



The World Bank

Cabo Verde: First Fiscal Space and Sustainable Growth DPF (P179265)

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 30-May-2023 | Report No: PIDC36075

**BASIC INFORMATION****A. Basic Project Data**

Country Cabo Verde	Project ID P179265	Project Name Cabo Verde: First Fiscal Space and Sustainable Growth DPF (P179265)	Parent Project ID (if any)
Region WESTERN AND CENTRAL AFRICA	Estimated Board Date Dec 01, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of Cabo Verde	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The program development objective is (i) to rebuild fiscal space and (ii) empower sustainable growth towards the green and blue economy.

Financing (in US\$, Millions)**SUMMARY**

Total Financing	25.00
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DETAILS

Total World Bank Group Financing	25.00
World Bank Lending	25.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

The proposed Development Policy Financing (DPF) supports Cabo Verde's fiscal consolidation and lays the foundation for a more sustainable economic growth and is the first of three single-tranche DPF operations in a programmatic series, continuing needed support to ensure fiscal consolidation to place public debt on a decisive downward path and preserve debt sustainability while supporting transformative reforms to gradual transition to the green and blue economy. The series is closely aligned with the priorities of the government outlined in the Strategic Plan for Sustainable Development II (*Plano Estratégico de Desenvolvimento Sustentável, PEDS II*) and the recovery strategy from the COVID-19 crisis (*Cabo Verde Ambição 2030*).

This DPF responds to medium term growth challenges that were exacerbated during recent global crises. Prior to the crisis, Cabo Verde experienced robust and accelerating economic growth driven by a thriving tourism sector and benefiting from deep structural reforms, including reforms in the State-Owned Enterprise (SOE) sector, fiscal restraint, and debt reduction. It focuses on returning to fiscal consolidation while opening fiscal space for climate action supporting a sustainable growth towards the green and blue economy.

Relationship to CPF

The reform program supported by the proposed DPF Series is consistent with the objectives of the WBG Cabo Verde 2020-2025 CPF (report number 127164-CV). This operation builds upon the results of several World Bank Investment Project Financing (IPF), DPF, and TA projects. Operations underpinning this operation include: (i) the Second Resilient and Equitable Recovery with a CAT DDD (P176148); (ii) the Digital Cabo Verde Project (P171099); (iii) the Resilient Tourism and Blue Economy Development (P179274) and the Resilient Tourism and Blue Economy Development (P176981) projects. This operation has a comprehensive structural reform program in support of macroeconomic stability and inclusive growth.

C. Proposed Development Objective(s)

The program development objective is (i) to rebuild fiscal space and (ii) promote sustainable growth towards the green and blue economy.

Key Results

Results expected from this operation: (1) fiscal revenue increases by 2.5 percentage points of the GDP by 2026; (2) tax expenditures would decline by one percentage point of the GDP by 2026 (3) lead to an improved assessment of climate-related risks in the preparation and implementation of public investment projects; (4) GHG emissions derived from green digital infrastructure and services will be reduced; (5) sustainable management of fisheries in Cabo Verde will be strengthened; and (6) diversify the tourism offering and distribute tourism traffic more evenly across the archipelago while preserving the respective natural and cultural heritage.



D. Concept Description

The Fiscal Space and Sustainable Growth DPF series aims at supporting the Government's efforts to rebuild fiscal space while promoting sustainable growth towards the green and blue. The DPF series is closely aligned with the Government priorities established in the PEDS II and Cabo Verde Ambition 2030. The series complements other activities to address fiscal risks and debt transparency –notably through the Performance and Policy Action (PPA) under the Sustainable Development Finance Policy (SDFP), and technical assistance to the fisheries and tourism sectors. Specifically, the series supports the authorities in their efforts to boost domestic revenue mobilization, streamline tax expenditures, and enhance the resilience of public investment to climate change while promoting a green digital infrastructure as well as the sustainability of tourism and fisheries.

The series is structured around two interrelated policy areas: Pillar A aims to rebuild fiscal space in the aftermath of the COVID-19 crisis and Pillar B seeks to promote sustainable growth towards the green and blue economy.

This operation is aligned with the goals of the Paris Agreement. It also reflects the Government's commitments as well as underlying capacity constraints.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The preliminary analysis in this PSIA suggests that this operation is not likely to have significant adverse social effects. Prior Actions in Pillar 1 designed to rebuild fiscal space are expected to have a moderate positive impact of welfare, but most of their impact on poverty might occur through indirect channels. Prior Actions under Pillar 2, seeking to empower sustainable growth towards the green and blue economy, are expected to indirectly improve welfare, with only moderate effects on poverty and inequality.

Environmental, Forests, and Other Natural Resource Aspects

As an archipelago and Small Island Developing State, Cabo Verde has one of the lowest GHG emissions per capita and yet is among the countries most vulnerable to climate change. Cabo Verde faces severe adaptation challenges associated with water resources availability, land degradation, flooding and droughts, and food security. The Government has reaffirmed its commitment to mitigation and adaptation. Cabo Verde revised its Nationally Determined Contribution (NDC) in April 2021, committing to 14 contributions until 2030 through more than 100 measures, which will translate into at least a 20 percent emissions reduction, from 280,000 to 200,000 tCO₂eq, annually. Most reforms supported under the proposed DPF series will have positive environmental impact and contribute to Cabo Verde's climate adaptation and mitigation objectives as prioritized in the NDC.

CONTACT POINT

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Borrower/Client/Recipient

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Implementing Agencies

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APPROVAL

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Approved By

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