Committee for Development Policy
Expert Group Meeting
Review of the list of Least Developed Countries
New York, 16-17 January 2011

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 the 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, as 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)[1]: Average GNI per capita grew from $2180 since the last review in 2009, to an average of $3110 for the 2012 review. The human assets index (HAI) remains high and the economic vulnerability index (EVI) improved in relation to the countries included in the 2012 review. As compared to the group of LDCs and low-income countries, Cape Verde's economic vulnerability is ranked as the 32 highest among this group of countries. For the preliminary data prepared for the 2012 review, Cape Verde's EVI further declined vis à vis the reviewed countries and it is now ranked 48th. . Among a group of 130 developing countries, the country's EVI is ranked the 77th highest, that is to say, about in the middle of the distribution.

Table 1. Cape Verde's performance on the 3 indicators used by the CDP for the identiffication of LDCs

	2006	2009	2012
GNI per capita			
graduation threshold greater than	900	1086	1190
GNI per capita Cape Verde	1487	2180	3110
ranking (compared to review group of 65 countries in 2006, 60 in 2009 and 2012)	4th	4th	4th
HAI			
graduation threshold greater than	64	65	--
HAI Cape Verde	82	82	87
ranking (compared to review group of 65 countries in 2006, 60 in 2009 and 2012)	4th	4th	4th
EVI			
graduation threshold greater than	38	34	--
EVI Cape Verde	58	49	35
ranking (compared to review group of 65 countries in 2006, 60 in 2009 and 2012)	19th	32nd	48th

1.2. Progress on the MDGs

Cape Verde has made progress towards meeting most of the MDG's, particular those related to poverty eradication, health, education and gender. The incidence of poverty declined from 37 per cent in 2002 to 26 per cent in 2007. Progress is also apparent through indicators like the under-5 child mortality rate, the secondary school enrolment rate and the adult literacy rate on which the relatively high scores attained by the Human Assets Index (HAI) in Cape Verde are grounded.

[1] Cape Verde is no longer an LDC nor classified as a low-income country, but, for analytical purposes, its performance against the LDC criteria was measured in comparison to these two categories.

1.3. Growth overview

Since 2000, Cape Verde's nominal GNI per capita has 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 (yearly 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 for 2000-20010 are based on World Bank Development Indicators.
ODA data from OECD Creditor Reporting System. FDI from IMF

The economy is reliant on the tourism sector and the implementation of a public infrastructure program. As Cape Verde's economy becomes more dependent on tourism income and its export base remains narrow, any 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 fisheries, meat, sugar, cocoa, coffee, tea and textiles.

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

2009. Remittances from the country's estimated 500'000 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 importer 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 bilateral 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 debt service is presently at 2.1 per cent of GDP; and - the present value of the ratio debt to GDP is 73 per cent. The sustainability of these outcomes also depends on donor support. In this respect, even though Cape Verde has not been classified as a low-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 de Apoio à Transição- GAT) to prepare a transition strategy to adjust to the eventual phasing out of the support measures associated with the membership on the LDC list. In June 2007, GAT adopted a declaration supporting Cape Verde's socioeconomic transformation agenda. Additionally, a Budget Support Group (BSG) composed 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 Japan, 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 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 its Everything but Arms (EBA) preferences for a transitional period of three years. In December 2010, the EU decided that the transitional period had not provided Cape Verde with enough time to overcome the over-reliance on one export sector and that some additional time was necessary to reduce the potential adverse effects of the removal from the EBA scheme. The EU therefore decided to extend the transition period until 1 January 2012.

- In October 2011, Cape Verde applied for benefits under the EU's GSP+, a special incentive arrangement which provides preferential market access to EU markets to countries that commit to effectively implement 27 international Conventions related to human and labour rights, the environment and good governance. In December 2011 the EU confirmed that Cape Verde fulfils the provisions to enjoy preferential access under GSP+.

- Cape Verde continues to be part of negotiations for a comprehensive Economic Partnership Agreement (EPA) between the EU and West Africa. This agreement could offer much broader trade and development prospects because it extends to areas beyond trade in goods, including tourism and investment.

- Cape Verde accessed the Enhanced Integrated Framework for trade-related technical assistance (EIF) before it graduated from the LDC category. After graduation, Cape Verde was given an additional three year transitional period and a further two years subject to justification and approval by the EIF Board. The first Tier 1 project was approved by the EIF Board on November 2011. A compilation of the Tier 2 list of projects is underway.

3. Conclusions

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 importance of support from the international community to ensure a continued progress by facilitating financing and development assistance. This is particularly important in the context of the continuing negative impact of the current global economic slowdown on the country’s tourism sector, foreign direct investment and remittances.