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Country Brief

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Last updated March 2009

History



Cape Verde is a small archipelago of ten volcanic islands (9 of which are inhabited) located in the Atlantic Ocean about 500 km off the coast of Senegal. The islands are scattered over a wide area giving Cape Verde a maritime zone of 600,000 sq. km. However, the land area is only 4,000 sq. km. While conditions vary from one island to another, rainfall is, overall, very low and irregular. This, together with the rugged terrain and wind erosion has resulted in only about 10% of the land area being arable.

The population of Cape Verde is estimated at 499,000, still growing rapidly. While ethnically heterogeneous and a country of immigrants, Cape Verde is religiously and culturally homogenous, with the population possessing a strong sense of national identity. Over time, lack of economic opportunities at home has also turned it into a country of emigrants. Twice as many people live abroad and many maintain close ties with their homeland. The diaspora—in the U.S., Europe, the West African mainland and Brazil—far outnumbers the local population.

Political context

The country became independent in 1975, together with Guinea-Bissau on the African mainland. Following a coup in Guinea-Bissau, Cape Verde separated in 1980. Until 1991 it functioned as a single party state. Since then it has had democratically elected governments with regular elections.

Since the adoption of a multi-party system in 1991, power has changed hands regularly and peacefully. The Partido Africano da Independência de Cabo Verde (PAICV), which ruled the country from independence until 1991, regained power in January 2001. The Movimento para a Democracia (MPD) won a symbolic victory in the 2004 March local elections. In response, the prime minister, José Maria Neves, reshuffled his government. In 2006, the PAICV won a majority in the legislative election, and Pedro Pires narrowly won re-election as Cape Verde's president.

In 2007, the government came under increasing scrutiny for alleged corruption. The PAICV and MPD created a cross-party commission to reach consensus on issues requiring a two-thirds majority in the National Assembly to become law, but conflict between the two main parties continues. The MPD swept to victory in municipal elections held on May 1, 2008, winning control of eleven municipalities to the PAICV's ten, including the country's three largest: Praia and Santa Catarina (on Santiago island) and São Vicente. The one remaining municipality, Sal, was won by an independent party allied to the MPD, Grupo Independente para Modernizar Sal (GIMS).

Economic context

The economy of Cape Verde is dominated by the service sector. Agriculture (including livestock and fishing) accounts for about 11% of GDP and Industry and Energy for 9%. The rest is services. The potential for tourism is high and the growth of large-scale tourism is relatively recent in Cape Verde. A key challenge is the fact that Cape Verde's base remains narrow and poorly diversified. Additionally, Cape Verde is totally energy-dependent and the manufacturing sector is embryonic.

Cape Verde has experienced robust economic growth in recent years. Real GDP averaged 7% during 2004–07, peaking at 10.8% in 2006. The strong economic performance reflects a major economic transformation in the economy towards a service-based economy led by the tourism sector. Growth has been driven by strong public and private investment (through significant foreign direct investment) directed largely towards infrastructure development, tourism, and the telecommunications industry. Sound monetary policy, targeted at strengthening the peg of the Cape Verde escudo to the euro, has been an important factor in maintaining price stability. Fiscal policy has also been characterized by prudence. Higher than expected tax collection and continued expenditure control brought the 2008 fiscal deficit (including grants) down to 1.2% of GDP from a high of 6.3% of gross domestic product in 2005.

The Cape Verdean economy withstood the 2008 food and fuel shocks and the initial months of the global crisis relatively well, but slowed in the latter part of the year due to the indirect impact of the global economic crisis, as inflows of foreign direct investment and tourist arrivals declined. Inflation rose to an estimated 6.8% in 2008 from 4.4% the previous year as a result of increases in food and fuel prices that were largely passed through to consumers. The country's large stocks of cereal reserves and the appreciation of the Cape Verde escudo against the United States dollar in the first eight months of 2008 somewhat mitigated inflationary pressures from rising food and fuel prices. Remittances declined by 17 percent in 2008, following on an earlier decline in 2007.

The Cape Verde Escudo has been pegged to the Euro since 1999. Cape Verde has preferential access to the EU market under the Cotonou Treaty as a least-developed country. Over 80% of exports go to the EU and over 70% of imports come from the EU. In addition, the EU has granted Cape Verde special partnership status, and the two have signed a mobility partnership accord aimed at promoting legal circular migration to the EU and clamping down on illegal migration. The country has similar privileges under the African Growth and Opportunity Act (AGOA) Treaty with the U.S.

Cape Verde joined the World Trade Organization (WTO) as its 152nd member in December 2007 following the country's legislative alignment with WTO standards, notably those relating to import tariffs, the commercial code and VAT.

Cape Verde was graduated from the list of least-developed countries (LDCs) in January 2008. To ensure successful and sustainable graduation from the LDCs list, the government developed an economic transformation strategy. Based on the foundations of this strategy, it subsequently prepared the country's second Growth and Poverty Reduction Strategy Paper (GPRSP-II) in May 2008. The overarching objectives of the GPRSP-II are to reduce unemployment to below 10 percent, attain an accelerated real economic growth rate above 10 percent, and cut poverty by half.

Poverty situation

Rapid growth since the early 1990s has sharply reduced poverty, although inequality remains high. The share of the population in absolute poverty decreased from 49% in 1988-89 to 37% in 2001-02 and to 27% in 2007. This is an important achievement, driven by rapid growth in real income per capita. At the same time, inequality rose sharply during the 1990s and has remained high since then, with a Gini coefficient for consumption of 0.49 in 2007. The 2008 Human Development Index ranked Cape Verde 102 out of 177 countries. Of the 43 countries of Sub-Saharan Africa included, this is the third highest ranking, behind Seychelles and Mauritius. Adult literacy rates are high (approximately 79% in 2006, 97% among the youth), and life expectancy at birth (69 years) is the third highest in Africa.

Cape Verde is on track to achieve most of the Millennium Development Goals (MDGs) by 2015. The country ranks 102 out of 177 countries in the UNDP's 2008 Human Development Index, which is the third-highest ranking in Africa. The sharp reduction in poverty since 1990 has been complemented by significantly increased access to education and health care. The net primary enrollment rate in elementary education rose from 72% in 1990/91 to 95% in 2005/06, while net secondary enrollment reached nearly 60% in 2005/06. Cape Verde has now achieved parity for girls and boys in school enrollment. Infant mortality has been reduced from 45 to 25 per 1,000 live births since 1990, maternal mortality has also declined as births attended by skilled health personnel have risen sharply from 54% in 1995 to around 90%, and life expectancy at birth (71 years) is the third highest in Africa. Cape Verde has made important efforts to contain the spread of infectious diseases.

Donor coordination

Cape Verde's major traditional bilateral donors are Portugal, the USA, Luxembourg, the Netherlands, and Austria. The European Union, Africa Development Bank, United Nations, World Bank and IMF are the major multilateral partners. Cape Verde is strengthening South-South cooperation, especially with Brazil and China, in order to take advantage of its privileged strategic position for cross-Atlantic trade. In 2007, China designated Cape Verde as one of six Special Economic Areas.

A Budget Support Group (BSG) was created in 2005, and included the World Bank, the European Union, and the Dutch Cooperation. The coordinated approach used by the BSG to align and harmonize their support for poverty reduction around the GPRSP has played a catalytic role in bringing in new partners. As a result, BSG was expanded in 2007 to a total of six partners, as the African Development Bank, Austrian Cooperation, and Spanish Cooperation joined the group. The BSG expanded further with the Portuguese Cooperation. During the last three years, around 25% of foreign aid was in the form of budget support.

In view of Cape Verde's graduation to middle-income status in January 2008, the government set up a government and donor support group to help ensure a smooth transition to middle-income status. In June 2007, the group adopted a declaration of support for "a long-term international effort to support Cape Verde's socioeconomic transformation agenda through increasing market access, facilitating new forms of financing, and providing continued support for poverty reduction programs and to reduce Cape Verde's vulnerabilities."

The World Bank Group's program

As of March 2009, the World Bank had approved 23 projects for Cape Verde amounting to about \$271 million, of which about \$267 million had been disbursed. Twenty projects closed, and the current portfolio of three projects represents \$48.5 million, with an undisbursed balance of about \$2.9 million. These three projects are: (a) HIV/AIDS, (b) Growth and Competitiveness, and (c) Road Sector Support. Overall, Cape

Verde's portfolio is performing well.

A new 2009-12 Country Partnership Strategy has been prepared and will be discussed by the Bank's Board of Directors by end April 2009. The Bank's objective for this CPS is to help the Government sustain high levels of growth and reduce unemployment, poverty and inequality. To achieve these major results, the Bank would provide technical and financial support to: (a) promote good governance and public sector capacity; (b) improve competitiveness and the investment climate for private sector-led growth, and (c) strengthen human capital and social inclusion. The Bank will expand its range and mix of lending and non-lending instruments to best support Cape Verde.

With an estimated GDP per capita of \$2,927 in 2007 and based on a creditworthiness analysis, Cape Verde is considered as a lower middle-income country and therefore eligible for IBRD resources. A proposed envelope of \$44 million equivalent in IBRD resources is available for investment projects during the period covering the forthcoming new Strategy. Given continued access to IDA resources, Cape Verde becomes a blend borrower of the World Bank Group.

In recent years, analytical work included a full Public Expenditure Review, an Investment Climate Assessment, an Infrastructure Diagnostic, and a Fisheries Sector Review. The Bank is currently preparing a Poverty Assessment and is discussing with the Authorities the pipeline of non-lending services.

International Finance Corporation (IFC)

IFC's strategy in Cape Verde is focused on selective investments in financial markets, telecommunications and tourism sectors. In addition, if requested by the government, IFC will work with the World Bank and Cape Verde on improving the investment climate. Such initiative would complement the PSD/Competitive program, and aim at attracting investors to strategic sectors (tourism, energy, financial markets and agribusiness).

Upcoming IFC projects/programs relate to financial markets: in the financial sector, IFC is discussing its Global Trade Finance Program with one bank and two other banks are interested in a risk-sharing facility to support their SME lending.

As of August 31, 2008, IFC's portfolio in Cape Verde amounted to US\$9.5 million, of which US\$8.94 is outstanding.

Multilateral Investment Guarantee Agency (MIGA)

MIGA does not have any exposure resulting from investments in Cape Verde and has not received any requests to provide coverage for investments in the country.

World Bank Institute (WBI)

Cape Verde is not an active participant in WBI programs.

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