

I. COUNTRY REFORM PROGRESS

This capacity development (CD) project has supported reforms with components in revenue administration, spending, and public finance management (PFM). Cabo Verde has maintained macroeconomic and financial stability, and the economy continues to strengthen. Economic growth in 2024 was robust at 7.3 percent, driven primarily by the tourism sector, with inflation contained at 1 percent inflation and a current account surplus recorded.

In revenue administration, the project has focused on domestic taxes. The tax administration (*Direção Nacional de Receitas do Estado* – DNRE) has achieved significant progress through digital transformation and the modernization of core business functions. Domestic tax collection increased by 14 percent year-over-year, raising the tax-to-GDP ratio to 20.1 percent—an improvement of 0.9 percentage points over 2023. DNRE is now aligning its business processes with a compliance risk management (CRM) strategy to optimize the use of limited resources.

The spending module enhanced understanding of how budget support for public utilities affects fiscal and policy outcomes, guiding future decisions. IMF CD empowered the Ministry of Finance to engage effectively with line ministries and oversee reforms in areas beyond its usual expertise. Coordination with development partners during the mission provided targeted technical assistance for key reform steps, such as ensuring tariffs are set at cost recovery levels. This included coordination with the World Bank in the electricity sector and LuxDev in the water sector to ensure utilities received support in developing and implementing a system to collect and analyze disaggregated technical and financial data needed to apply the tariff methodology. The next major initiative will be an in-depth review of wage bill expenditures, planned for the last quarter of FY26.

The PFM module has focused on strengthening public investment management (PIM) and integrating climate considerations into the capital project lifecycle. The support enabled the Ministry of Finance to develop a national project list (capital investment registry), which the authorities have committed to progressively updating and expanding to cover all projects across the investment cycle. Once fully operational, the registry will serve as the central repository for project selection and execution monitoring. Establishing a national list of pre-appraised projects including green and resilient capital investments is a reform measure under Cabo Verde's Resilience and Sustainability Facility (RSF) arrangement with the IMF, and a key component of the climate-financing strategy aimed at mobilizing funding for priority projects.

II. PROJECT DELIVERY HIGHLIGHTS

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: The DNRE is advancing a robust modernization agenda, centered on digitalization and professional capacity building. The reform agenda includes both taxpayer service and enforcement IT solutions deployment. The institution continues to make progress in implementing CRM. In FY26, (i) a new value-added tax (VAT) gap analysis identified risks related to the offsetting of VAT credits that need to be addressed; (ii) CD support was provided to enhance compliance with electronic invoicing by taxpayers; (iii) an audit manual was developed; and (iv) the annual audit plan was revised to align the audit function

with international good practices and the CRM strategy. The VAT review in FY25, conducted jointly by the IMF's Fiscal Affairs (FAD) and Legal (LEG) Departments, was submitted to parliament. The Semi-Autonomous Revenue Authority (SARA) project, aimed at ensuring greater autonomy in tax administration, was approved by the Council of Ministers.

Previous Progress: The Global Public Finance Partnership (GPFP) has supported the implementation of CRM as the backbone of DNRE's institutional transformation and the modernization of core functions, focusing on improving timely filing and payment compliance. An HQ-led mission recommended the need to align the audit function with the CRM strategy, which is currently being implemented. The GPFP project also supported the modernization of VAT law, which is now under parliamentary review

Next Steps: With the Council of Ministers' approval of SARA, CD support will be essential for its effective implementation, which includes significant changes, particularly in support functions. Additional CD in CRM is also planned to further align operations with risk-based approaches. Establishing a center of excellence in data analysis is still under discussion, but has the potential to enable a truly data-driven approach to tax administration.

SM I: Spending Module I – Spending Policy

Key Progress in FY26: The activity planned for FY26 on the wage bill will take place in the fourth quarter. Recent progress on the water and electricity sectors has been slow. Restoring the financial stability of public utilities in these sectors remains a long-term process that requires significant structural reforms, which will take time to implement. Currently, the government is collaborating with the World Bank on a major restructuring initiative for the electricity sector, though the pace of progress remains uncertain

Previous Progress: The first two activities in the engagement provided authorities with a clearer understanding of the electricity and water sectors, improving their ability to (i) monitor and assess the implications of providing budget support to public utilities; (ii) understand the steps needed to restore their financial viability; and (iii) negotiate with line ministries. This enhanced sectoral oversight and advocacy for necessary reforms. Collaboration with development partners is invaluable given their specialized technical expertise. However, as their focus may not always include fiscal considerations and their priorities can differ, enhancing the Ministry of Finance's sectoral knowledge enables more effective alignment of partner support with national objectives.

Next Steps: Authorities continue to collaborate with development partners to carry out technical reforms aimed at achieving financial sustainability in the electricity and water sectors. Authorities have confirmed interest in and availability to have the next activity on the wage bill in Q4:FY26.

SM II: Spending Module II – Managing Public Finance

Key Progress in FY26: In 2026, with FAD support, the authorities developed a list of screened green and resilient capital projects. The authorities committed to this list as Reform Measure (RM) No. 4 under the RSF arrangement. Given the challenges faced in preparing the project list—largely due to weaknesses in the pre-investment phase—the authorities also requested FAD to: (i) suggest an investment project concept note template, incorporating climate adaptation elements; and (ii) propose financing options for feasibility and pre-feasibility studies.

Previous Progress: From the beginning, the PFM module has focused on integrating climate considerations into PIM, recognizing that climate change and natural hazards are already affecting Cabo Verde and will pose greater risks in the future. In previous years, with project support, the authorities developed a framework and guidelines for climate-aware public-private partnerships and subsequently quantified fiscal risks associated with natural disasters.

Next Steps: The authorities are committed to progressively refining and updating the national project list. This list will serve as an initial registry of project ideas and represents an important step toward establishing a comprehensive and sustainable PIM system in Cabo Verde. During FY26, and in line with the CD requests made by the authorities at the October 2025 Annual Meetings, additional support will be provided to further strengthen PIM practices.

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 has been monitoring most of their KPI regularly. However, it is a work in progress, and some KPIs are still depending on making timely information available.
Corporate priorities are better managed through effective risk management	2 Partially Achieved	The Audit and Arrear Management structures are aligning their work processes to the CRM methodology.
Organizational arrangements enable more effective delivery of strategy and reforms	1 Not Achieved	The Council of Ministers approved the draft bill of a Revenue Authority, which will be sent to the President for final approval.
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). Work is ongoing, and the government is advancing with the Revenue Authority bill approval.
Digital technologies are better aligned with strategic objectives	2 Partially Achieved	An STX visit supported improvements in the electronic invoice project. No further improvements to the other projects.
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 in 2026 TADAT assessment 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 outlined in FY25, but this outcome requires a set of measures to be implemented up to 2027. A new measurement will be taken during TADAT assessment in early 2026.
Audit and other verification programs more effectively ensure accuracy of reporting	2 Partially Achieved	DNRE has advanced reforms in the audit function by developing manual of audit procedures and reviewing the annual planning process to align with CRM strategies
Taxpayer services initiatives to support voluntary compliance are strengthened	1 Not Achieved	Work is ongoing. DNRE still has limited IT developers in place to modernize the IT system (SGP) as needed to enhance taxpayers services through online processes.
SM I: Objective –Strengthen Expenditure Policy Formulation and Design - EPD		Rating - 1
Outcome	Rating	Narrative
Reduce subsidies while mitigating impact on vulnerable households	2 Partially Achieved	Reform efforts in the electricity and water sectors are progressing slowly, with key initiatives such as tariff revisions and establishing a social water tariff delayed due to technical challenges, including insufficient data and staffing issues at the regulatory body. The financial situation of the main electricity company has deteriorated, causing blackouts in the capital city. At this stage, no additional actions are required, as development partners such as the World Bank are facilitating electricity sector unbundling, and LuxDev is providing support for water tariff reforms.
SM II: Objective – Build Sustainable Fiscal Institutions - SFI		Rating - 3
Outcome	Rating	Narrative
Strengthened institutional and legal frameworks	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	2 Fully Achieved	The investment plan including green and climate resilient projects is under development.
Strengthened capacity to plan, implement and sustain priority area reforms including climate, gender, and SDGs	2 Partially Achieved	The investment plan including green and climate resilient capital projects is under development.

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 in the recent Annual Meetings (October 2025) to receive support in this area.
SM II: Objective – Strengthen Budget Management - SBM		Rating - 2
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, SM I, 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.
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.
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.

Description	Rating	Mitigation Measures
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.
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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