancing the quality of public services.

- The simultaneous creation of new regional administrations while maintaining the current municipalities structures must be avoided as this has the potential to create overlapping authorities and administrative entities with conflicts over jurisdiction and responsibility that fail to produce synergies and streamlined services to citizens.
- To support this approach, the role of the National Association of Municipalities in Cabo Verde (ANMCV) should be reinforced to act as an intermediator, convening entity, and facility for the dissemination of knowledge, best practices, and technical assistance in implementation, including through partnerships with the financial ecosystem.
- The ANMCV, municipal SDG platforms, and other local institutions should be integrated within strategic coordination system (INFF Block 4) proposed above and supported by the corresponding secretariat.
- Scale-up institutions and services (based on the Fundo Lavanta model) to enhance access to financial investments for MSMEs and entrepreneurs at local level in order to reduce poverty, inequality, and variegation across islands:
  - Promote access to financial assets (e.g. guarantees and other leverage effects) by bringing together the relevant stakeholders from civil society, the private sector, and financial institutions (especially microcredit organizations) within the municipal SDG platform context (e.g. Plataforma Negocia, ProEmpresa/Fundo Lavanta, etc.);
  - Offering support and technical assistance to associations, professional organisations, micro-enterprises, SMEs and financial institutions in local contexts; and
  - The establishment of mechanisms for mobilizing resources from the diaspora and foreign direct investment for local development.
- Increase internal value generation and resources through institutional capacity development
  - The development of public-private partnerships at the local level, in particular through the finalization of the legal framework.
  - Improving the information system with the establishment of a management and interaction platform with municipal management stakeholders.

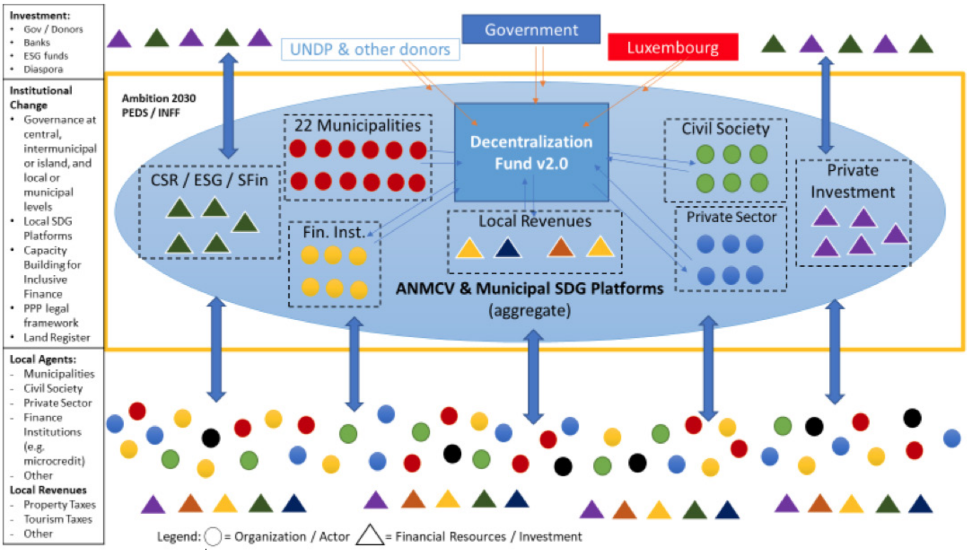

Figure 52: Leveraging development finance at the local Level through the next generation decentralization fund
Source: Christopher Lilyblad

- Upgrade institutional frameworks for capital markets and sustainable finance:
  - Drafting of law that establishes a legal framework for sustainable finance in Cabo Verde base on international taxonomies, standards, and labels.
  - Best practices and benchmarks established by leading actors in sustainable finance should be adopted for supplying investors (public or private) with requisite knowledge, data and information to ensure market credibility, trust, reliability and integrity.
  - The short-term focus should be on issuing and listing a blue bond as a proof of concept in 2022 and a mid-to-long-term focus on adapting international sustainable finance taxonomies, criteria, and labels in the Cabo Verde context in order to diversify Cabo Verde's sustainable finance investment streams and position the country as a leading actor, especially in Africa.
  - Development of the digital interface for trading in sustainable securities in order to promote the growth in the secondary market, especially by attracting foreign investors and capital via a user-friendly and accessible exchange platform.
  - Establishment of a Sustainable Finance Coordination Unit at the Ministry of Finance, in partnership with key international partners, to be consolidated within

an INFF secretariat established under the Coordination system (INFF Block 4).

- Integration with the AfDB Capital Markets Master Plan project at the Bolsa de Valores.
- Launch a study concerning the possible revision of the peg to the Euro, including whether the benefits of the peg merit the trade-offs in terms of capital market development arising from the need to maintain large quantities of foreign reserves that could be invested in more productive assets or investments.
- Under PEDS-II, a pipeline of priority projects in blue economy and other SDG accelerators eligible for large-scale capital investment via sustainable finance mechanisms should be identified to be listed on the Blu-X platform.

STRENGTHENING INSTITUTIONAL ENFORCEMENT AND THE ROLE OF THE REFEREE

For markets to function properly, however, it is insufficient to have good rules and laws on paper. These also need to be respected, observed, and enforced in practice through an efficient judicial system capable of resolving disputes in a timely manner as well as their reproduction in social interaction, including customs, norms, and deontic commitments that lead to voluntary compliance and shaming of transgressors. According to the Heritage Foundation's index, the weakest scores for Cabo Verde are concentrated in the "Rule of Law" category, notably with respect to property rights and judicial effectiveness:[264]

> *Although enforcement is hampered by legal and bureaucratic inefficiency, property rights are generally respected. Completion of a land information database and registration reforms will likely strengthen secured interests in chattel and real property. The judiciary is independent, but the courts are overburdened and understaffed…*

Alleviating these concerns requires reinforcing the role of the referee. The referee is responsible for ensuring that players remain within their boundaries, that they do not cheat to get an unfair advantage relative to others in order to ensure a level playing field conducive to competition.

When it comes to development finance, the state needs to be the referee in the form of a responsive and effective legal system and judiciary, which involves:

- Enforcement of property rights, including intellectual rights (e.g. music and creative industry)
- Reducing the complexity and administrative burden of contracting without reducing

264 The Heritage Foundation, "Cabo Verde Index of Economic Freedom," Heritage.com, 2021.

the effectiveness of agreements (e.g. reform and digitalization of the notary system)

- Ensuring dispute resolution mechanisms are in place that do not involve lengthy and drawn-out legal processes (e.g. structures for mediated settlements)
- Ensure confidence in the marketplace by signalling that fraud will be detected, rule violators punished, and victims compensated for their losses by strengthening the efficiency of the judicial system
- Cooperation with third states on enforcement, including via regional and global arbitration mechanisms embedded within trade agreements and common markets
- Comprehensive judiciary reforms aimed at efficient markets, including strengthened provisions for the protection of property rights and capital investments

However, as alluded to above, it is not only the judiciary's responsibility to ensure rules, laws, and institutions are respected as a system based on pure coercive enforcement rests on a slippery slope towards totalitarian coercion and the curtailing of civil liberties. As such, society must also play its role in not only adhering to but producing cultural norms, customary practices, and other 'informal' or 'tacit' rules and institutions that reinforce legislated rules with incentives for cooperation and voluntary compliance that build trust and reciprocity to overcome collective action problems and reach shared objectives. For this reason, civil society engagement remains an indispensable aspect of development assistance interventions, including in the area of development finance and inclusive finance.

The role of the referee must also include enforcement of the principles of sustainability in accordance with economic, social and environmental criteria, as manifested by the Sustainable Development Goals. An example of this approach emerges in the discussion on sustainable finance where rules are set in place within the financing frameworks that are designed to either use proceeds in a manner consistent with green, blue, social, or other sustainable principles and standards or commit to predefined impact targets in this respect (e.g. sustainability-linked bonds); however, this process also only works if the rules are clear for all involved (i.e. addressing problem of 'greenwashing') at the outset and there is an adequate enforcement mechanism in cases of non-compliance, which can include a combination of public shaming (e.g. civil society organizations holding market players accountable), market-based financial enforcement (e.g. exclusion from future market opportunities), or governmental enforcement (e.g. penalties imposed on transgressors via the judicial or legal system). All of these, however, are contingent on clear measurement and analysis tools that allow all actors involved to clearly delineate when a specific action conforms to a target or indicator and when it has not, which is an important question in terms of monitoring, evaluation, and impact analysis (INFF Block 3).

When the rules of the game and the referee together create a level playing field, this boosts market confidence and reduces risk perceptions, which in turn attracts international investors to what becomes an open, dynamic, and innovative finance arena. As such, an efficient institutional framework for finance, marked by stable rules combined with commensurate and proportional enforcement mechanisms for contracting and other market transactions, becomes a bankable asset in and of itself. When implementing Ambition 2030 via the INFF, therefore, it is necessary to avoid thinking in terms of costs and expenses as one-off rounds. Rather, we should reorient our thinking in terms of catalytic investments, as part of a continuous process, supported through a variety of public and private instruments, including capital guarantees and impact investments. Such investments can generate new value and opportunities for innovation in a recursive and self-reinforcing fashion as productivity gains and real savings continuously catalyse complementary opportunities as the sustainable development process unfolds. Within this system, removing market access barriers and making relevant information open, accessible, and transparent will help ensure that the market is an open and participatory arena for all who seek to 'truck, barter, and exchange' within it. In other words, the integrated financing framework seeks to create a diverse and polycentric arena for development finance where multiple actors interact across sectors and at various levels, including regional and global dimensions. Such an approach will ensure both greater autonomy and resilience, which are not only mutually reinforcing but will also help ensure that no one is left behind through financial and market inclusion.

FINANCIAL INCLUSION: INSTITUTIONAL CHANGE FOR YOUTH AND WOMEN'S EMPOWERMENT

This DFA recognizes that generating innovative finance is, by itself, neither sufficient, nor sustainable. It must also be inclusive, especially by ensuring that the gains of new financing opportunities permeate the entire socioeconomic fabric to form a consolidated, harmonious, and cohesive systemic whole. For this reason, the DFA also envisages strategies – as manifested by the *Fundo Lavanta* (see box below) – to promote innovation and entrepreneurship through the empowerment of youth and women, with an emphasis on enhance human capital (capabilities) and digital integration. These downstream initiatives, building from the bottom-up, will seek to connect youth and women with better opportunities within a revamped structural economic landscape, as outlined above. This approach aims to strengthen youth and women capacities through techniques and tools which promote their participation in governance and accountability, empower them to become agents of change through projects impacting their communities, and develop innovative tools and strategies for promoting youth and women employment through entrepreneurship and SME capacity development.

From an inclusive finance perspective, it also aims to promote socio-economic transformation through the development/promotion of financial services and products destined to aid low-income populations, in particular youth and women using, among others, financial education and literacy as a transforming agent of economies. Adapted to local realities and specificities, it engages in awareness-raising and capacity-building aimed to provide targeted demographics with essential knowledge and tools in financial management. By enhancing youth and women's capacity to make responsible and sustainable decisions pertaining to their finances, expenditure, investments, and debt, and promote mechanisms to help them to finance their activities, the inclusive finance dimension promotes decentralization, autonomy, and social inclusion to accelerate the 2030 agenda, including the eradication of poverty, economic growth, and the reduction of inequalities.

INFF FLAGSHIP INITIATIVE 2: FUNDO LAVANTA

Catalytic institutional change for private entrepreneurship and bottom-up innovation

In August 2021, UNDP, together with the Ministry of Finance and ProEmpresa (a public business promotion agency), launched the Lavanta Fund. In the local Crioulo language, Lavanta means to 'rise-up', offering an apt descriptor for the fund's main aim and purpose: The fund offers aspiring youth or women-led start-ups and SMEs with seed capital to launch businesses corresponding to the country's SDG accelerators. Established within the context of the INFF's objective to mobilize the private sector for sustainable development, it promotes SDG finance from the bottom-up by altering the institutional incentive framework within which small-scale private sector actors operate.

Based on a combination of eligibility criteria targeting those most at risk of being left behind and technical evaluation of the applications, microloans ranging from 1,500 USD to 15,000 USD are issued to both new business ideas and existing projects seeking to scale up. The target sectors for the technical proposals fall within four categories: Green, Blue, Social, and Digital, while an 'other' category remains open to innovative ideas with job creation potential.

To ensure that the proposals reflect the diversity of a country whose population is spread across nine islands facing different social, economic, and geographic challenges, the applications are evaluated by a selection committee composed of a representative from each of the country's 22 municipalities, selected and trained by UNDP's Decentralization Fund. Individual allocations are determined according to the size and the scope of the particular business project and administered by ProEmpresa, which supports entrepreneurs in successfully implementing their business plans through capacity development. The 5.5% interest rate charged to cover the costs of administrating the fund is well below the market average.

The innovative character crystallizes itself in the way a relatively small amount of public funding, in this case 300,000 USD from UNDP's COVID-19 Rapid Finance Facility (RFF), can alter the incentive framework within which a significant number of private, small-scale entrepreneurs across nine disparate islands operate.

Building on the INFF, the fund seeks to induce institutional change conducive to private entrepreneurship and bottom-up innovation. The aim is to create a dynamic and interactive institutional structure that facilitates transactions between prospective entrepreneurs and investors. In other words, it catalyzes decentralized interaction within a framework that brings together those in search of financing for their entrepreneurial activities and those seeking to invest their savings and surplus capital in revenue-generating projects that have a positive impact on sustainable development. This was accomplished by partnering with the NEGOCIA Cabo Verde Business Platform. From the outset, the purpose of this online platform was to facilitate exchange in the private sector by promoting interaction between private sector businesses and related entities operating in Cabo Verde, such as the chambers of commerce, the association of youth entrepreneurs and the association of women entrepreneurs.

The platform – a type of social media for companies operating in the country – offers a public meeting space for the private sector conducive to the decentralized exchange of ideas. Drawing on the diffuse knowledge that each specialized entity offers in their location and/or area of specialization, the platform brings together diverse ideas across nine islands that, by interacting with each other, can stimulate a diverse set of new ideas, complementary insights, and mutually reinforcing forms of exchange and partnership creating added value. In this sense, the platform creates an environment where the result of multidirectional interaction has the potential to exceed the sum of its parts. Building on this, the INFF supported the development of this initial structure with the aim of creating a portal that could act as a matchmaking facility between investors and entrepreneurs, beginning with the Fundo Lavanta. Indeed, by using the NEGOCIA platform as the structure to implement and administer the allocation of the Fundo Lavanta to a variety of aspiring and established entrepreneurs, it creates a strong incentive for entrepreneurs with business ideas and start-ups to use the platform as a means to attract financing for their projects. Herein, the creation of online profiles acts as user-friendly interfaces to access the portal and be adaptable to the needs of organizations, especially companies and other registered corporate legal entities, as well as individual users interacting on the portal.

When creating the profiles, the users are asked whether they are:

- Private investors with capital
- Established company seeking to engage in CSR activities
- Organizations with established business model seeking to grow / expand
- New market entrants / Recently registered (i.e. formalized)
- Micro / individual or informal business

Based on this self-identification, the platform will eventually cater specific content based on the user profile, distinguishing between those with capital seeking to invest or engage in CSR activities on the one hand and those seeking capital or grants to develop/grow their businesses on the other.

In a future rendition, users will also be asked to identify themselves according to one or more of the SDG accelerator categories in order to create SDG accelerator-specific incubator spaces for private sector projects that could benefit from private and/or public financing. In this sense, the platform would be organized as a matchmaking platform facilitating exchange and strategic partnerships in the ethos of SDG17.

During the three-week Fundo Lavanta application period, the platform reached nearly 2,000 visitors, while registered users grew to over 700. Over 300 entrepreneurs applied for funding across five categories of projects: green (33%), blue (31%), digital (15%), social and health (10%) and other (10%) (Figure 53). Of these, nearly 54% were individual entrepreneurs who have not yet established a company.

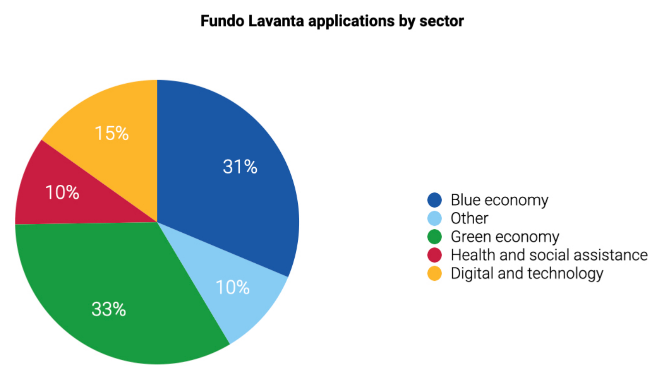

Figure 53: Over 300 entrepreneurs applied for funding across five categories of projects.

The design of the platform ensures accessibility for a wide range and variety of private actors. Applicants were drawn from each of Cabo Verde's nine inhabited islands. Over 60% had either vocational training or a secondary school education level. Significantly, 54% of the applicants were women (Figure 54).

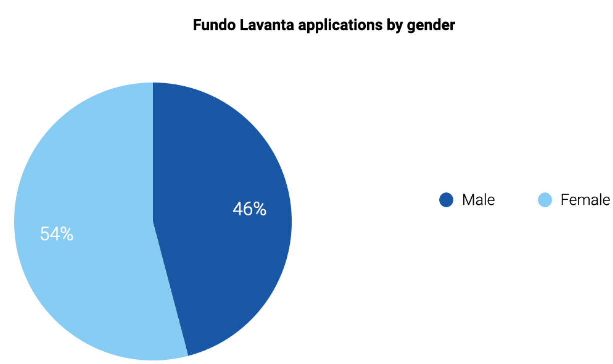

Figure 54: More than half of the Fundo Lavanta's applicants were female.

The institutional incentive structure derived from integrating the Fundo Lavanta within the NEGOCIA platform is already hard being put to good use, as Figure 1 illustrates.

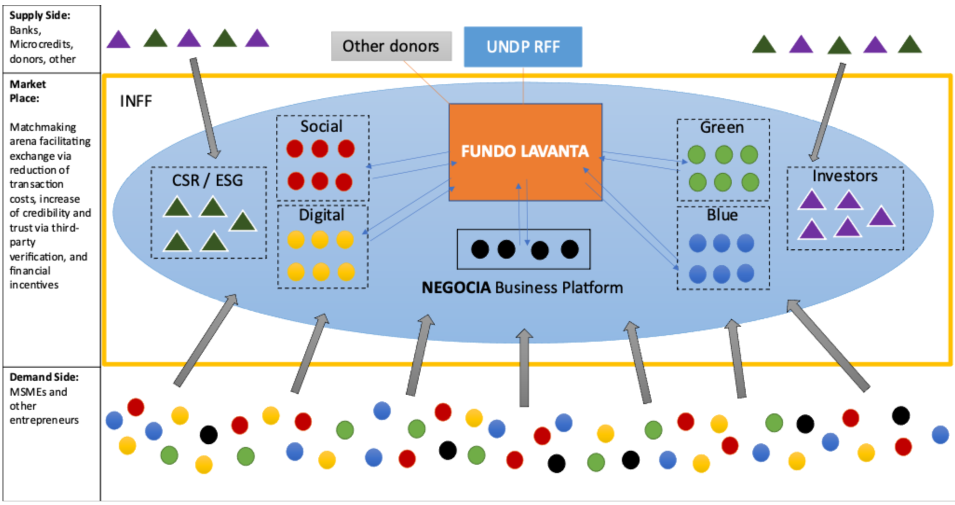

Figure 55: Simplified Illustration of the Catalytic Institutional Mechanism
Source: Christopher Lilyblad

However, owing to its institutional approach, this process is not limited to a one-off event or 'winner-takes-all' approach. To the contrary, by registering themselves and listing projects on the NEGOCIA platform, even those entrepreneurs who are unsuccessful in this round due to the fund's finite resources (as opposed to the quality of the projects), platform users can maintain their projects in a consolidated register of potential investment opportunities. These can be considered for future editions of the Fundo Lavanta due to its revolving character and ability for other donors to increase the funding levels. For example, other international donors seeking to promote SDG-oriented private sector development will be able to directly insert funds into the Fundo Lavanta structure established by UNDP, thus channelling investment directly to entrepreneurs and SMEs at the local level.

Perhaps even more importantly with a view towards sustainability, however, the NEGOCIA platform also offers a venue wherein these projects could attract other sources of private or public investment not directly channelled via the Fundo Lavanta. Indeed, the objective here is to continue developing the NEGOCIA platform's database to arrive at pipelines of projects categorized according to the SDG accelerators that are accessible online from any device.This offers prospective investors – in Cabo Verde, the diaspora, and beyond – a one-stop shop for private investors seeking both a return on their investment and an impact in terms of Cabo Verde's SDG accelerators.

In other words, the INFF, Fundo Lavanta, and NEGOCIA jointly create an institutional framework incentivizing both public and private interaction, exchange, and partnership in search of the triple bottom-line: Economic, Social, and Environmental.

The overarching purpose then is to achieve a more decentralized and diverse approach to public-private partnership for the SDGs that is simultaneously comprehensive and accessible to all stakeholders. By recalibrating the incentive framework achieved by placing the Fundo Lavanta within the institutional structure of the NEGOCIA platform, it encourages a wide range and variety of private actors to become agents for SDG acceleration while pursuing their own interests, objectives, and desires, while drawing on their local knowledge, skills, and strengths. In particular, the combination of the fund and the platform empowers SMEs and other small-scale entrepreneurs / start-ups, especially youth and women, to assume a greater role in this process. Moreover, by attracting both investors and those in search of financing opportunities, the structure promotes voluntary identification of entities and projects on the platform, resulting in a form of bottom-up stakeholder mapping and matchmarking facility between creditors and lenders.

In short, the Fundo Lavanta acts as a catalytic incentive for entrepreneurs to regularly participate within NEGOCIA's broader structural framework linking public and private finance to achieve shared common objectives, notably the Sustainable Development Goals.

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ANNEX 1: CABO VERDE STRATEGIC COORDINATION SYSTEM (SCS) – INFF BLOCK 4

Context

During the COVID-19 pandemic, the government of Cabo Verde developed a new strategic vision for the decade of action: Cabo Verde Ambition 2030 (CVA2030). Established under unequivocal country ownership and leadership, the CVA2030 aligns with the Sustainable Development Goals and is, ipso facto, the local manifestation of the global 2030 agenda. CVA2030 draws on the outcomes of a 2019 UN MAPS mission that identified five key SDG accelerators for the country, including the blue economy, green /climate transition, digitalization and innovation, sustainable tourism, and human capital and laid out the inception roadmap for an INFF, of which Cabo Verde is a pilot country. The overarching vision for Post-COVID-19 Recovery and sustainable development require substantial capital investment in key sectors, in an integrated way including new forms of financial and technical collaboration with international partners and the domestic, regional, and global private sector.

Reflecting the prevailing strategic frameworks at global and country level, Cabo Verde is in the process of establishing two strategic frameworks seeking to operationalize and implement CVA2030. The first is the Strategic Plan for Sustainable Development 2022-26 (PEDS II), succeeding the first PEDS that is culminating in 2021. The second is the establishment of an Integrated National Financing Framework (INFF), with the aim of establishing a consolidated financing strategy and implementation system for the country's sustainable development goals.

Each of these frameworks – Ambition 2030, PEDS and INFF – foresee the establishment of governance structures that offer strategic and policy guidance, oversee the technical work that leads to the implementation of these policies, as well as coordinate between the various partners and stakeholders within this pluralistic and inclusive sustainable development landscape comprising domestic and foreign, public and private actors. As such, the purpose of these ToRs is to offer a consolidated, streamlined, and agile strategic policy dialogue, aligning financing in a coordination system (SCS).

The overarching purpose of this system is to establish an enabling environment for policy and strategic financing alignment in a coordination platform, both at political and a technical level, among national and international development partners to ensure coherent policy dialogue for attaining Cabo Verdes SDGs, articulate and mobilize support to the country sustainable development and to avoid duplication, while also reducing financial and transaction costs associated with multiple structures with overlapping responsibilities. Installing an institutionalized framework for the strategic coordination for sustainable development will therefore ensure that an appropriate structure for dialogue between the state, and key international partners such as the UN, the WB, EU, US, Luxembourg, Portugal, Spain, and others. This should happen in a reinforced way at policy and technical levels, ensuring integration of international partners that contribute to sustainable development in Cabo Verde, technically and financially through different instruments under the national strategic orientation (including planning financing, and budgeting) for sustainable development, maximizing the impact of existing strategic partnerships and facilitate the mobilization of new partnerships, including the private sector, that will produce synergies for meeting shared objectives.

Jointly, the Ambition 2030 strategy, PEDS, and the Integrated National Financing Framework (INFF Integrated National Financing Framework, in its English acronym) - under preparation by the government with the support of the United Nations (under the technical leadership of UNDP), the World Bank and the European Union – will therefore serve as references for the coordination of partnerships at the policy, technical, and financial levels, comprising three interlinked and interdependent coordination groups. Ambition 2030 will serve as the overarching reference framework of the entire SCS. This approach also inspires the implementation and monitoring of the sustainable development process, through the 35 PEDS programmes and their monitoring via the 2018 and 2021 Voluntary National Review (VNR).

In addition to the data fed by the national statistics system, the work of the SCS will be informed by the various COVID-19 response and sustainable development strategic guidance documents, such as the Development Finance Assessment, the multiphase expanded Post-Crisis Needs Assessment (PCNA+), the “Leave no one behind” assessment (scheduled for April 2021), and interim the National Plan for Response, Recovery and Promotion of the Economy, acting as a stopgap instrument until the PEDS II is in place. At the regional and global level, the SCS work will take into account the social, economic and environmental conventions and agendas of which Cabo Verde is a part, first and foremost Agenda 2030, as well as the Africa Union 2063 Agenda, the SIDS SAMOA pathway, the nationally determined contribution (NDCs), South-South Cooperation, among others among others.

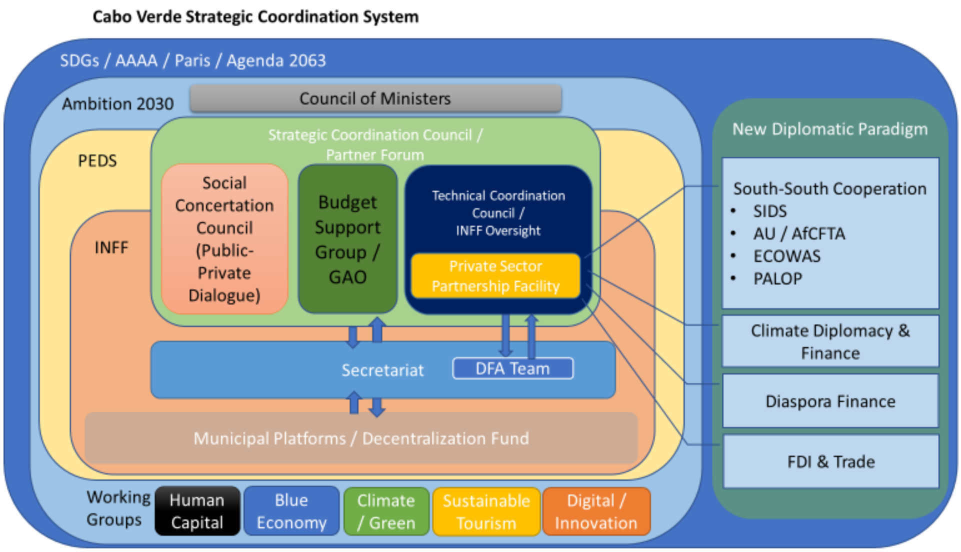

Figure 1: Cabo Verde Strategic Coordination System

Source: Christopher Lilyblad

1. Strategic Coordination Council (SCC) for Sustainable Development

The first is the policy-level Strategic Coordination Council for sustainable development (SCC), which constitutes a forum for high-level dialogue and strategic direction for the promotion of a more integrated framework of policies, partnerships and financing. Anchored in the Ambition 2030 governance structure, the SSC replaces the orientation council within the Ambition 2030 framework, while also taking on the responsibilities of the INFF oversight committee (as defined in the DFA guidebook version 3.0), including development partner coordination, and the policy-level responsibility over the PEDS.

The SCC should also function as a more comprehensive and strategic dialogue group for the inclusive and sustainable development of Cabo Verde in addition to others, namely the Budget Support Group (GAO). The SCC should regularly share information with other existing coordination structures and promote an effective and efficient dialogue on priority issues for the country's sustainable development in the search for more integrated cooperation and optimization solutions for public policies and their financing.

The SSC adopts and promotes a "whole-of-society" approach to promote greater intersectoral coherence in financing strategies, especially with private actors (private sector and civil society) in the form of the public-private dialogues. In executing this function, it observes the following guiding principles:

National ownership: The SCC will ensure that its decisions and actions are consistent and aligned with the country strategy and local sustainable development plans, sectoral public policies, as well as relevant national and international agreements and conventions.

Focus on results: The SCC will promote a lasting impact of cooperation for the sustainable development of Cabo Verde in the eradication of poverty, in the reduction of inequalities, in the promotion of human rights, equity and social cohesion and sustainable development, as well as in the development national capacities.

Inclusion and transparency: The SCC will provide a broad forum for the dialogue to develop inclusive and transparent cooperation, whose decisions are always made on the basis of dialogue and consensus and on the principle of sharing and collective responsibility

Accountability: The SCC will promote mutual accountability among development partners, the government, the private sector and civil society, with the aim of aligning priorities and harmonizing action within the Ambition 2030 framework.

The SCC is institutionally anchored at the Office of the Vice Prime Minister & Minister of Finance VPM/MF. In close consultation with the Ministry of Foreign Affairs, the Ministry of Finance will lead the sustainable development dialogue, strategic partnership, integrated financing, effectiveness (incl. monitoring and evaluation) and multi-stakeholder coordination towards Ambition 2030, including its underlying technical instruments in the form of the PEDS and the INFF.

Objectives

The SSC will act as a coordination platform at the intersectoral policy level between national and international partners for the SDG-aligned PEDS and the INFF to ensure policy dialogue among relevant stakeholders on strategic planning, policy making and financing for sustainable development.

Provide a high-level forum for effective development policy dialogue to discuss national sustainable development priorities, including through global mobilization of information and expertise on new paradigms and innovative solutions for sustainable development.

Support the prioritization and acceleration of partner action in support of the country's public policies to recover from the COVID-19 crisis and sustainable development, and thus improve the impact, effectiveness, and coherence of initiatives in the context of the INFF, PEDS II, and Ambition 2030.

- Progressively promote the institutionalization of articulation measures for common approaches between partners to support the implementation of the INFF, PEDS II and Ambition 2030.
- Reinforce the coordination of support from international partners with the State budget and the National Planning System, including the creation of an information plat-

form on the technical and financial support of the different partners.

- Contribute to the alignment of the PEDS II and Ambition 2030 with national and international sources of funding, public and private, within the scope of the National Integrated Financing Framework (INFF), including through the design of catalyst initiatives investments and with potential for public-private partnerships, within the accelerators of the SDGs.
- Promote the use of joint monitoring and evaluation mechanisms, such as joint data analysis and systemic planning exercises (traditional statistical and new mechanisms such as big data), joint reviews, joint mobilization or joint assessment missions, field visits, etc.
- Promote South-South cooperation, triangular cooperation, and other forms of horizontal development partnerships, and support the role of Cabo Verde within regional and SIDS networks in the global advocacy process for access to finance and knowledge.

Composition

The SSC will consist of the following members:

Vice Prime Minister and Minister of Finance

Minister of Foreign Affairs

Heads of the Ministries responsible for the five SDG accelerators:

Sustainable Tourism: Ministry of Tourism and Transport;

Green Transition / Climate: Industry, Commerce and Energy; Agriculture and Environment;,

Digitalization: Ministry of Finance

Blue Economy: Ministry of Maritime Economy

Human Capital: Ministries of Health and Social Security; Education; Justice and Labor.,

Ambassadors or heads of diplomatic missions and international organizations that cooperate with the Republic of Cabo Verde, whether or not they are present in the country.

United Nations Resident Coordinator

UNDP RR / Head of UNDP, UNICEF, UNFPA Joint Office

Resident Representatives of development organizations and financial institutions as well as heads or directors of development agencies.

Representation of municipalities, Cabo Verdean civil society, academia and the private sector

Leadership

The SCC will be co-chaired by the government of Cabo Verde, through the Vice Prime

Minister and Minister of Finance and co-chaired by one of the development partners within the SSC, on the basis of a voluntary and rotating system. The Minister of Foreign Affairs, in its role as national coordinator of development cooperation, will be a permanent and co-convening member of the SSC. The development partners co-chairing will alternate on an annual basis and the first co-presidency will be ensured by the United Nations Resident Coordinator and co-convened by UNDP/Head of the JO.

The co-chairmanship of the members of the SCC will assume the following responsibilities:

- Facilitate the process of coordinating members and views on specific issues regarding development cooperation and the effectiveness of partnerships, as agreed by the SCC
- Facilitate the active, effective, inclusive and continuous involvement and participation of members in SCC meetings including development partners not resident in the country;
- Ensure coordination with relevant stakeholders (sector Working Groups, municipalities, civil society, private sector)

Frequency and type of meetings:

- Unless otherwise accepted by majority, the SCC will meet on a semestrial basis. Ad-hoc meetings can be called when necessary.
- At least two weeks before each official session, and one week before a possible ad hoc SCC session, a preparatory meeting of the TCC (see point 2) at technical level will be called to prepare and share the necessary documents to ensure that the partners have all the necessary information to make the planned decisions on the agenda, which will be shared one week before each meeting.
- The SCC may, through the co-chair, agree to change the date of a meeting or decide not to hold a meeting. Whenever possible, an SCC meeting will be held the week following the Support Group meetings.

2. **Technical Coordination Council (TCC) for Sustainable Development**

Under the broader strategic context under SCC oversight, a Technical Coordination Council will reinforce this constant participation of the key sectors in the different stages of the policy, programming and implementation process at technical level. The TCC will mirror the composition of the SCC at directors level and will be co-chaired by the DNP and DNAPEC together with UNDP lead, co-convened with the UNRCO.

Objective

The TCC will have the mission of supporting the integrated technical dimension of the sustainable development process, under the coordination of the National Planning Directorate, based on the SDGs and Cabo Verde Ambition 2030 and the INFF.

The TCC will be supported by a Coordination System Secretariat Unit (CSSU) (see below) to assist to provide beyond secretariat functions, advice and policy expertise on sustainable development and financing to support the coherence between global, regional, national and local policy frameworks and the design and implementation of laws, public policies, public budgets at national and local levels and articulation on the financing needs of programs / projects.

Responsibilities

The TCC will present policy proposals and corresponding action plans for the coordination and implementation of the Strategic Plan for Sustainable Development (PEDS), in line with Ambition 2030 and a financing strategy, including:

- Align the design and implementation of the PEDS programmes between the different sectors and stakeholders, facilitating their integration in the sectoral and municipality plans and ensuring that the whole national vision and PEDS is grounded on the SDGs and the SIDS lens.
- The TCC should facilitate analysis and preparation of policy proposals for political solutions aimed at strengthening coordination across sectors for the sustainable development of the country.
- Follow up and commit to support technically emerging partnerships for sustainable development
- Representatives of INE and of the different ministries and sectoral institutions that are members of the TCC will provide the commission with all available data considered useful for the analysis produced by the TCC.
- As relevant, the TCC will ensure the IWGs provide the collection of data and analysis on sustainable development processes, with a particular focus on the five accelerators of sustainable development to ground TCC policy options
- The TCC will provide advice and analysis and proposals to the SCC to feed its decisions in order to harmonize support for the country's sustainable development.
- Drive the INFF process across all four blocks, overseeing technically and championing the process, convening stakeholders, providing access to necessary information and data and shaping the DFA policy recommendations and INFF Roadmap under the overall supervision of the SCC
- Oversee the technical implementation of the INFF Roadmap within the larger process of operationalizing the INFF
- Determines the scope and specific objectives of the DFA within the larger process of operationalizing the INFF, including linkages with key policy priorities and wider planned or ongoing reforms
- Oversees and provides input into the development of a stakeholder map and engagement strategy for the DFA process, provides access to policy documents and data

and convenes and facilitates outreach to a broad constituency of stakeholders, provides oversight and feedback on the analysis as it develops,

- Facilitates discussions during the financing dialogues
- Provides technical expertise and direction to shape the recommendations in the INFF Roadmap,
- Champions the INFF roadmap among wider government actors and stakeholders,
- Ensure ownership and promote commitment by the relevant actors to take forward the recommendations collectively,

Composition

National Director of Planning (DNP, Ministry of Finance) (co-chair)

National Director of Foreign Policy and Cooperation (DNAPEC, Ministry of Foreign Affairs) (co-convening entity)

UNDP appointed focal point (co-chair)

UN RCO appointed focal point (co-convening entity)

National Director for Industry, Commerce and Energy

National Director of the Environment

Director of Tourism

Director of Maritime Economy

Director of Social Inclusion

National Director of Health

National Director of Education

Cabo Verde Stock Exchange

Bank of Cabo Verde

CV Trade Invest

Chambers of Commerce (?)

Civil society representation and academia

World Bank appointed focal point

EU appointed focal point

focal points from development partners and UN agencies implementing the INFF and others

Frequency and place of meetings

The Commission will meet every two months, every first Thursday of the applicable month, at the Ministry of Finance. The TCC also convenes two weeks prior to each SCC meeting in order to propose an agenda and prepare the relevant documents and analysis for the SCC to make decisions policy-level decisions.

Inter-institutional sector working groups

Under the coordination of the SCC, the TCC can break into Interinstitutional sector Working Groups bringing other sectoral partners aligned with the five SDG accelerators prioritized in the PEDS and composed of mandated representatives of the key Ministries, public institutes, regulatory agencies, United Nations agencies, international partners, the private sector and civil society, including reinforced public-private dialogue on key policy decisions. This would enable deeper thematic discussions around the SDG accelerators and more in depth analysis for the SCC thematic sessions as relevant.

Each IWG will be co-chaired by the DNP with the DG or Head of the relevant sector and expert representatives of development partners with a key mandate in each sector for more in-depth sector and budget coordination. The IWGs will come together and report at plenary at the TCC level on key development and financing issues.

5 IWGs are proposed in line with the Accelerators. These can be divided to address more sectoral deep dives.

Human Capital Development

Sustainable Tourism:

Green Transition / Climate:

Digitalization

Blue Economy

3. Coordination System Secretariat (CSS)

Overall

The government of Cabo Verde through the Directorate of National Planning of the Ministry of Finance and the National Directorate for Political, Economic and Cultural Affairs, under UNDP technical leadership and the support of UNRCO and other UN agencies and partners as relevant, in the framework of Ambition 2030, PEDS and the INFF will support technical expertise and other resources for evidence production, policy analysis and partnerships/financing guidance through a Coordination System Secretariat offering administrative support the TCC, SCC, and all other entities within the strategic coordination system (see figure 1 above). Financed by United Nations entities and other development partners, this Coordination

System Secretariat offers the following services:

- Providing expertise at national, or international level for analysis and options on SDGs including for modeling and foresight exercises
- Providing capacity building on SDGs, financing and whole of society integrated approaches
- Support studies, commission data and other innovative approaches of measuring progress and RBM
- Supporting the preparation of national and international mappings, questionnaires, analysis tools, thematic notes to support partnerships and financing that are useful to the collective work of the SCS, including SCC, TCC and SIDS TF
- Promoting innovative online platforms and dashboards to foster exchanges between all relevant actors including on dedicated thematic dialogues
- Supporting creating of online share drive to upload and maintain constant knowledge management for PEDS and INFF
- Serving as a focal point for communication and articulation between SCS members, intersectoral / sectoral and local working groups and other stakeholders;
- Technically supporting the SCS with recommendations and actions to be carried out with a view to development effectiveness and improvement of an integrated financing framework (INFF)
- Presenting, maintaining, and updating information available on the SCS on the official website of the government of Cabo Verde (DNP / DNAPEC PEDS) and the United Nations in Cabo Verde and annually promote a report on the work for approval of the SCS.
- Preparing an annual meeting calendar and meetings invites and proposed agendas
- Preparing and distributing minutes of meetings among SCS members.
- Facilitate and promote the monitoring of decisions and recommendations made by the SCS
- Provide data and analysis of local, national, regional, and global processes, trends, prospects and potential

ANNEX 2: THE CALL FOR AN INFF DASHBOARD – INFF BLOCK 3

As outlined above, the conceptual framework of the Cabo Verdean M&E system links the performance information of budgetary programmes and results of policy implementation to the Strategic Plan for Sustainable Development (PEDS) and the SDGs of the Agenda 2030 through the Cabo Verdean Ambition 2030 strategy. The performance information of the program implementation as well as the achievement of policy results is increasingly being integrated with budgetary information, that is, budget allocation for programmes, budget execution and in the long-term also the cost information on program activities. The source of financing for the budget, that is, government revenues (taxes, social security contributions, sales of goods and services and penalties) as well as borrowing is clearly stated in the budget documents. Donations such as budget support are also clearly defined in the budget.

Nevertheless, as mentioned above, for the achievement of national development goals and especially the SDGs and the Agenda 2030, government relies on further financing flows, which are not or just partly identified in the budget document or governmental information systems. Those flows are most notably project-type official development aid, remittances, foreign and domestic investment.

Therefore, government and development partners alike, are in need to be aware of the progress in policy- and programme implementation, budget execution, revenue and financing flows forecasts as well as several type or risks to policy implementation. To this end an Integrated National Financing Framework (INFF Integrated National Financing Framework, in its English acronym) is needed to integrate the different information and provide the base for joint decision making. Jointly, the Ambition 2030 strategy, PEDS, and the INFF will therefore serve as references for the coordination of partnerships at the policy, technical, and financial levels. Ambition 2030 will serve as the overarching reference framework being implemented through the 35 PEDS.

The INFF aims to reinforce the coordination of the urgently needed support from international partners with the budget and the National Planning System and includes the creation of an information platform on the technical and financial support of the different partners. Via joint monitoring and evaluation mechanisms, including joint data analysis and systemic planning exercise, joint reviews, joint mobilization or joint assessment missions the alignment of the contribution of national and international sources of funding (public and private) to implementation of PEDS and Ambition 2030 will be strengthened. Also, the design of flagship initiatives within the already defined SDG accelerators will thereby be facilitated and promoted. Eventually, the INFF provides a base to foster South-South cooperation, triangular cooperation and other forms of horizontal development partnerships, thereby supporting Cabo

Verde in its leadership role within regional and SIDS networks to facilitate access to finance and knowledge.

Integrating financial flows from development partners:

In Cabo Verde, the mobilization of external resources and establishment of bilateral and multilateral partnerships is jointly led by the Ministry of Foreign Affairs and the Ministry of Finance, in coordination with the Ministry of Economy and Finance.

Box 7

Shows key financing flows to be included in the INFF

Indicators of financing flows: Cabo Verde's Integrated National Financing Framework

	Indicator name	Entity collecting/ producing the indicator	Entities involved in generation of indicator	Periodicity of indicator (dates)
Area: public finance General government public finance	forecast of VAT collection	DNRE, DGCI	BCV (variables macro, final consumption); DGA (imports)	quarterly
	VAT collected	DNRE, DGCI		quarterly
	forecast of personal income tax	DNRE, DGCI	BCV (variables macro)	quarterly
	personal income tax collected	DNRE, DGCI		quarterly
	forecast of corporate income tax collection	DNRE, DGCI	BCV (variables macro)	quarterly
	corporate income tax collected	DNRE, DGCI		quarterly
	forecast of Trade taxes collection	DNRE, DGA	BCV (variables macro); ENAPOR (JUP)	quarterly
	trade taxes collected	DNRE, DGA		quarterly
	state-owned-enterprises revenue forecast	DNRE, DGCI, UASE		

Public borrowing and debt management	commercial debt forecast			
	debt-swaps in pipeline	DNP, DNOCP	Donors, MNEC	
	debt swaps executed	DNP, DNOCP	Donors, MNEC	
Public investment	biannual spending forecast of PROGARANTE	DNP	PROGARANTE	biannual
	biannual spending forecast of PROEMPRESA	DNP	PROEMPRESA	biannual
	biannual spending forecast of PROCAPITAL	DNP	PROCAPITAL	biannual
Area: development cooperation grants and donations	forecast of budget support flows	DNP, DNOCP	Donors, MNEC	quarterly
	budget support flows	DNP, DNOCP	Donors, MNEC	quarterly
	forecast of grants	DNP, DNOCP	Donors, MNEC	quarterly
	grants disbursed	DNP, DNOCP	Donors, MNEC	quarterly
Project assistance	forecast of project assistance	DNP, DNOCP	Donors, MNEC	quarterly
	project assistance executed	DNP, DNOCP	Donors, MNEC	quarterly
	forecast of project assistance (without financial component)	DNP, DNOCP	Donors, MNEC	quarterly
	project assistance (without financial component) executed	DNP, DNOCP	Donors, MNEC	quarterly

ODA- loans	forecast of concessional loans	DNP	Donors, MNEC	quarterly
Area: private finance				
	domestic commercial investment	BCV	Camara de comercio, BVCV, PROGARANTE, PROCAPITAL, PROEMPRESA	
	foreign direct investment	BCV	Camara de comercio, BVCV, PROGARANTE, PROCAPITAL, PROEMPRESA	
	remittances	DNP	DNP, BCV, MNEC	
	NGOs, philanthropists, faith-based organizations	DNP	PLATONG	
Area: Policy implementation (SDG accelerators)				
Blue Economy (see logical frameworks of program)	results (impact) indicators			
	product indicators			
	activity indicators (input indicators, budget execution)			
	efficiency indicators			

Human Capital (see logical frameworks of program)	results (impact) indicators			
	product indicators			
	activity indicators (input indicators, budget execution)			
	efficiency indicators			
Digital Economy				
Renewable energy				
Tourism				

Recommendations for the design and operationalization of the INFF Dashboard:

- Conduct a feasibility study for the set-up of the INFF technical infrastructure, covering aspects such as costs for implementation (initial set-up costs plus maintenance costs), technical requirements in terms of hardware and software
    - Transaction costs vs. benefits have been considered
- Conduct a use-case study covering providers and users of information and their relevant specific use cases. The use-case study should be held as simple as possible
- Assure that the system operates in real time and the indicators are provided automatically. Any need for different users to requesting information should be avoided
- Put emphasis on the compliance of predetermined dates and intervals for indicator delivery on-time
- Assess the following capacity needs for the data-producing entities
    - Financial needs:
        - Initial financial set-up fees
        - Annual financial needs: operating expenditure
    - Human resource capacity:
        - number of additional workforce in FTEs
        - technical skills and training for indicator production

- Regulatory issues:
  - Drafting and enacting decree to allow establishment and operationalization of INFF
  - Check judicial concerns (e.g. data sharing)

- Decide upon the coordinating entity of the INFF-Dashboard (secretariat). The coordinating entity will decide upon operating and maintenance of the system as well as the modification of rules, permissions and procedures.
- Countries which do not report their country contributions according to OECD-DAC criteria should be invited to join the platform by providing relevant data
- Reaching an agreement with development cooperation providers in regards to provision of information on respective flows in the format and scheduled established by the government –as contribution to improve the integration of development planning and development financing systems
- Indicators of the INFF (as suggested above) have been agreed upon
  - Commonly define the added-value of an INFF
- Further assessments to be carried out:
  - Technological: who, when, how will we do the technological assessment?
  - Integration into existing SIGOF or new platform (in-house development or acquisition)
- Implementation / put into operation of the INFF
  - Module 1 in place by
  - Module 2 in place by
- Conduct testing
- Start operation and use
- Carry out first monitoring meeting of the OT and collect feedback from users
- Developing and implementing a long-term capacity-building programme including the elaboration of supporting documents (manuals, intro guides, induction materials) that cover all possible use cases (e.g. collection, interpretation, analysis) and reporting of the INFF dashboard