

## I. COUNTRY REFORM PROGRESS

Cabo Verde has maintained macro stability and remains committed to the objectives of the IMF's Extended Credit Facility (ECF) program. Economic activity and policy measures supported increased tax revenues through August 2024 (13 percent y-o-y). Primary expenditure grew by 12.4 percent y-o-y. Slower growth in the wage bill and a fall in other current expenditures also helped contain the overall primary expenditure growth rate. As a result, the primary balance over January-August 2024 registered a surplus of CVE 3,292 million.

The GPFP revenue administration part takes the place of a successful Revenue Mobilization Thematic Fund (RMTF) project aiming to generate significant fiscal impact, especially by supporting the digitalization of an administrative process, strengthening the compliance risk management (CRM) strategy, and guiding VAT reforms (exemptions review, enhanced enforcement on non-compliant taxpayers, and expanding the tax base). In this regard, a joint activity undertaken by the IMF's Fiscal Affairs (FAD) and Legal (LEG) Departments helped draft a modernized value added tax (VAT) bill delivered to the authorities in October 2024. A recent VAT Gap Analysis helped identify areas with higher tax gaps. Previous capacity development (CD) also identified the lack of autonomy as the main weakness in the tax administration, and it was agreed with the authorities that the GPFP project would provide guidance on the transformation of the National Directorate of State Revenue (DNRE) into a Semi-Autonomous Revenue Authority (SARA).

On the spending side, significant progress has been made in strengthening the macroeconomic fiscal framework within public financial management (PFM). The fiscal risk statement now includes a comprehensive assessment and quantification of fiscal risks posed by natural disasters. Following the approval of the revised public private partnership (PPP) law and the manual that incorporates climate change considerations throughout the entire PPP cycle, efforts will focus on developing a green and resilient project appraisal methodology and capital investment plan to enhance climate-resilient public investment management. The GPFP project will also support undergoing significant reforms in electricity and water sectors to improve the sectors' financial health and to attract private investment. The two scheduled missions on the tariff-setting mechanism will be instrumental in supporting the government in achieving these goals by reducing subsidies and strengthening sector governance.

## II. PROJECT DELIVERY HIGHLIGHTS

### RM II: Revenue Module II – Revenue Administration

**Key Progress in FY25:** An HQ mission reviewed the progress made in the tax administration in the last years, identified areas where CD support will be instrumental and areas where the tax administration can advance without donors' support. FAD and LEG provided a joint CD to update the VAT law, focusing on reducing tax expenditures and modernizing and simplifying the VAT tax administration, based on recommendations from a 2022 FAD Tax Policy mission.

**Next Steps:** CD will support the CRM strengthening and the digitalization of tax arrears enforcement procedures, focusing on revenue mobilization. GPFP will also support the SARA implementation, which will strengthen and dynamize the tax administration.

### SM I: Spending Module I – Spending Policy

**Key Progress in FY25:** Cabo Verde has embarked on an ambitious reform path in both the electricity and water sectors to attract private investment and address financial sustainability issues. These reforms aim at significant changes in market organization and regulatory regime. Despite support from development partners (World Bank and Lux Dev), capacity challenges to the implementation of reforms remain.

**Next Steps:** The project will deliver one CD mission per sector to assess the gap between tariffs and costs of service provision and to provide reform options to eliminate it, while protecting vulnerable households. The recommendations are expected to help authorities prioritize actions to increase capacity in the sectors and to contribute to higher predictability and cost-reflectiveness of tariffs thus making the sectors more attractive to private investment.

### SM II: Spending Module II – Managing Public Finance

**Key Progress in FY25:** In 2025, the authorities applied a tool/model to assess and quantify fiscal risks posed by natural disasters. The results have been published in the Fiscal Risk Statement. Cabo Verde was the first country to pilot this model, enabling the authorities to successfully achieve one of the Reform Measures (RMs) of the Resilient Sustainability Facility (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 Fiscal Risk Statement. This initiative will enhance the comprehensive assessment of fiscal risks associated with climate change. During FY25, support will be provided to integrate climate considerations into project appraisal and to define a climate-resilient and green capital investment plan.

## III. LOGICAL FRAMEWORK

| Country – Cabo Verde                                                                                                          |                      |                                                                                                       |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------------------------------------------------------------------------------------|
| RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM                |                      | Rating - 1                                                                                            |
| Outcome(s)                                                                                                                    | Rating               | Narrative                                                                                             |
| Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized | 2 Partially Achieved | No related CD support was provided on this by November 2024.                                          |
| 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.         |
| Organizational arrangements enable more effective delivery of strategy and reforms                                            | 1 Not Achieved       | DNRE is still drafting the bill, which should be completed in 2025 (November 2024).                   |
| 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                                                             | 1 Not Achieved       | The CD to support the achievement of this outcome will be delivered in December 2024 (November 2024). |

| RM II: Objective - Strengthened core tax administration functions (SDG 17.1) - TAD                             |                  | Rating - 1                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A larger proportion of taxpayers meet their payment obligations as required by law                             | 1 Not Achieved   | A review of core functions was delivered in FY25, but the recommended measures need to be implemented (November 2024).                                                                                    |
| 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 through to 2027 (November 2024).                                                          |
| Audit and other verification programs more effectively ensure accuracy of reporting                            | 1 Not Achieved   | This activity will start next fiscal year (November 2024).                                                                                                                                                |
| 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 - 1                                                                                                                                                                                                |
| Outcome(s)                                                                                                     | Rating           | Narrative                                                                                                                                                                                                 |
| Reduce subsidies while mitigating impact on vulnerable households                                              | 1 Not Achieved   | Mission did not take place.                                                                                                                                                                               |
| 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   | TA 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.                                                                                                               |

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| 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 to natural disasters. |
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#### IV. RISK ASSESSMENT

| Description                                                                                                                                                        | Rating | Mitigation Measures                                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>External Climate/Conditions</b>                                                                                                                                 |        |                                                                                                                                                                                                                                                                             |
| 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.                                                                                                                  |
| <b>Political Support</b>                                                                                                                                           |        |                                                                                                                                                                                                                                                                             |
| 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.                                                          | High   | Highlight the pressing needs in terms of infrastructure and social spending. Reiterate the case that subsidies are an inefficient type of spending.                                                                                                                         |
| <b>Resource Adequacy</b>                                                                                                                                           |        |                                                                                                                                                                                                                                                                             |
| 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. |
| <b>Management and Technical Staff Support and Commitment</b>                                                                                                       |        |                                                                                                                                                                                                                                                                             |
| 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.                                                                                                                                                              |

| Description                                                                           | Rating | Mitigation Measures                                                                                                                                     |
|---------------------------------------------------------------------------------------|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Other Risks</b>                                                                    |        |                                                                                                                                                         |
| RM I, 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 | N/A                                                                                                                                                     |

## V. PROJECT MANAGERS CONTACT INFORMATION

| Project Manager          | Module PM                                                                  | E-mail                                                                                                                                                               |
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