

I. COUNTRY REFORM PROGRESS

Cabo Verde's economy kept its growth trajectory in 2025, supported by strong tourism demand, resilient private consumption, and solid investment performance. The authorities have maintained prudent macroeconomic policies, preserving fiscal stability while advancing priority structural reforms. Real 2025 GDP growth is estimated at 5.5 percent while inflation has remained low, and inflation stood at 2.3 percent (annual average).

The 2025 fiscal balance exceeded IMF program targets, driven by lower primary expenditures and strong tax revenue growth. Tax base broadening through lower tax expenditures and stronger revenue administration raised the tax-to GDP-ratio to 22 percent in 2025. Current primary expenditure closed 2025 at 22.2 percent of GDP, nearly one percentage point higher than 2024 but about $\frac{3}{4}$ percent of GDP below program projections due to the partial phase-in of the already approved public servants' salary increase and a slower growth in spending on goods and services. The 2025 primary balance registered a record-high surplus of 3.1 percent of GDP and, if adjusted for one-off factors, the 2025 primary balance was 1.4 percent of GDP, 0.1 percent of GDP above the 2024 level.

This capacity development (CD) work by the IMF's Fiscal Affairs Department (FAD), financed by the Global Public Finance Partnership (GPFP), has supported reforms in revenue administration, spending, and public financial management (PFM). In revenue administration, the project has focused on domestic taxes. With the tax administration (*Direção Nacional de Receitas do Estado* – DNRE) achieving significant progress through digital transformation and the modernization of core business functions, the domestic tax collection increased by 17 percent year-over-year, raising the tax-to-GDP ratio to 22 percent in 2025 – 1.6 percentage points over 2024. In November 2025, the government approved a law creating the *Autoridade Tributária e Aduaneira de Cabo Verde* (a Semi-Autonomous Revenue Authority - SARA). As the authorities have up to November 2026 to deploy the SARA, it became a high priority for the tax administration and for the CD program.

The spending policy module delivered targeted technical assistance to Cabo Verdean authorities, directly supporting reforms in electricity, water, and wage bill management to enhance spending efficiency and fiscal sustainability. Guided by IMF CD, authorities are in the process of adopting tariff adjustments and data-driven wage bill reforms, improving the targeting of social benefits, and strengthening of the ministry of finance (MoF) leadership in ensuring the financial sustainability of public utilities. Work with the World Bank and LuxDev expanded the Unique Social Registry and reviewed tariff methods and data, contributing to improved utility cost-recovery and enhanced targeting of social benefits to those in need.

The PFM module focused on strengthening public investment management (PIM) and integrating climate considerations across the capital project lifecycle. Support enabled the MoF to establish a national project list (capital investment registry), which the authorities have committed to progressively expand to cover all projects across the investment cycle. Once fully operational, the registry will serve as the central platform for project selection and execution monitoring, enhancing the quality of projects selection and thereby the efficiency of public investment. The development of a pipeline of pre-appraised projects, including green and resilient investments, is a key reform under Cabo Verde's Resilience and Sustainability Facility (RSF) arrangement and an integral part of the authorities' climate financing strategy. This CD marks the final support provided under the RSF framework.

II. PROJECT DELIVERY HIGHLIGHTS

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: After five years of discussion, the country established a SARA on November 5, 2025, to ensure greater autonomy in tax administration. SARA is expected to become operational on November 5, 2026. The institution is advancing a robust modernization agenda focused on enhanced taxpayer services and IT solutions, underpinned by a compliance risk management (CRM) approach. In FY26, (1) an HQ-led mission supported the SARA implementation; (2) CD supported the deployment of a communication strategy and support functions for the SARA; (3) a new VAT gap analysis identified risks related to the offsetting of VAT credits that need to be addressed; (4) CD support was provided to enhance compliance with electronic invoicing by taxpayers; (5) an audit manual was developed; and (6) the annual audit plan was revised to align the audit function with international good practices and the CRM strategy.

Previous Progress: GPFP has supported the implementation of CRM as the backbone of DNRE institutional transformation and the modernization of core functions, with a particular focus on improving timely filing and payment compliance. An HQ led mission recommended aligning the audit function with the CRM strategy, which is currently under implementation. The GPFP project also supported the modernization of the VAT law, which is now under parliamentary review.

Next Steps: CD will continue to support SARA's implementation, particularly in the areas of support functions (IT and HR), change management, communication strategy, and organizational design. Additional CD on risk management and internal audit is in the pipeline. Discussions on establishing a center of excellence in data analytics are ongoing; if implemented, this initiative could enable a fully data driven approach to tax administration.

SM I: Spending Module I – Spending Policy

Key Progress in FY26: The spending module delivered CD to Cabo Verdean authorities that focused on three key spending policy areas: electricity, water and sanitation subsidies, and the wage bill. In FY26, a spending review mission provided the first comprehensive evaluation of the ongoing, complex, multi-year wage bill reform, which has had substantial fiscal consequences. By quantifying the reform's impact and recommending measures to ensure fiscal sustainability, the mission provided authorities with data-driven insights and actionable strategies to manage public finances and mitigate potential risks. Additionally, the mission worked in close collaboration with the World Bank, sharing its assessment of the reform and identifying targeted areas for practical support on wage bill management that would offer the greatest benefit to authorities following this major reform

Previous Progress: In the area of subsidies, the mission sought to quantify the gap between service delivery costs and tariffs and provided recommendations to eliminate subsidies. This engagement helped bridge the fiscal and macroeconomic perspective of the MoF with the technical and engineering approach of the sectoral ministries, improving the MoF capacity to spearhead reforms, and fostering a shared understanding and a more coherent reform path. Implementation of the recommendations is advancing well. With the support from LuxDev, progress has been made in estimating the cost of service for subsequent application of the tariff methodology to adjust tariffs accordingly. Additionally, collaboration with the World Bank has led to expanded coverage of the Unique Social Registry to improve the targeting of social assistance programs.

Next Steps: Looking ahead, pension reform has been identified as a critical area for CD support to address ongoing fiscal pressures, with a mission planned in late 2026.

SM II: Spending Module II – Managing Public Finance

Key Progress in FY26: In September 2025, FAD supported the authorities in developing a list of screened green and resilient capital projects. The authorities committed to this list as Reform Measure (RM) No. 4 under the RSF. In addition, in the framework of the same CD mission, FAD (1) suggested an investment project concept note template incorporating climate adaptation elements; and (2) proposed financing options for feasibility and pre-feasibility studies.

Previous Progress: In FY25, the project was instrumental in supporting the authorities in achieving key milestones under the RSF. The assistance contributed to strengthening the Fiscal Risk Statement, including the incorporation of a dedicated section on climate-related fiscal risks. It also supported amendments to the public-private partnership (PPP) legal framework and the development of operational guidance to integrate climate considerations across the different stages of the PPP project cycle. The September mission marked the conclusion of RSF-related support, consolidating progress in enhancing the country's resilience to climate shocks through the integration of climate considerations into PFM and PIM systems.

Next Steps: During FY27, additional support will be provided to further strengthen PIM practices, while carefully considering the impact of the presidential and legislative elections scheduled for the 2026 calendar year on the authorities' reform commitments.

III. LOGICAL FRAMEWORK

Country – Cabo Verde		
RM II: Objective – Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 2
Outcome	Rating	Narrative
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	2 Partially Achieved	DNRE continues to regularly monitor its KPIs, though some KPIs are still dependent on making timely information available.
Corporate priorities are better managed through effective risk management	3 Largely Achieved	CRM is fully implemented, and FAD is supporting the review of institutional risks.
Organizational arrangements enable more effective delivery of strategy and reforms	3 Largely Achieved	The SARA was promulgated and was created on November 5, 2025, after the Council of Ministers approved the bill of a Revenue Authority, which was promulgated by the President.

Support functions enable more effective delivery of strategy and reforms	2 Partially Achieved	The SARA was created in November 5, 2025, with implementation measures underway and support functions being created through November 2026.
Digital technologies are better aligned with strategic objectives	2 Partially Achieved	CD to support the achievement of this outcome is ongoing. Plans for a center of excellence in data analysis are under discussion with the authorities, who benefited from a short-term expert visit to support the ongoing project to enhance the electronic invoice system.
RM II: Objective –Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 2
Outcome	Rating	Narrative
A larger proportion of taxpayers meet their payment obligations as required by law	2 Partially Achieved	Progress in enforcing tax debtors through automated control and electronic notifications have supported increased tax compliance. A new IT module for payment in instalments was deployed. A new measurement will be taken during the 2026 Tax Administration Diagnostic Assessment Tool (TADAT) evaluation but may be postponed due to the Revenue Authority implementation.
A larger proportion of taxpayers meet their filing obligations as required by law	2 Partially Achieved	A review of core functions was delivered in FY25, but this outcome requires a set of measures to be implemented up to 2027. A new measurement will be taken during the TADAT assessment scheduled for early 2026.
Audit and other verification programs more effectively ensure accuracy of reporting	2 Partially Achieved	DNRE advanced reforms in the audit function by developing a manual of audit procedures and reviewing the annual planning process to align with CRM strategies. The audit manual review by the Legal team was impacted by the SARA implementation.
Taxpayer services initiatives to support voluntary compliance are strengthened	2 Partially Achieved	DNRE still has limited IT developers in place to modernize the IT system (i.e., SGP) as needed to enhance taxpayer services through online processes. With the SARA implementation, a recruitment process for IT developers is ongoing, supported by GPFP.
SM I: Objective – Strengthen Expenditure Policy Formulation and Design - EPD		Rating - 3
Outcome	Rating	Narrative
Reduce subsidies while mitigating impact on vulnerable households	2 Largely Achieved	Progress has been made in extending the coverage of the Unique Social Registry to 100 percent of poor and vulnerable households. Cooperation with development partners (i.e., LuxDev) on tariff is advanced, including

		estimating cost-recovery rates and conducting a full tariff review in both the water and electricity sectors.
Government pay and employment are more competitive and consistent with fiscal constraints	3 Largely Achieved	The mission quantified the fiscal impact of major recent wage bill reforms and identified recommendations to contain its costs. The reforms increased wage bill by about 1 percent of GDP, but it is expected to trend softly down over the medium term under current policy assumptions.
SM II: Objective – Build Sustainable Fiscal Institutions – SFI		Rating - 4
Outcome	Rating	Narrative
Strengthened institutional and legal frameworks	4 Fully Achieved	The PPP Law and associated manual have been approved. The law and manual include climate considerations.
Strengthened capacity to plan, implement and sustain infrastructure governance	4 Fully Achieved	The capital investment plan including climate and resilient capital projects has been developed. A new project concept note and mechanism to finance project appraisals are currently under consideration of the authorities
Strengthened capacity to plan, implement and sustain priority area reforms including climate, gender, and SDGs	4 Fully Achieved	Same as above.
SM II: Objective – Improve Fiscal Transparency and Reporting – FTR		Rating - 1
Outcome	Rating	Narrative
Comprehensive, timely, and high quality fiscal reports	1 Not Achieved	The authorities formulated a CD request at the October 2025 Annual Meetings seeking support in this area. The activity is planned for FY27, with the exact timing to be agreed with the authorities, taking into account the 2026 electoral cycle.
SM II: Objective – Strengthen Budget Management – SBM		Rating - 1
Outcome	Rating	Narrative
Strengthened medium-term budget frameworks	1 Not Achieved	CD to enhance capacities and models to forecast key macroeconomic variables and strengthen their links with the debt sustainability analysis and medium-term fiscal framework has not been provided yet.
Strengthened asset and liability management processes	1 Not Achieved	Work with the IMF's Cash Flow Forecasting and Analysis Tool has not started yet.
SM II: Objective – Strengthen Macroeconomic Frameworks – SMF		Rating - 4

Outcome	Rating	Narrative
Strengthened identification, monitoring, and management of fiscal risks	4 Fully Achieved	The Fiscal Risk Statement includes an assessment and quantification of the fiscal risks associated with natural disasters.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM II: Government revenue measures adversely impact the tax ratio.	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.
External shocks (social, political, economic, etc.) impact government revenue and expenditures.	High	Work with the IMF country teams and other IMF departments to analyze emerging fiscal risks and propose potential fiscal policies to minimize fiscal risks.
Political Support		
RM II: Lack of political support to ensure the autonomy needed to mobilize revenue collection.	Low	Focus on strategic advice to enhance government's awareness about the need for autonomy at DNRE. Keep close coordination with the IMF's African Department to facilitate this view.
SM I: Subsidies removal and wage bill reform are often politically sensitive and could trigger some resistance.	Very High	Highlight the pressing needs in terms of infrastructure and social spending. Reiterate the case that subsidies are an inefficient type of spending. Quantify fiscal pressure from wage bill through projections to illustrate risks.
SM II: Other pressures on the MoF can impact capacity for PFM reform. Parliamentary and presidential elections will take place in 2016.	Medium	Focus on strategic PFM/PIM reforms possibly connected with the RSF and the IMF's Extended Credit Facility (ECF) to increase traction.
Management and Technical Staff Support and Commitment		
RM II: Two different career paths can undermine synergies and challenge some reforms	High	Encourage authorities to implement the unification of the two career paths and closely monitor projects.
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	Evaluate capacities during CD delivery and propose follow-up engagement to train and strengthen it, if needed.
SM II: The December 2024 municipal elections provided early indications that the outcome of the 2026 elections remains highly uncertain. In this context, institutional capacity—and particularly commitment to reforms—will be weakened.	High	Focus on strategic PFM and PIM priorities, closely aligned with the ECF-supported program and RSF reform agenda, to strengthen traction and reinforce authorities' commitment.

Description	Rating	Mitigation Measures
Resource Adequacy		
RM II: Limited resources to implement reforms.	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.
Other Risks		
RM II, SM I: Slow implementation of reforms	Medium	Aligning reforms timeline with conditions in the field - low capacity and lack of resources. Close monitoring and readiness to adopt necessary changes.
SM II: Other pressures on the MoF of finance can impact capacity for PFM reform	Medium	Work with the IMF country team and other IMF departments to assess emerging pressures and propose an action plan to phase in PFM reforms.

V. PROJECT MANAGERS: CONTACT INFORMATION

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