

Committee for Development Policy  
Expert Group Meeting  
Review of the list of Least Developed Countries  
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## Monitoring the progress of graduated countries

### Cape Verde

#### Background

Cape Verde graduated from the list of least developed countries on 20 December 2007. General Assembly resolution 59/209 requests CDP to continue monitoring the development progress of countries that have graduated from the LDC category and to report its findings to ECOSOC as a complement to the triennial review. Furthermore, the Economic and Social Council (ECOSOC) in its resolution on the 2011 CDP report took note of the Committee's work programme regarding the monitoring of the development progress of graduated countries. This report was prepared in response to these resolutions.

The main purpose of monitoring the progress of a graduated country is to assess any signs of deterioration in the development progress of the graduated country and bring it to the attention of the Council as early as possible.

#### 1. Economic and social progress

The analysis below draws on information and data available from international organizations as well as on a draft report on Cape Verde prepared under a project implemented by the CDP Secretariat related to graduation strategies for LDCs. The available information provides clear indication of the continuing positive development by Cape Verde since graduation. However, compared to the previous review in 2007, the country's economic progress is evolving at a more moderate pace, largely due to the continued global economic downturn.

##### 1.1. Progress on LDC identification criteria

The three criteria used by the Committee for the identification of least developed countries indicate continued progress by Cape Verde (see table 1). Average GNI per capita grew from \$2180 since the last review in 2006 an average of \$3110 for the 2012 review. The human assets index (HAI) remained high and the economic vulnerability index (EVI) improved in relation to t

### 1.3. Growth overview

Since 2000, Cape Verde's nominal GNI per capita steadily increased from around \$1300 to \$3270 in 2010 (see table 2). The country's economic growth in recent years has been robust. GDP growth stood at 6.3 per cent in 2010.

The three years preceding the graduation were marked by a dynamic economic growth, while inflation was kept under control (year average of 3.4 per cent). More recently, Cape Verde's economy is expanding at a slower rate due to its vulnerability to external economic shocks caused by the global financial crisis. Growth decelerated from its peak in 2006 and the public deficit increased (from 65.6 per cent of GDP in 2008 to 80.8 per cent in 2010). There has been a decline in FDI (down from 14 per cent of GDP in 2007 to 7 per cent in 2010), a continued fall of migrants' remittances and of tourism receipts as a percentage of GDP.

Table 2. Monitoring Cape Verde  
Selected indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GNI per capita (current US\$)	1280	1240	1210	1400	1630	1920	2190	2430	2900	3160	3270	...	...
GDP (2000 US\$) annual percentage change	6.6	4	4.5	6.2	-0.8	6.6	10.6	7	6.7	5.1	6.3	...	...
Net foreign direct investment (million EURO)						61	88	94	143	86	84		
ODA (gross disbursement, million US\$)													
DAC countries	...	...	31.60	86.24	95.83	127.34	107.49	122.59	170.92	169.69	...	...	...
non-DAC countries	...	...	...	...	...	...	...	...	...	...	...	...	...
Multilateral	...	...	37.13	45.28	36.27	57.62	36.16	47.95	55.95	41.96	...	...	...
All donors	...	...	68.73	131.52	132.10	184.96	143.66	170.53	226.87	211.65	...	...	...
of which: loans	...	...	29.56	28.35	25.69	54.93	44.93	46.02	57.96	43.05	...	...	...
grants	...	...	39.18	103.16	106.41	130.03	98.72	124.51	168.92	168.59	...	...	...
percentage			57	78.44	80.55	70.3	68.72	73.01	74.46	79.66			

Source: CDP Secretariat. GNI per capita and GDP data

The economy is reliant on the tourism sector and the implementation of a public infrastructure program. As Cape Verde's economy has become more dependent on tourism income and its export base remains narrow, reduction in demand for tourism from foreign markets during a global economic downturn may be felt throughout the entire economy. Merchandise exports do not make a significant contribution to the country's foreign currency earnings. The EU is Cape Verde's main export market (94 per cent of total exports). In 2010, Cape Verde exported €36 million worth of goods to the EU, including fish, meat, sugar, cocoa, coffee, tea and textiles.

Unemployment trends have been encouraging over the few years. Adult unemployment dropped to 18 per cent in 2008, and a target of 15 per cent was set for

2009. Remittances from the country's estimated 500' migrants remain an important source of foreign currency earnings.

Cape Verde is vulnerable to developments taking place in the European economies, in particular those undergoing a process of internal adjustment (Portugal and Spain). For instance, Spain is the country's main import of goods (87 per cent of the total in 2010) whereas Portugal generates 30 per cent of migrants' remittances. Both countries originated around 60 per cent of the external financial aid (grants) and 84 per cent of the bilateral credit in 2010. Moreover, the stability of the Cape Verdean currency depends on the support of the Portuguese Central Bank, which guarantees short-term credit in case of difficulties in the Cape Verdean balance of payments.

The risks to the country's short-term economic outlook have grown in view of the continuing economic and financial turmoil in Europe. In response to these conditions, the government adopted counter-cyclical measures based on an expansionary fiscal policy. The public investment programme became instrumental in stimulating domestic demand. An ambitious construction programme of infrastructures was launched, mainly financed by concessional credit.

The downside of this policy was the deterioration of both the fiscal and current account deficits and the increase of the debt to GDP ratio. As a result, there is growing concern about the country's debt sustainability, particularly in the currently uncertain global conditions. The IMF, in the context of the regular Policy Support Instrument (PSI) monitoring, concluded recently that the risk of debt distress moved from 'low' to 'moderate'. For the moment, the debt conditions are adequate: - the average rate of interest is 1 per cent; - the average grace period is 7 years and the average reimbursement period is 25 years; - the service is presently at 2.1 per cent of GDP; and - the present value of the ratio to GDP is 73 per cent. The sustainability of these outcomes also depends on support. In this respect, even though Cape Verde has not been classified as an income country by the World Bank for over 20 years, it continues to receive concessional financing through the World Bank's International Development Association (IDA). [CHECK status with other multilateral banks].

The financial crises in Europe may continue to have a negative impact on the country's main sources of external finance, mainly through reduced tourism inflows, a further decrease of migrant remittances, a reduction of financial aid and a further contraction of FDI (since 2009, foreign direct investment contracted, reversing the positive trend of the previous years).

## 2. International cooperation

In preparation for Cape Verde's graduation from the list of least developed countries, the Government set up donor support group (Grupo Apoio à Transição- GAT) to prepare a transition strategy to adjust to the level of phasing out of the support measures associated with the membership on the list of LDC. In June 2007, GAT adopted a declaration supporting Cape Verde's economic transformation agenda. Additionally, a Budget Support Group (BSG) proposed by the Government

of Cape Verde, and participating multilateral and bilateral donors was created in 2005 to align and harmonize donor support around the Growth and Poverty Reduction Strategy.

A few recent developments are worth mentioning:

- Since 2007, bilateral and multilateral ODA flows increased to a total of \$170 million in 2009.
- In 2010, Cape Verde's major bilateral donors were, Luxembourg, the Netherlands, Portugal, Spain and USA. The African Development Bank, European Union, United Nations and the World Bank were the major multilateral partners. The grant element of ODA rose over the years 2007-2009 increased slightly from 73 percent of total gross disbursements in 2007 to 80 per cent in 2009.
- Following the country's graduation, the EU extended Everything but

Cape Verde's development progress remains sound in an external environment of slower growth, the country's continued exposure to the economic and financial turmoil in Europe and underscores the need for sustained efforts in maintaining the positive development progress. The current situation draws attention to the