
**2024 -
June**

Lusophone Africa / PALOP

Component: Spending

***Modules: SM III – Training and Peer
Learning***

LUSOPHONE AFRICA / PALOP

PROJECT SUMMARY	
COUNTRY:	Lusophone Africa / PALOP
LEAD DEPARTMENT:	FAD
REGION:	AFR
PROGRAM ID:	[To be filled out by Secretariat]
PLANNED DATES:	FY25 – FY27
FUNDING PROGRAM TITLE:	[to be added by Secretariat]
PROJECT MANAGERS:	Palmeira Bardella, Felipe FADM2 (Lead)
SM III - TRAINING AND PEER LEARNING:	Palmeira Bardella, Felipe FADM2 (Lead)
ESTIMATED BUDGET	\$272,734
BUDGET FOR ENDORSEMENT:	\$98,360

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*LUSOPHONE AFRICA / PALOP***ACRONYMS**

AD	IMF's area department country teams
AFRITAC	IMF's African Regional Technical Assistance Center
AFC	IMF's AFRITAC Centre (in Gabon)
AFS	IMF's AFRITAC Southern Africa (in Mauritius)
AFW	IMF's AFRITAC West Africa (in Cote d'Ivoire)
AFW2	IMF's AFRITAC West Africa 2 (in Ghana)
ATI	IMF's Africa Training Institute
CD	Capacity development
FAD	IMF's Fiscal Affairs Department
P2P	Peer-to-peer learning
PALOP	<i>Países Africanos de Língua Oficial Portuguesa</i>
PFM	Public financial management
RTAC	IMF Regional Training Centers
STX	Short-term expert

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I. PROJECT PURPOSE

The project for the Lusophone African Countries (PALOP in the Portuguese acronym – *Países Africanos de Língua Oficial Portuguesa*) aims to establish a permanent forum for capacity building on public financial management (PFM) issues and for fostering peer-to-peer (P2P) learning among the six PALOP countries: Angola, Cape Verde, Guinea-Bissau, Mozambique, São Tomé and Príncipe and Equatorial Guinea. These countries share common PFM practices and similar reform agendas, for which the discussion forum will leverage capacity development (CD) delivery and engagement. The project will cover core PFM areas such as budget formulation and execution, cash and debt management, financial control and reporting, climate-resilient public investment management, fiscal risks including SOEs and climate-related risks, gender budgeting, among others. The activities will be delivered in Portuguese with the support from IMF's Regional Technical Assistance Centers (RTACs) and the IMF's Africa Training Institute (ATI). The delivery modality will entail in-person and remote interactive learning activities and workshops. Initially, the in-person workshops will be held in the ATI facilities in Mauritius to take advantage of existing infrastructure and logistics. In the future, the project will encourage Lusophone African countries to host the capacity building events on a rotative approach, provided there is availability of funding and political support from countries.

This project contains a single module focusing on training and peer learning. It focuses on strengthening the Lusophone Africa/PALOP's PFM systems through multi-country capacity building activities and peer learning. Strengthening public finances is a critical component to promote fiscal sustainability and address the climate change vulnerability in the Lusophone Africa/PALOP community. From the existing spectrum of PFM issues, the project will cover, as a matter of priority, core PFM areas and emerging topics that are macro-critical for the PALOP community including: (1) budget formulation and execution, cash and debt management, financial control and reporting; (2) fiscal risks including state-owned enterprises (SOEs) and climate-related risks; (3) strengthening climate-resilient public investment management; and (4) gender budgeting.

The estimated budget for this three-year project is \$272,734, but endorsement is requested for \$98,360 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and capacity building plans gain traction.

II. BACKGROUND

The Lusophone Africa / PALOP community share similar PFM practices and challenges but lack a regular mechanism to benefit from multi-country capacity building activities and peer learning. The PALOP community comprise six countries located across Western (Cape Verde, Guinea-Bissau), Central (São Tomé and Príncipe, Equatorial Guinea) and Southern Africa regions (Angola, Mozambique). These countries share common PFM practices and similar reform needs but do not benefit from the IMF's multi-country institutional and individual capacity building owing mainly to their unique official language. In terms of regional support, the group is covered by four different IMF African RTACs, namely AFRITAC West (Guinea-Bissau), AFRITAC West 2 (Cape Verde), AFRITAC Center (São Tomé and Príncipe, Equatorial Guinea), and AFRITAC South (Angola, Mozambique), a context that also imposes challenges to coordinate CD initiatives. The project will therefore establish a permanent forum for capacity building on PFM issues and for fostering P2P learning, besides leveraging coordination between HQ, the related AFRITACs and the ATI in providing support to the PALOP community.

A first-of-its-kind in-person regional workshop for Lusophone African Countries was delivered in late 2023 and generated sound support for the Lusophone Africa / PALOP project. The workshop

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was co-organized by the IMF's Fiscal Affairs Department (FAD) and AFRITAC South (AFS) and held in November 2023 in the venues of the ATI in Mauritius. Twenty-six participants (among them 11 women—42 percent) from the PALOP community, representing members of AFS, AFC, AFW, and AFW2, attended in-person and 4 attended remotely. The program, entirely delivered in Portuguese, received strong endorsement from participants. They highlighted the usefulness of the workshop, and strongly supported the initiative of bringing together all Lusophone African Countries and delivering interactive learning in Portuguese which help internalize learning and sharing of international good practices and country experiences.

Macro-fiscal situation

Macroeconomic prospects remain relatively positive for Lusophone Africa, but the community is subject to diverse downside risks. Angola and Equatorial Guinea's economies are heavily dependent on the oil sector, facing risks related to the volatility of international oil prices, while Cabo Verde, São Tomé and Príncipe are island economies mostly impacted by climate change. Mozambique is also prone to natural disasters and Guinea-Bissau's economy relies heavily on cashew nut and other primary exports. Macroeconomic prospects for each country are presented herein:

- **Angola:** economic recovery in 2021/22 was nearly halted in 2023 by a double shock in the first half of the year, as the oil sector weakened, and the debt moratorium ended. Growth is estimated at 0.5 percent for 2023, with an estimated contraction in the oil sector of 6.1 percent and softened non-oil growth at 2.9 percent. Headline inflation increased significantly in 2023, to 20 percent y/y at end-December, driven by the depreciation of the kwanza and cuts in fuel subsidy in mid-2023. Meanwhile, public debt-to-GDP is projected to have increased by 19 percentage points to about 84 percent of GDP in 2023, mainly driven by a significantly weaker exchange rate. Economic growth is projected to recover in the near-term, supported by improved oil production and the recovery in the non-oil sector. Inflation is expected to remain temporarily elevated in 2024 and to gradually decline thereafter, as the effects of the subsidy removal and the pass-through from nominal exchange rate depreciation diminish.
- **Cabo Verde:** near-term economic outlook remains favorable but has moderated from recent highs. Real GDP growth is projected at 4.5 percent in 2023 as exports growth (especially services) normalizes following the return to the pre-pandemic levels of visitor arrivals. The economy is projected to grow at 4.7 percent next year before converging to potential growth of 4.5 percent after 2028, assuming structural reforms help lift potential growth. Inflation would moderate to 3 percent in 2023 and decline to 2 percent over the medium-term, broadly in line with Euro area inflation, as oil and food prices decline. The public debt-to-GDP ratio remains on a downward path. It is forecasted to decrease from 127.1 percent in 2022 to 119.9 percent at end-2023, mainly reflecting higher nominal growth. Even with higher public investment in 2024 the debt-to-GDP ratio improves to 116.5 percent, close to pre-pandemic levels. The authorities are committed to continued debt reduction over the medium term to build buffers and fiscal space for investment and stressed that any revenue overperformance will be used to improve the primary deficit, as is planned in 2023.
- **Equatorial Guinea:** the economy would broadly remain in recession on the back of a continued decline in oil production. Real GDP is expected to contract by 8.8 percent in 2023 and 1.4 percent on average between 2024–28, as the projected subdued growth in the nonhydrocarbon sector (average growth of 3.2 percent over 2023–28) would be insufficient to compensate the decrease in hydrocarbon output. Inflation is expected to moderate to 2.5 percent in 2023 but will temporarily

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increase to 5 percent in 2024 driven by the removal of food and fuel subsidy programs. Inflation is projected to stay below 3 percent on average from 2025 onwards.

- **Guinea-Bissau:** the economy continues to recover in 2023 and growth is projected at 4.2 percent, the same level as in 2022. Inflation is expected to reach 8 percent in 2023, because of soaring food prices. Public debt is projected to decline and reach 76.5 percent of GDP in 2023 because of a lower fiscal deficit, an appreciation of the domestic currency and higher nominal GDP. Average inflation is expected to be 8.0 percent in 2023 driven by food inflation and surge of international rice prices, pushed up by the India's partial ban on rice exports in July 2023.
- **Mozambique:** growth is projected to remain robust, with inflation stabilizing near the center of the BM's target range. Non-mining growth is projected to pick up to 4 percent in 2024 (from 2.5 percent in 2023) amid improved momentum in manufacturing and construction. GDP overall is projected to ease to 5 percent (from 6 percent in 2023), as liquefied natural gas production at Coral South will have reached full capacity in 2023. Inflation is projected to end 2023 at about 4 percent and stabilize between 4 and 6 percent in 2024.
- **São Tomé and Príncipe:** the economy is projected to grow by 1.9 percent in 2024, driven by a recovery in agriculture and fisheries, as well as improvements in electricity generation and distribution. Growth is expected to pick up further to 4.1 percent by 2025, supported by infrastructure investment, exports of palm oil and cocoa (as access to fertilizer normalizes), and stronger tourism potential. Average inflation is expected to remain elevated in 2024 at 17.1 percent reflecting higher fuel taxes and electricity tariffs but is expected to gradually decline to 5 percent over the medium term.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support in the form of multi-country interactive learning and workshops and peer-to-peer learning to Lusophone Africa/PALOP in core areas of public financial management considered macro-critical in the participating countries. FAD CD will support improvements within the strategic objectives presented in Table 1 below:

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Spending	SM III / Training and Peer Learning	• Training: Develop Capacity for Assessing Fiscal, Macroeconomic, and Structural Policy Issues • Peer Learning: Provide Peer Learning Opportunities to Beneficiary Countries

A. SM III – Training and Peer Learning

Scope

The scope of the project is to enhance capacity through multi-country interactive learning on core and emerging PFM areas to the PALOP community and to encourage peer-to-peer learning by establishing a permanent forum for exchanging experiences among the participating countries.

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The Lusophone Africa / PALOP community vulnerabilities are in multiple PFM areas that are macro-critical for fiscal sustainability. Budget formulation and execution, cash and debt management, financial control and reporting, fiscal risks including SOEs are among the core PFM areas that need to be further strengthened. All the six countries have long standing problems with accumulation of arrears resulting from poor budget formulation practices, lack of expenditures controls mechanisms in place, and vulnerabilities to control cash positions and cash flows at the treasury. IMF/AFR program commitments constantly target reform priorities on budget and treasury management in order to overcome such vulnerabilities and the proposed collective approach to capacity building and peer learning will undoubtedly support countries' reform priorities. At the same time, emerging topics such as strengthening climate-resilient public investment management, and climate-related risks, gender budgeting, are gaining prominence to the community. Three of the PALOPs are island countries (Cape Verde, São Tomé and Príncipe, Equatorial Guinea), mostly affected by rising sea levels and other consequences of climate change; Mozambique has been adversely affected by cyclones; while Guinea-Bissau is also very prone to climate related risks. The project will provide support that aims at greening PFM systems, develop climate resilient public investments, and identify, manage, and report on climate related fiscal risks.

The project will cover core PFM areas and emerging topics that are macro-critical for the PALOP community:

- Budget formulation and execution, cash and debt management, financial control and reporting.
- Fiscal risks including SOEs and climate-related risks.
- Strengthening climate-resilient public investment management.
- Gender budgeting.

Program Objectives

The CD program aims to establish a permanent forum within the PALOP community to provide multi-country capacity building activities on core PFM issues of macro-critical relevance and to fostering peer-to-peer learning. Theme-based interactive learning and workshop activities will be delivered during in-person events covering topic relevant foundational and illustrative practical issues, with an emphasis put on country experience sharing among participating countries. In-person events would be complemented with virtual sessions to provide an avenue for continued interactions and further strengthening peer-learning and developing a peers' network

The CD program will also aim at strengthening coordination between HQ, the related AFRITACs and the ATI in providing support to the PALOP community.

Expected Results (outcomes)

It is expected that the Lusophone Africa / PALOP project will strengthen individual capacities and institutional capabilities within the PALOP community to improve management of public finances, better benefit from the IMF multi-country CD activities, and promote an active and vibrant environment for peer-to-peer learning and collective capacity building. This will support authorities to make progress on strengthening fiscal sustainability through enhanced PFM processes, including on enhancing climate change readiness to enable access of climate financing. More specifically the CD program is expected to contribute to:

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- Strengthened medium-term frameworks that allow to better plan for the dynamics of public finances in the medium term.
- Strengthened annual budget process, and effective allocation, including gender and climate responsiveness of budget appropriations, and making the budget more credible to mitigate the long-standing accumulation of arrears problem in the region.
- Strengthened budget execution and control processes, including controlling the wage bill and preventing arrears accumulation.
- Strengthened asset and liability management processes, in particular cash management operations and centralization of funds in a functional Treasury Single Account architecture.
- Strengthen identification, management, and reporting
- **Workshops and Interactive Learning Activities**, to provide in-person and remote training events in Portuguese and to foster peer-to-peer learning among the participating countries . The workshop will also provide the opportunity for establishing a permanent forum for capacity building and networking among officers of participating countries.
- **Peer-to-peer (P2P)**: engagements designed for project beneficiaries to exchange their views and experiences undertaking specific reforms, providing opportunities for Lusophone African Countries' officers to observe practices adopted by other institutions that have robust arrangements in place in specific areas.

B. Coordination / Cooperation

Coordination			
Partner	Type of coordination	Area of coordination	Frequency
AFRITAC West; AFRITAC West 2; AFRITAC Center; AFRITAC South; ATI	Joint CD support	The project will improve coordination between HQ, the related RTACs and the ATI in providing support on PFM issues to Lusophone Africa. The workshops will be jointly organized with AFW, AFW2, AFC, AFS and delivered at ATI. Participant costs will be covered by the RTACs as follows: AFW2 covers Cabo Verde; AFW covers Guinea-Bissau; AFC covers São Tomé and Príncipe and Equatorial Guinea; AFS covers Angola and Mozambique. The outcomes of the workshops will be used by RTACs to better target their CD workplans to Lusophone Africa.	Quarterly, annual
IMF area department (AD) country teams	Supporting program benchmarks, CD Design and delivery	The project will support AD country teams on designing and monitoring program benchmarks and conditionalities related to PFM issues.	Quarterly, annual

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IV. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Assessment	Mitigation Measures
External climate/conditions			
SM III	Demand for training (in-person and online) is expected to remain significant among countries.	Low	Continue the production and delivery of workshops/training activities and outreach activities. Support country-centric CD from RTACs.
Political Support			
SM III	Project implementation requires political support to establish a permanent forum and foster P2P learning.	Low	Coordinate with AD and IMF Resident Representative Offices
SM III	Coordination among HQ and RTACs	Low	Maintain constant interaction with RTACs directors and report on the RTACs Steering Committee meetings
Management and Technical Staff Support and Commitment			
SM III	Low absorption capacity	High	Hands-on training and peer learning
SM III	The IMF and its partners continue to show strong commitment to the project	Low	Continue engagement with senior management and technical staff of RTACs
Resource Adequacy			
SM III	Availability of funds	Medium	Closely monitor execution and resources availability

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V. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY25	FY26	FY27	FY28	FY29	Grand Total
SM III – Training and Peer Learning						
HQ led in-person workshops/training events with short-term expert (STX) engagement	1	1	1	-	-	3
HQ led remote workshops/learning events with remote STX engagement	1	1	1	-	-	3
Total	2	2	2	-	-	6

Note:

- In-person delivery was chosen in some instances to foster more fruitful peer-learning experience among the participating countries, promote face-to-face dialogue between participating countries, as well as to enable more effective delivered of capacity building activities in a multi-country context.
- Remote delivery was chosen in some instances because of the objective to establish a permanent forum for capacity building on public financial management (PFM) and peer-to-peer learning and remote activities facilitates communication on a more regular and timely basis..
- Collectively the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person and remote activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
SM III – Training and Peer Learning		
Q3/FY25	Interactive learning and Workshops	HQ led in-person workshop/training event with STX engagement to be delivered at ATI on identification and management of fiscal risks, including climate related risks. Country officers will be trained on the Fiscal Risk Toolkit.
Q4/FY25	Interactive learning and Workshops	HQ led remote workshop/training event with STX engagement. Country officers will share experiences on improving awareness of climate-related matters in fiscal planning and budgeting, and Staff/STXs will showcase modeling of climate-related risks and producing quantitative analysis of the fiscal risks generated by climate change.

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VI. PROGRAM FINANCIALS

	FY25	FY26	FY27	FY28	FY29	Total
SM III – Training and Peer Learning	\$91,925	\$76,245	\$86,722	-	-	\$254,892
Trust fund management fee (7%)	\$6,435	\$5,337	\$6,071	-	-	\$17,842
Total	\$98,360	\$81,582	\$92,793	-	-	\$272,734

The estimated budget for this three-year project is \$272,734, but endorsement is requested for \$98,360 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.

VII. TARGETED LOGICAL FRAMEWORK

A. SM III – Training and Peer Learning

Objective	
Strengthened Budget Management – PBM (5)	
Outcome(s)	Indicator(s)
Strengthened annual budget process, and effective allocation	Improved comprehensiveness and credibility of annual budget
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 budget execution and control processes	Strengthened effectiveness of management of expenditure arrears
Strengthened identification, monitoring, and management of fiscal risks	Improved preparation and disclosure of fiscal risk statement
Strengthened medium-term frameworks	Improved comprehensiveness of macro-fiscal forecasts