

I. COUNTRY REFORM PROGRESS

As a result of ongoing reforms, Cabo Verde's fiscal balance has improved over time, and exceeded the IMF program targets in 2024, driven by strong tax revenue growth, which boosted the tax-to-GDP ratio to 20 percent, a 0.8 percentage point increase over 2023, with tax collection increasing 14 percent year-over-year.

The Global Public Finance Partnership (GPFP) project for Cabo Verde has components from revenue administration, spending and public finance management. Regarding the tax administration, Cabo Verde's tax administration has benefited from capacity development (CD) projects since 2013 (Tax Policy and Administration Topical Trust Fund (TPA-TTF), Revenue Mobilization Thematic Fund (RMTF), and GPFP). Over these three projects, the country advanced a comprehensive digital transformation. Starting with electronic filing of all core taxes, the tax administration (*Direção Nacional de Receitas do Estado – DNRE*) implemented electronic filing, signatures, mailboxes, and notifications, which enabled the tax administration to notify more taxpayers in the first six months of the rollout than in the previous 40 years. The DNRE also developed an in-house electronic invoicing IT system, started collecting electronic taxpayers' accounting data, and developed an automated value-added tax (VAT) audit system and an IT solution to replace internal paper flows with electronic documents. GPFP also supported modernizing administrative procedures in the corporate income tax and the value-added tax acts.

The GPFP spending module has delivered a comprehensive diagnosis of the financial status of the water and electricity sectors, identifying the primary factors contributing to the gap between service costs and the tariffs applied. The report also presents reform options designed to address this gap while mitigating the impact of public utility tariffs on vulnerable households. The sectoral knowledge shared with the Ministry of Finance and Business Promotion (MFFE) plays a vital role in bridging a prevalent sector specific knowledge gap commonly found in ministries of finance. The insights provided by the activities foster a more informed dialogue between the MFFE and sectoral line ministries and entities, ultimately leading to better decision-making. Such collaboration enhances MFFE's leadership in advancing the reforms committed to under the IMF's Resilience and Sustainability Facility (RSF) program.

The GPFP public financial management (PFM) module has contributed to strengthening Cabo Verde's climate resilience and supporting the government in achieving key reform measures under the RSF program. Cabo Verde's public investments are particularly vulnerable to the impacts of climate change due to the country's socio-economic and geographical characteristics. To support fiscal consolidation, the authorities are committed to improving the efficiency of public investment management (PIM) and to climate-proofing infrastructure. The PFM module supported the authorities in amending the legal framework for public-private partnerships (PPPs) and in integrating climate-related analysis into PPP project appraisal, selection, procurement, and contract management processes. Additionally, support was provided to develop the first version of a PPP Manual. Assistance was also provided to enhance the fiscal risk statement (FRS), which now includes a comprehensive assessment and quantification of fiscal risks posed by natural disasters. The technical assistance provided—covering the amendment of the PPP legal framework, development of the manual, and quantification of climate-related fiscal risks—represents key reform measures to which the authorities have committed under the RSF program.

II. PROJECT DELIVERY HIGHLIGHTS

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: As part of the modernization agenda, the DNRE has increased the revenue-to-GDP ratio to 20.1 percent, surpassing pre-COVID levels. The DNRE is undergoing a robust digital transformation, encompassing both service and enforcement IT solutions. It has embraced compliance risk management (CRM), approved a compliance improvement plan, and is now aligning its structure with the CRM Strategy. In FY25, a new VAT GAP analysis helped identify new risks with offsetting VAT. A review of the VAT Law, conducted jointly by the IMF's Fiscal Affairs Department (FAD) and Legal Department (LEG) in FY25, is being discussed within the government, focusing on reducing tax expenditures and modernizing and simplifying VAT administration.

Next Steps: A recent CD discussed the alignment of the audit function with the CRM Strategy, and additional CD support is anticipated. Establishing a center of excellence in data analysis to fully leverage the substantial amount of data and enable a truly datacentric approach will require further CD. CD support will also continue to follow up on the CRM strategy and assist the Semi-Autonomous Revenue Authority (SARA) once Parliament approves the bill.

SM I: Spending Module I – Spending Policy

Key Progress in FY25: The spending module began activities in FY25 with two activities to support authorities in the implementation of reform measures in the RSF. The activities provided authorities with a clear reform path to eliminate subsidies in the water and electricity sector and to improve the targeting and adequacy of measures to protect vulnerable households from the high costs services, typical of island countries.

Next Steps: Encouraged by the insights provided by these activities, the authorities have expressed interest in receiving additional CD to conduct a broader spending review to support their spending rationalization efforts and inform the upcoming budget process. This broader review will help determine potential areas for further in-depth spending analysis, including health, pension, and wage bill.

SM II: Spending Module II – Managing Public Finance

Key Progress in FY25: In 2025, with the support of the FAD, the authorities applied a tool/model to assess and quantify fiscal risks posed by natural disasters. The results have been published in the FRS. Cabo Verde was the first African country to pilot this model, enabling the authorities to successfully achieve one of the reform measures of the RSF program.

Next Steps: The authorities are committed to continuing the application of the model and incorporating additional climate-related risks into next year's FRS. This initiative will enhance the comprehensive assessment of fiscal risks associated with climate change. During FY26, support will be provided to integrate climate considerations into project appraisal and to define a climate-resilient and green capital investment plan. Support to climate budget tagging will also be provided in FY26.

III. LOGICAL FRAMEWORK

Country – Cabo Verde		
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 2
Outcome(s)	Rating	Narrative
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	2 Partially Achieved	DNRE is adopting KPIs aligned to the Tax Administration Diagnostics Assessment Tool (TADAT) criteria. The IMF's second Regional Technical Assistance Center in West Africa (AFW2) will support a strategic project structure for implementation (April 2025).
Corporate priorities are better managed through effective risk management	2 Partially Achieved	DNRE implemented a CRM policy, which is maturing in its first year of use by the institution (November 2024). An HQ mission supported the alignment of the audit function to the main risks adopting a comprehensive set of responses (April 2025).
Organizational arrangements enable more effective delivery of strategy and reforms	1 Not Achieved	The DNRE is still drafting the bill, which should be completed in 2025 (November 2024 and April 2025).
Support functions enable more effective delivery of strategy and reforms	1 Not Achieved	This outcome is part of the SARA implementation framework (expected by December 2025).
Digital technologies are better aligned with strategic objectives	2 Partially Achieved	The CD to support the achievement of this outcome will be delivered in December 2024. (November 2024). Both systems are under development. A center of excellence in data analysis is under discussion (April 2025).
RM II: Objective - Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 2
Outcome(s)	Rating	Narrative
A larger proportion of taxpayers meet their payment obligations as required by law	2 Partially Achieved	A review of core functions was delivered in FY25, but the recommended measures need to be implemented (November 2024). A new assessment will be made in an early 2026 TADAT assessment (April 2025).
A larger proportion of taxpayers meet their filing obligations as required by law	1 Not Achieved	A review of core functions was delivered in FY25, but this outcome requires a set of measures to be implemented up to 2027 (November 2024). A new assessment will be made in an early 2026 TADAT assessment (April 2025).
Audit and other verification programs more effectively ensure accuracy of reporting	2 Partially Achieved	This activity will start in the next fiscal year (November 2024). Following FAD guidance, the DNRE is advancing a modernization of the Annual Audit Plan (April 2025).

Taxpayer services initiatives to support voluntary compliance are strengthened	1 Not Achieved	The DNRE still has limited IT developers in place to modernize the IT system as needed (November 2024).
SM I: Objective - Strengthen Expenditure Policy Formulation and Design		Rating - 2
Outcome(s)	Rating	Narrative
Reduce subsidies while mitigating impact on vulnerable households	2 Partially Achieved	Electricity subsidies are declining, driven mainly by external factors like fuel prices. A new tariff methodology for cost recovery has been approved, with utilities receiving assistance to generate the necessary financial data for its implementation. While water tariffs have been updated, subsidies persist due to significant losses in the main utility. A plan to reduce these losses is underway. Although a robust social safety net exists, the current social tariff fails to adequately support vulnerable households, with authorities committed to their redesign.
SM II: Objective - Frameworks to Build Sustainable Fiscal Institutions and Frameworks - FIF		Rating - 2
Outcome(s)	Rating	Narrative
Strengthened fiscal policies, frameworks, institutions, and laws	4 Fully Achieved	The PPP Law and associated manual has been approved. The law and manual include climate considerations.
Strengthened capacity to plan, implement and sustain infrastructure governance	1 Not Achieved	The investment plan including green and climate resilient projects has not been developed yet.
Strengthened capacity to plan, implement and sustain priority area reforms including climate, gender, and SDGs	1 Not Achieved	The investment plan including green and climate resilient capital projects has not been developed.
SM II: Objective - Improve Fiscal Transparency and Reporting - FTR		Rating - 1
Outcome(s)	Rating	Narrative
Comprehensive, timely, and high-quality fiscal reports	1 Not Achieved	The technical assistance of fiscal reporting has not been done yet.
SM II: Objective - Strengthened Budget Management - PBM		Rating - 2
Outcome(s)	Rating	Narrative
Strengthened medium-term frameworks	1 Not Achieved	CD to enhance capacities and models to forecast key macroeconomics 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	The work with the IMF's Cash Flow Forecasting and Analysis Tool (CFAT) has not started yet.

Strengthened identification, monitoring, and management of fiscal risks	Largely Achieved	The FRS includes an assessment and quantification of the fiscal risks associated to natural disasters.
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IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM II - 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.
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.
SM II - 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 - The issue of subsidies removal is usually 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.
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.
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.

Description	Rating	Mitigation Measures
SM II - Other pressures on the ministry 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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