
**2024 -
January**

CABO VERDE

Components: Revenue and Spending

Modules:

RM II – Revenue Administration

SM I – Spending Policy

SM II – Managing Public Finances

*CABO VERDE***PROJECT SUMMARY**

COUNTRY: CABO VERDE

LEAD DEPARTMENT: FAD

REGION: AFR

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: FY24-FY28

FUNDING PROGRAM TITLE: GPFP Cabo Verde

PROJECT MANAGERS:

RM II/REVENUE ADMIN: Paulo Paz – Revenue Administration Division 2

SM I/SPENDING POLICIES : Fabiana Machado – EPD

SM II/MANAGING PUBLIC FINANCES : Nicoletta Feruglio – PFM Division 2

PROJECT LEAD MANAGER: Paulo Paz – Revenue Administration Division 2

ESTIMATED BUDGET \$3,968,669

BUDGET FOR ENDORSEMENT: \$1,275,933 (through FY25)

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I. PROJECT PURPOSE

Cabo Verde's authorities have requested Capacity Development (CD) support to: (i) leverage revenue collection and maintain the momentum of tax administration reforms; (ii) strengthen PFM system and integrate climate considerations into PFM and public investment; and (iii) increase spending efficiency and sustainability. Fiscal sustainability is an important part of the Cabo Verdean government's IMF-supported program, which intends to improve the primary fiscal balance from a deficit of 1.9 percent of GDP in 2022 to a close to zero balance by the end of the program (2025) and a surplus of 1 percent of GDP in 2026. During the program, fiscal sustainability will be promoted by higher revenue collection. After the completion of the program, however expenditure-based consolidation will be needed to achieve the projected fiscal surplus. Both revenue and spending reforms are necessary to achieve the expected results. In addition, to the current Extended Credit Facility (ECF) program, the authorities also requested a program under the Resilience and Sustainability Facility (RSF) to help address climate vulnerabilities, risks, and challenges. This project will also contribute towards the achievement of these climate goals.

The first module of this project will focus on modernizing core tax administration business processes through digitalization of business processes and strengthening support functions. With the support of the RMTF project, the tax administration (*Direção Nacional de Receitas do Estado - DNRE*) has been making good progress through Information Technology (IT) solutions, however, it needs to solidify its structure to ensure the sustainability of its digital transformation. DNRE lacks autonomy in some basic governance aspects of its IT solutions, which have been delaying the digitalization of some business processes. New electronic services in the implementation pipeline have the potential of enhancing services to taxpayers and increasing enforcement.

The second module aims at supporting government efforts to increase spending efficiency, adequacy, and sustainability. During these initial engagements, CD will focus on supporting authorities reform the public utility pricing in the water and electricity sectors. Subsequently, the project will explore the possibility of developing a medium-term plan to develop the capacity of Ministry of Finance (MoF) staff to conduct spending reviews in other areas.

The third module of this project aims at strengthening and greening the government's PFM system by supporting reforms to promote fiscal sustainability and address the country's climate change vulnerability. Strengthening public finances is a critical component of the government's fiscal consolidation effort. The government's reform strategy includes strengthening the fiscal framework, improving the efficiency of the public investment framework, accelerating reforms in the state-owned enterprises (SOE) sector, and strengthening financial planning and treasury management, while improving the transparency of public finance.

The four-year project has been discussed with the authorities, and the medium-term objectives and outcomes were agreed upon. The estimated budget for this four-year project is \$3,968,669, but endorsement is requested for \$1,275,933 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

The Cabo Verde economy was severely impacted by the COVID-19 pandemic and the war in Ukraine. Economic growth averaged five percent during the pre-pandemic years (2016-19), international reserves were at comfortable levels, and the fiscal deficit and government debt were on a downward trajectory. When the crisis hit, GDP contracted by close to 20 percent in 2020—the largest decline in the country’s post-colonial history. Post-Covid economic growth recovered rapidly as tourism returned to the islands, but sustained efforts are critical to keep Cabo Verde on a stable growth trajectory. At 18.3 percent of GDP, tax revenue collection in 2022 had recovered from the pandemic lows (17 percent of GDP in 2021) but it is yet to reach pre-pandemic levels (around 20 percent of GDP in 2019).

The authorities requested an IMF-supported program in 2022 to implement their strategic plan for Cabo Verde’s sustainable development. The objective of the authorities’ three-year economic program is to reduce macroeconomic vulnerabilities and create conditions for inclusive growth through a significant reduction in the fiscal deficit and public debt, and improvement in the business environment. Revenue mobilization plays a significant role in the country’s fiscal sustainability efforts. Cabo Verde obtained disbursements from the Extended Credit Facility (ECF) arrangement equivalent to SDR 45.03 million. In the three initial reviews, Cabo Verde’s performance under the ECF program has been considered strong, with all quantitative performance criteria met for June 2023.

The government also requested access to the RSF. The proposed RSF arrangement (SDR 23.7 million, 100 percent of quota) will support the government’s effort to implement macro-critical climate reforms and catalyze private finance for climate adaptation, and transition. The program will support the authorities’ reform measures in five areas: (i) strengthening governance of climate change policy; (ii) improving physical and fiscal resilience; (iii) strengthening mitigation and resilience through promoting energy efficiency and transition to renewables; (iv) promoting adaptation by ensuring ecological and economic sustainability of water resources and planning for long-run climate impacts.

IMF priority areas / cross-cutting themes

In revenue administration, DNRE has made very good progress with digitalization and intends to better integrate with other government institutions. Under the RMTF project, DNRE intensified its digitalization journey by: (i) incrementing taxpayers and third-party data gathering through the Standard Audit File for Tax (SAF-T); (ii) deploying automated tools for auditing Value-Added Tax (VAT); (iii) creating electronic notifications to taxpayers with legal effects; (iv) deploying an electronic system to replace all paper-based work processes with electronic processes; and (v) developing and deploying electronic invoicing. The electronic system to replace paper-based work processes goes beyond the tax administration, and there are opportunities to expand the functionality to integrate data more broadly across public finance. As some of these projects are not fully implemented, the country authorities requested continued support on this modernization platform.

The government has made some progress with the integration of climate considerations into the PFM system, but much remains to be done. The authorities are developing a methodology for tagging climate-related expenditure in budget and financial reporting. The 2023 Fiscal Risks Statement (FRS), identifies disaster risks such as rainfall, flooding and drought and estimates the economic impact of those events. According to the Climate Public Investment Management Assessment (C-PIMA), advances have also been made on a comprehensive climate change policy framework, spatial planning, coordination with

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municipalities and in planning for disaster risk financing. Considering the macro-criticality of the climate reforms, the authorities requested further support to improve green and resilient public investment in a constrained fiscal environment. Climate proofing infrastructures will limit the impacts of adverse natural events and contribute to fostering a quick and robust economic recovery and minimizing growth impacts associated to the initial shock. Addressing the financial sustainability of key infrastructure, such as water and electricity, is a necessary first step.

Country engagement and alignment to reform priorities

The government priorities for revenue administration reforms are indicated in the 2022 ECF arrangement. In the short term, the main priority to mobilize revenue is to reduce the tax arrears stock. Over the medium term, the priorities include the digitalization of all revenue administration and collection processes to obtain gains in efficiency and improved tax compliance, these reforms are expected to yield 2 percent of GDP. In customs, the authorities intend to adopt the Economic Community of West African States (ECOWAS) common external tariff, projected to yield about 1 percent of GDP over the medium term.

The authorities are committed to the reforms and interested in continued FAD support. With RMTF-funded FAD support, the DNRE has modernized the administration of taxes and is adopting digitalization as driving force to achieve reform objectives. As most reforms are midway, the government asked for continued support.

The proposed PFM intervention is closely aligned with the government's priorities established in the National Sustainable Development Plan II (PEDS II), the Cabo Verde Ambition 2030, the 2021 Nationally Determined Contribution (NDC), and the 2023 Strategy for Digital Governance (EGDCV). PEDS II and *Cabo Verde Ambition 2030* have the objective to strengthen public finances to contribute to sustaining dynamic and stable economic growth. The 2021 Nationally Determined Contribution (NDC) identifies measures to adapt infrastructures to the challenges of climate change. The 2023 Strategy for Digital Governance (EGDCV) has enforced overall transparency and digitalization of PFM process as a cross cutting objective. In addition, government priorities for PFM are also indicated in the 2022 ECF and the most recent RSF.

In the past, CD support to Cabo Verde's PFM reform agenda has been provided in a punctual manner. But, considering the criticality of the country's fiscal sustainability efforts and the risks posed by climate change to the macroeconomic, fiscal, and social development, more comprehensive and structured PFM support has been requested by the authorities.

The proposed module on improving the efficiency of public spending, which focuses on is designed to support the government in its fiscal consolidation efforts and in carrying out reform measure 5 (RM5) in the RSF which focuses on public utility tariff reform. In this RM the government commits to estimating the gap between cost-recovery and tariffs in both the water and the electricity sectors, to assess the distributional impact of tariffs and tariff changes, and to devise a plan for tariff adjustment. The first two tasks will be carried out as part of the proposed module, providing critical input for the last task.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

The overall objectives of the project are to strengthen fiscal sustainability through improved revenue administration, enhanced PFM processes, including enhancing climate sensitivity, and increased spending efficiency and sustainability, and to support the implementation of the authorities' climate-related investments and reforms.

Module RM II - Revenue Administration

This module is aligned with the government's priorities and aims to improve the tax administration's performance, increase tax compliance, and strengthen revenue collection, supported by the digitalization of DNRE's work processes. The project is designed to: (i) deepen the digital transformation of DNRE; (ii) streamline and modernize administrative and technical processes and procedures based on IT solutions; (iii) strengthen tax enforcement; (iv) improve organizational and management arrangements; (v) enhance cooperation and data sharing among authorities and other stakeholders; and (vi) implement a compliance risk management strategy based on third-party information.

In the revenue administration module, this project will focus on strengthening revenue administration management and governance arrangements and core business tax administration functions. Each of these objectives will help achieve the outcomes summarized below, which will guide the country reform strategy.

Objective: Strengthened revenue administration management and governance arrangements:

- Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized;
- Corporate priorities are better managed through effective risk management;
- Organizational arrangements enable more effective delivery of strategy and reforms, and
- Support functions enable more effective delivery of strategy and reforms.

Objective: Strengthened core tax administration functions:

- A larger proportion of taxpayers meet their filing obligations as required by law;
- A larger proportion of taxpayers meet their payment obligations as required by law;
- Audit and other verification programs more effectively ensure accuracy of reporting, and
- Taxpayer services initiatives to support voluntary compliance are strengthened.

Module SM I - Spending Policy

This CD project will focus on improving the efficiency, adequacy, and sustainability of spending. During the initial phase of the engagement (FY24-25) the focus will be on the authorities' prioritized area of public utility subsidy reform, with emphasis on reforming public utility pricing in the water and electricity

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sectors, which will support the government's reform efforts under the RSF. Subsequent support will introduce and build capacity within the MoF to undertake spending reviews.

There was a shift in 2023 in the composition of spending towards increased subsidies, including to the energy sector. These transfers fail to cover the revenue shortfalls from tariffs set below cost-recovery levels, while both sectors face increasing financing needs to rehabilitate, expand, green, and improve the resilience of their infrastructure. Moreover, subsidies to public utility services tend to be poorly targeted, compromising spending efficiency. CD will include for both the electricity and water sectors: (i) estimation of the total subsidies (gap between cost-recovery and tariffs); (ii) incidence analysis of subsidies across households (to assess targeting); (iii) simulations of tariff reforms and their redistributive impact; and (iv) recommendations of measures to mitigate the impact of price changes on vulnerable households. This CD work will provide crucial input for the forthcoming RSF program and assist the authorities in implementing agreed reform measures.

In the medium-term, the program will prioritize strengthening the capacity of the government to assess spending policies and identify opportunities for savings or increased spending efficiency. Subject to the interest of the Cabo Verdean authorities, in a medium-term CD program to strengthen capacity of MoF staff to undertake spending reviews that inform the budget process. This engagement will further support the government's efforts at fiscal consolidation and increased spending efficiency.

Module SM II – Managing Public Finances

This module aims to support the government to improve its institutional capacity for developing and implementing a sound macro-fiscal framework, a green and climate resilient public investment management and enhanced fiscal transparency and treasury management. The project proposal component is structured around three mutually reinforcing areas:

Strengthen the macro-fiscal framework. Development of macro-fiscal forecasting capacity is a key priority for the authorities and the ECF program. It is imperative to link in a consistent manner the set of models to forecast key macroeconomics variables with both the Debt Sustainability Analysis (DSA) and the estimated path of revenues and expenditures of the medium-term fiscal framework (MTFF). Consistency ensures that forecasting methods remain uniform over time, reducing the risk of sudden shifts in projections due to changing methodologies or assumptions. Currently the authorities are also focused on enhancing the institutional and technical capabilities required to ensure the full integration of contingent liabilities into the fiscal policy framework, including those associated with disaster and climate-related shocks. The CD activities to be provided in this area will aim to: (i) enhance capacities and models to forecast key macroeconomics variables and strengthen their links with the DSA and MTFF; and (ii) improve fiscal risk management through the incorporation of fiscal risks associated with SOEs, public private partnerships (PPPs) and disasters and climate-related shocks.

Improve the efficiency and climate resilience of PIM. Cabo Verde's public investments are particularly vulnerable to the impacts of climate change due to the country's socio-economic and geographical specificities. According to the 2023 C-PIMA, climate-sensitive public investment management is at a nascent stage. Performance in PIM is also hindered by limited capacity and basic PIM processes and procedures. To foster fiscal sustainability, authorities are committed to improve the efficiency of PIM and to climate proofing infrastructures. Activities in this area will provide CD for the implementation of the RSF RMs and the other C-PIMA recommendations (see Box 1).

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Enhance fiscal transparency and treasury management. This pillar builds on previous successful CD on enhancing fiscal and financial transparency of the SOEs sector – culminated in the launch of the SOE manager platform where the financial data of the majority of SOEs are available monthly - and the development of a fiscal transparency law. This pillar will provide additional CD support for the finalization of the fiscal transparency law, the development of a comprehensive transparency portal as well as continue the technical assistance (TA) on fiscal reporting and the implementation of the cash forecasting and analysis tool (CFAT) to strengthen cash management operations.

Box 1. C-PIMA Recommendations and RSF RMs

The C-PIMA proposes six priority actions for reform, three urgent and other medium-term priorities which could further improve climate-related public investment management (PIM) processes and support the government effort for a green and sustainable economic growth.

Six priority actions:

- Gradually integrate disaster risks and other climate-related risks into the fiscal risks statement. **(Proposed RM2)**
- Define what is a major project and different appraisal procedures according to the size and complexity of the project.
- Develop standardized methodology for project screening and project appraisal (including climate change analysis).
- Develop a PPP manual integrating climate requirements into PPP arrangements from project identification to contract management stage **(Proposed RM3)**.
- Revise the overarching regulatory framework for PEs to ensure alignment of PEs capital projects with national climate objectives.
- Develop a standardized methodology for estimating current and capital maintenance needs including climate related risks.

Three measures are highlighted as urgent because of their critical nature for the whole PIM system:

- Define the concept of "capital project".
- Develop a PIM legal framework regulating the whole capital project cycle (planning, appraisal, selection, capital portfolio management, etc.) including climate considerations.
- Develop a comprehensive capital investment plan to inform the implementation of the National Sustainable Development Plan II (PEDS II) (including climate relevant capital projects) **(Proposed RM4)**.

Source: Cabo Verde C-PIMA.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM II / Revenue Administration	• Strengthened revenue administration management and governance arrangements. • Strengthened core tax administration functions.
Spending	SM I / Spending Policy	• Strengthen Expenditure Policy Formulation and Design
	SM II / Managing Public Finances	• Build fiscal institutions and frameworks. • Improve fiscal transparency and reporting. • Strengthened budget management.

B. Country Engagement

In revenue administration, the DNRE has achieved remarkable success benefiting from two consecutive FAD Capacity Development (CD) projects. The Tax Policy and Administration Topical

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Trust Fund (TPA-TTF), from FY15 to FY17, and the Revenue Mobilization Thematic Fund (RMTF) CD project, from FY18 to FY24, supported a series of reforms in core tax administration functions and revenue administration management and governance arrangements. Under the RMTF-funded project, DNRE has been making relevant progress. The DNRE modernized its taxpayer register, implemented a regular strategic planning framework, designed the compliance risk strategy, and is preparing its transformation into a revenue authority. The RMTF project especially supported the digitalization of DNRE's work processes, in which the institution: (i) developed and deployed the electronic invoices; (ii) implemented the use of electronic mailboxes, signatures, and notifications; (iii) adopted the OECD's Standard Audit File for Tax (SAF-T) to gather digital taxpayers' accounting data periodically; (iv) started to use dashboards to support timely decision-making processes; (v) developed the first stages of the automated VAT audit system; and (vi) customized an IT system to replace all paper-based case files and workflows by digitalized processes, procedures, and documents.

Based on the progress made, the authorities requested to be considered for a new CD program in the revenue administration area. Even with significant advances, most of the projects are being implemented and have a considerable way to go, such as the: (i) OECD's Standard Audit File for Tax (SAF-T); (ii) automated VAT audit system; (iii) IT system that will eliminate paper flows in the revenue administration; (iv) Revenue Authority implementation; (v) integration between DNRE and the General Prosecutor to investigate tax crimes; and (vi) modernization of taxpayers services. The DNRE has demonstrated strong commitment and, more importantly, has made progress over the years with FAD support.

In the past FADM2 in collaboration with AFW-2 provided CD support to the country's PFM agenda. Reforms that benefitted from PFM CD support are: (i) increased transparency of the SOEs sector; (ii) public investment management including the C-PIMA; (iii) fiscal reporting and revision of budget classification (iv) macro-fiscal forecasting; (v) revision of the financial controller's (FC) role in implementing budget expenditures; and (v) improved transparency through an initial TA on the fiscal transparency law and the portal.

C. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure STX work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.
- **Short-term expert (STX)** visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration and public financial management. The project will seek to use Portuguese-speaking experts.
- **Workshops**, during the HQ missions, staff visits, or STX visits, to share experiences, provide stakeholders with a view of progress achieved and challenges faced, and discuss with the managers and staff their views on the reforms and particular technical subjects.

D. Coordination / Cooperation

In the revenue administration, the activities in this proposal reflect FAD's assessment of specific needs to keep the tax administration reform momentum in Cabo Verde. Appropriate linkages with the existing CD programs are defined using the IMF's result-based management (RBM) framework. In addition to the CD provided by FAD under the RMTF, DNRE has also benefited from AFRITAC West 2 CD, which is closely coordinated by FAD. The new program will keep close coordination and ensure integrated IMF CD.

The IMF's long history of close coordination with other CD providers and the country's authorities will continue to build on synergies in the CD provision. Regarding the other CD providers' support, OECD is providing guidance in external cooperation and data exchange areas and, together with UNDP, is helping to build tax audit capacity in international taxation through the Tax Inspectors Without Borders program. European Union and World Bank have supported the electronic invoicing project in close cooperation with FAD. It was agreed that the RMTF project would not cover international taxation issues as these were handled by the CD partners. RMTF focused on strategic management and governance and the modernization of core business processes. Close coordination through regular meetings, report sharing, and mutual support are agreed to keep synergies and avoid overlap of CD. Similarly, to what happened with the RMTF project, coordination among the CD providers will be carried out by the National Director of DNRE.

Activities under the PFM project proposal component are closely coordinated with other donor support and will complement and contribute to the latter. The World Bank is preparing both a Development Policy Financing (DPF) including a prior action and triggers on climate resilient PIM and a transport project that works on PPPs. Luxembourg finances a climate project which supports the development of both a climate financing strategy and an institutional framework to better coordinate the government's climate initiatives, including the climate resilient investments. In the case of Portugal, the recent debt-for-financing swap agreement will provide seed money for the Climate and Nature Fund and allow financing of climate change projects, although the procurement will be restricted to Portuguese firms.

The activities under the EP module will complement current engagement between the Cabo Verdean authorities and the World Bank and the government of Luxembourg. The World Bank is currently focused on the institutional and regulatory aspects of sector design, but not on fiscal issues and tariff design. The government of Luxemburg, in turn, is working with Cabo Verde in extending the coverage of water and sanitation services. Measures to increase the financial sustainability of the sector and the distributional analysis of subsidies and tariffs are especially relevant in this context.

IV. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Probability	Impact	Mitigation Measures
External climate/conditions				
General	External shocks (social, political, economic, etc.) impact government revenue and expenditures.	Medium	High	Work with the IMF country teams and other IMF departments to analyze emerging fiscal risks and propose fiscal policies to minimize fiscal risks.
Revenue Administration (RM II)	Government revenue measures adversely impact the tax ratio.	Medium	Medium	Work with country team and authorities to monitor revenue measures and their impact on the tax ratio and propose reforms to boost the tax ratio.
Managing Public Finances (SM II)	Other pressures on the ministry of finance can impact capacity for PFM reform.	Medium	Medium	Work closely with country team and authorities and adopt a flexible delivery approach.
Political Support				
Revenue Administration (RM II)	Lack of political support to ensure the autonomy needed to mobilize revenue collection.	Low	Low	Focus on strategic advice to enhance government's awareness about the need for autonomy at DNRE. Close coordination with the IMF's African department to facilitate this view.
Spending Policy (SM I)	The issue of subsidies removal is usually politically sensitive and could trigger some resistance.	High	High	Highlight the pressing needs in terms of infrastructure and social spending. Reiterate the case that subsidies are an inefficient type of spending.
Managing Public Finances (SM II)	Reform implementation often requires political support to implement improved PFM processes and for those processes to be followed.	Low	Low	Recommendations tailored to country context. The PFM CD Team will engage regularly to ensure continued commitment of the national stakeholders' part.

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General or Module	Description	Probability	Impact	Mitigation Measures
Management and Technical Staff Support and Commitment				
Revenue Administration (RM II)	Two different career paths can undermine synergies and challenge some reforms	High	Medium	Encourage authorities to implement the unification of the two career paths and closely monitor projects.
Spending Policy (SM I)	Reform commitment of senior officials is high but weak technical skills among the staff could create obstacles to the implementation of the recommendations	High	Medium	Evaluate capacities during CD delivery and propose follow up engagement to train and strengthen it, if needed.
Managing Public Finances (SM II)	Reforms are often dependent upon capacity of PFM staff, adequate staffing, and support for reforms.	High	Medium	Tailor TA and recommendations to the country context and capacities.
Resource Adequacy				
Revenue Administration (RM II)	Limited resources to implement reforms.	Medium	Medium	Improve governmental awareness of the need to ensure resources to achieve the expected results. Technical capacity is not an issue at DNRE, and the staff is very professional and committed. Even though, especially in IT, there are limited resources impacting results.
Managing Public Finances (SM2)	Reforms can be dependent upon adequate financial resources to fund PIM institutions.	Medium	Medium	CD can be targeted where prospects of reform implementation are strongest, and integration with other donors helps secure resources.
Other risks				
General	Slow implementation of reforms	Medium	Medium	Aligning reforms timeline with conditions in the field - low capacity and lack of resources. Close monitoring and readiness to adopt necessary changes.

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V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY24	FY25	FY26	FY27	FY28	Grand Total
RM II - Revenue Administration						
HQ-led CD mission	1	1	1	1	1	5
STX visits	1	4	5	4	4	18
Staff visits	-	1	1	1	1	4
Workshops (during the HQ missions)	1	1	1	1	1	5
SM I - Spending Policy						
HQ led CD mission	-	1	1	1	-	3
SM II – Managing Public Finances						
HQ-led CD mission	1	2	1	1	1	6
STX visits	1	2	2	2	1	8
Staff visits	-	1	1	-	-	2
Workshops (during the HQ missions and remote)	-	1	1	-	-	2

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Table 3. First year workplan

Timing		CD Modality	Proposed Topics of CD
RM II - Revenue Administration			
FY24 – Q4	Follow-up	1 HQ mission and 1 remote STXs	Assessment of RMTF and baseline for GPFP and core functions modernization
FY25 – Q1	Follow-up	1 FB and 1 remote STX	HR rules, VAT implementation, and modernization of audit function
FY25 – Q2	Follow-up	1 HQ mission and 1 remote STX	VAT implementation and digitalization
FY25 – Q3	Follow-up	1 FB and 1 remote STX	Digitalization and on-time filing and payment enforcement
FY25 – Q4	Follow-up	1 FB and 1 remote STX, and one staff visit	Strategic and business planning and use of third-party data
SM I - Spending Policy			
FY24 – Q4	Diagnostic	1 HQ mission	Provide an overview of water and electricity sectors institutional and market structures and collect administrative data to estimate subsidies and survey data for subsequent analysis.
SM II – Managing Public Finances			
FY24 – Q4		1 HQ mission, 1 STX,	PPP legal framework and manual (RM3); climate-sensitive capital project appraisal screening.
FY25 – Q1		1 HQ mission and 1 STX	Public Investment Program (PIP) and macro-fiscal framework.
FY25 – Q2		1 STX	Fiscal transparency.
FY25 – Q3		1 STX and 1 staff visit	Cash management and staff visit for the second RSF review.
FY25 – Q4		1 HQ mission	Fiscal risks including climate-related risks (RM1).

VI. PROGRAM FINANCIALS

	FY24 Q4	FY25	FY26	FY27	FY28	TOTAL (USD)
Direct Delivery	327,995	864,465	988,019	875,503	653,055	3,709,036
Module RM I - Tax Policy	0	0	0	0	0	0
Module RM II - Revenue Administration	215,957	367,730	425,289	390,125	401,829	1,800,931
Module SM I - Spending Policy	0	184,735	190,277	195,986	0	570,998
Module SM II - Managing Public Finances	112,038	312,000	372,452	289,392	251,226	1,337,107
Subtotal	327,995	864,465	988,019	875,503	653,055	3,709,036
Trust fund management fee (7%)	22,960	60,513	69,161	61,285	45,714	259,633
TOTAL	350,955	924,978	1,057,180	936,788	698,768	3,968,669

The estimated budget for this four-year project is \$3,968,669, but endorsement is requested for \$1,275,933 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. REVENUE MODULE II - REVENUE ADMINISTRATION

A. Program Objectives

The objective of this module is to help DNRE to improve the tax administration's performance and revenue collection. Strengthening core administration functions will streamline tax administration processes and proceedings and increase tax compliance. Enhancing revenue administration management and governance arrangements will modernize the tax administration with increased transparency and accountability. Digitalization can support DNRE moving from a geographical-based institution to a knowledge-based institution.

In particular, CD activities will focus on:

- Using the SGP system to redefine roles based on knowledge and specialization to replace the geographical-based structure;
- Using third-party information to enhance enforcement and tax compliance;
- Completing the design and implementation of the automated VAT audit system,
- Implementing the Revenue Authority or another model that ensures the necessary autonomy for DNRE
- Enhancing integration between DNRE and the General Prosecutor to investigate tax crimes
- Modernizing services to taxpayers with the use of the Taxpayer Integrated View system;
- Enhancing the strategic management;
- Enhancing transparency and accountability; and
- Modernizing core functions.

B. Expected Results (outcomes)

This CD project aims to obtain the following results: (i) increase revenue collection; (ii) improve the tax administration's performance; (iii) increase tax compliance (filing and payment rates); (iv) simplify the tax system; and (v) increase digitalization focusing on specialization rather than geographical presence.

C. Targeted Logical Framework – REVENUE ADMINISTRATION

Objective	
Strengthened revenue administration management and governance arrangements	
Outcome(s)	Indicator(s)
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized.	Key performance indicators established, regularly reported and monitored.
Corporate priorities are better managed through effective risk management.	Improved identification, assessment, ranking and quantification of compliance risks (TADAT POA2-3).
Organizational arrangements enable more effective delivery of strategy and reforms	Appropriate institutional settings in place (Revenue Authority or another model that ensures autonomy)
Support functions enable more effective delivery of strategy and reforms.	Improved human resources strategies and practices to support the tax administration (TADAT 2019 POA2-7)
Digital technologies are better aligned with strategic objectives	Improved ICT strategies and systems to support the tax administration.
Objective	
Strengthened core tax administration functions	
Outcome(s)	Indicator(s)
A larger proportion of taxpayers meet their filing obligations as required by law.	On-time filing ratio improved (TADAT 2019 POA4-12).
A larger proportion of taxpayers meet their payment obligations as required by law.	On-time payment ratio improved (TADAT 2019 POA5-17)
Audit and other verification programs more effectively ensure accuracy of reporting.	Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud (TADAT 2019 POA6-19)
Taxpayer services initiatives to support voluntary compliance are strengthened.	Scope, currency, and accessibility of information for taxpayers improved (TADAT 2019 POA3-8)

ANNEX II. SPENDING MODULE I – SPENDING POLICY

A. Program Objectives

The sustained improvement in fiscal balances over the medium-term and the implementation of the macro-critical climate reforms, requires government efforts on expenditure policy.

The immediate priority is to assess the size of subsidies in electricity and water sectors, assess distributional implications of removing subsidies and design reform scenarios that appropriately consider mitigation measures to provide support to vulnerable groups of population. Given the social and political sensitivity of these topics, reform recommendations will need to be carefully tailored to the country capacity to manage the risk of rolling back and detailed reform timelines that balance fiscal and political economy considerations will be proposed.

During the initial phase of the engagement, IMF staff will also explore the authorities' interest in continuing the CD activities to cover other areas of expenditure policy, such as government wage bill management, health, education, or pension spending.

B. Expected Results (outcomes)

The expected outcome is a set of recommendations to remove subsidies in electricity and water sectors in a way that mitigates adverse effects on vulnerable groups of the population, in particular:

- A meaningful reduction of subsidies to electricity and water sectors
- An increase in the coverage and adequacy of social assistance programs
- An increase in the quality of basic infrastructure such as electricity and water and sanitation.

C. Targeted Logical Framework – SPENDING POLICY

Objective	
Strengthen Expenditure Policy Formulation and Design	
Outcome(s)	Indicator(s)
Reduce subsidies while mitigating impact on vulnerable households	Existing social safety nets are capable of protecting vulnerable groups from price reform Public subsidy spending, in percent of GDP

ANNEX III. SPENDING MODULE II - MANAGING PUBLIC FINANCES

A. Program Objectives

The objective of this project component is to strengthen and greening the government's PFM's reform agenda to both sustain fiscal consolidation and address the country's climate change vulnerability.

This project proposal component is structured around three mutually reinforcing pillars:

- Strengthen the macro-fiscal framework.
- Improve the efficiency and climate resilience of PIM.
- Enhance fiscal transparency and treasury management.

B. Expected Results (outcomes)

This project component will contribute to the achievement of the following results: (i) enhanced macro-fiscal forecasting capacity; (ii) improved fiscal risks management including of risks associated to climate; (iii) a more efficient and climate resilient PIM system; (iv) enhanced treasury management; and (v) improved fiscal transparency.

C. Targeted Logical Framework – MANAGING PUBLIC FINANCES

Objective	
Build Fiscal Institutions and Frameworks	
Outcome(s)	Indicator(s)
Strengthened fiscal policies, frameworks, institutions, and laws.	Strengthened PFM laws and regulations.
	Strengthened legal and institutional framework for gateway process to support evaluation and decision makings on infrastructure projects and operations (Record Score: PIMA5.b, PIMA 10.a).
Strengthened capacity to plan, implement and sustain infrastructure governance.	Developed strategic and/or operational infrastructure governance action plans.
Strengthened capacity to plan, implement and sustain priority area reforms including climate, gender, and SDGs.	Developed strategic and/or operational climate, gender or SDG action plan.
Objective	
Improve Fiscal Transparency and Reporting	
Outcome(s)	Indicator(s)
Comprehensive, timely, and high-quality fiscal reports.	Strengthened completeness, timeliness and consistency of annual financial statements (Record Score: PEFA PI-29) FTC1.2.2.
	Improved transparency of other fiscal reports and processes.

Objective	
Strengthened Budget Management	
Strengthened medium-term frameworks.	Improved comprehensiveness and credibility of medium-term budget framework and/or expenditure framework (Record Score: PEFA PI-16, FTC 2.1.3).
	Improved comprehensiveness of macro fiscal forecasts.
Strengthened asset and liability management processes.	Strengthened effectiveness and timeliness of cash flow forecasting and cash balance management including for capital spending (DEMPA DPI 11, PEFA PI-21.2).
Strengthened identification, monitoring, and management of fiscal risks.	Enhanced disclosure of long-term fiscal sustainability analysis.
	Improved preparation and disclosure of macro-fiscal sensitivity analysis or alternative scenarios.
	Strengthened effectiveness of management and reporting public corporation's fiscal risks including quasi-fiscal activities.
	Strengthened effectiveness of management and reporting of climate related fiscal risks.