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ANNEX 1

of the Commission Implementing Decision on the financing of the Annual Action Plan in favour of the Republic of Cabo Verde for 2021

Action Document for 'Sustainable Development Goal contract for inclusive and green growth'

ANNUAL PLAN
This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plans in the sense of Article 23(2) of NDICI-Global Europe Regulation.

1. SYNOPSIS

1. Title **CRIS/OPSYS business reference** **Basic Act**	**Sustainable Development Goal contract for inclusive and green growth** CRIS number: NDICI AFRICA / 2021/ 043-258 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	Yes, this initiative will contribute to pillars one, two and four of the Team Europa Initiative (''To Green Cabo Verde'').
3. Zone benefiting from the action	The Republic of Cabo Verde
4. Programming document	Republic of Cabo Verde – European Union Multi-Annual Indicative Programme 2021-2027
5. Link with relevant MIP(s) objectives/expected results	- To foster a macroeconomic and institutional framework for economic recovery, the reduction of inequalities and inclusive growth. Expected results: Inequalities are reduced through investments in social protection, education and gender equality policies. Enhanced macroeconomic stability and domestic resource mobilisation policies are conducive to inclusive green growth - To boost green economy for the creation of decent jobs and inclusive growth Expected result: Cabo Verde reaches its policy objective of consuming 50% of its electric energy from renewable sources by 2030
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	Governance for human development and Equality (160/110/151) Green economy for decent jobs and inclusive growth (230)
7. Sustainable Development Goals (SDGs)	Main SDG (1 only): 1 No poverty Other significant SDGs (up to 9) and where appropriate, targets: 4 quality education; 5 gender equality; 7 affordable and clean energy; 10 reduced inequalities; 13 climate action; 16 peace justice and strong institutions.
8 a) DAC code(s)	160: social protection 38 % 110: education 16 %

	151: economic governance 13%. 230: renewable energy 33% 510: general budget support 100% 15114 – Domestic Revenue mobilisation			
8 b) Main Delivery Channel @	Recipient central government - 12001			
9. Targets	☐ Migration ☒ Climate ☒ Social inclusion and Human Development ☒ Gender ☐ Biodiversity ☒ Education ☐ Human Rights, Democracy and Governance			
10. Markers (from DAC form)	**General policy objective @**	**Not targeted**	**Significant objective**	**Principal objective**
	Participation development/good governance	☐	☐	☒
	Aid to environment @	☐	☒	☐
	Gender equality and women's and girl's empowerment	☐	☒	☐
	Trade development	☒	☐	☐
	Reproductive, maternal, new-born and child health	☒	☐	☐
	Disaster Risk Reduction @	☒	☐	☐
	Inclusion of persons with Disabilities @	☒	☐	☐
	Nutrition @	☒	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity @	☒	☐	☐
	Combat desertification @	☒	☐	☐
	Climate change mitigation @	☐	☒	☐
	Climate change adaptation @	☐	☒	☐
11. Internal markers and Tags:	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation @ Tags: digital connectivity digital governance digital entrepreneurship job creation digital skills/literacy digital services	☒	☐ ☐ ☐ ☐ ☐ ☐ ☐	☐ ☐ ☐ ☐ ☐ ☐ ☐

	Connectivity @ Tags: transport people2people energy digital connectivity	☒	☐ ☐ ☐ ☐ ☐	☐ ☐ ☐ ☐ ☐
	Migration @ (methodology for tagging under development)	☒	☐	☐
	Reduction of Inequalities (methodology for marker and tagging under development)	☐	☐	☒
	Covid-19	☐	☐	☒
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): B2021-14.020129_C1_INTPA Total estimated cost: **EUR 17 900 000** Total amount of EU budget contribution EUR 17 900 000 of which EUR 17 800 000 for budget support EUR 100 000 for evaluation and audit The commitment of the EU's contribution to the Team Europe Initiatives foreseen under this annual action plan will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise the EU action may continue outside a TEI framework			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing[1]	**Direct management** through: Budget Support: Sustainable Development Goals Contract Procurement for Evaluation, Audit, Communication and Visibility			

1.1. Summary of the Action

This action, which consists in a general budget support programme through a Sustainable Development Contract with the Republic of Cabo Verde, will enhance Government's mitigation measures to the COVID-19 crisis and support government policies to reduce poverty and inequalities through investments in social protection, education and gender. Measures in support of macroeconomic stability, public finance management and domestic revenue generation will be conducive to inclusive green growth and, in particular, put Cabo Verde on track in reaching its policy objectives of consuming 50% of its electric energy from renewable sources by 2030 and eradicating extreme poverty.

This action is fully in line with the Multi-Annual Indicative Programme (MIP) 2021-27 priority areas which are Governance for Human Development and Equality, and Green Economy for decent jobs and inclusive growth, and builds on the two general budget support programmes under the 10th and 11th European Development Fund (EDF) in support of the national development strategy and the Cabo Verde-EU Special Partnership. No poverty (SDG1) will be interlinked with other significant SDGs including equality and climate change. Key targets relate to social inclusion and human development, gender, education and climate. The action further intends to contribute to the recovery from the COVID-19 crisis through the provision of fiscal space for good governance and the reduction of poverty and

[1] Art. 27 NDICI

inequalities. The action contributes to the EU Gender Action Plan III[2], specifically to the thematic objective 'Addressing the challenges and harnessing the opportunity offered by the green transition and the digital transformation'.

The Overall Objective (Impact) of this action is to contribute to sustainable development, poverty reduction and an inclusive green growth model.

The Specific Objectives (Outcomes) of this action are to:

- Reduce extreme poverty, inequality and exclusion, while supporting gender equality policies including through girl's education;
- Improve public finance management (PFM) and domestic resource mobilisation (DRM);
- Enhance policy reforms conducive for an inclusive green growth model.

Government and national entities will be in charge of reaching the targets on the agreed variable tranche performance indicators in the respective result areas. The EU Delegation will, aside of the general eligibility criteria, closely monitor and assess the performances which will determine the disbursement size of the variable tranches. Throughout the implementation of this SDG contract, a continued policy dialogue is conducted, both bilaterally and in the context of the semi-annual joint Budget Support Group (BSG) reviews. These exchanges will be supported with a dialogue at political level.
The action will also contribute to several pillars of the TEI "to green Cabo Verde", a separate but related intervention, namely to pillar 1 'Green tourism, green jobs', pillar 2 'sustainable energies', and pillar four 'blue economy'.

2. RATIONALE

2.1 Context

Cabo Verde (CV) is a functioning democracy with good standards of rule of law, governance, and a positive record on Human rights respect. The country has stable political institutions and a well-functioning multiparty parliamentary democracy since 1991, being considered a Good Governance reference in the African Region.

The EU's longstanding relations with Cabo Verde gained impetus with the establishment of the EU-CV Special Partnership in 2007. The Special Partnership has the broader ambition of achieving technical and normative convergence with the EU and of increasing cooperation around key common interests such as: good governance, economic development, security, stability and regional integration. The national strategic Plan for Sustainable Development (PEDS 2017-2020) and the more recent 'Ambition 2030' country strategy match with the EU Commission priorities, including the EU Green Deal strategy and the Alliance for Sustainable Growth and Jobs.

Despite its lack of natural resources (including water) Cabo Verde reached lower middle-income status in 2008. It remained stranded in its lower middle-income status since 2008, and only after 2017 it began to experience economic growth combined with successful contention of the inflation, improvement of macro-economic indicators and poverty reduction. EU support and strong multi-level relation with national authorities and stakeholders contributed to these remarkable achievements - including achieving most of the Millennium Development Goals (MDG) by 2015. The country's economy has, however, suffered from uneven growth and increasing public debt for most of the last decade, mainly due to the reduced access to funding sources that comes with Low-to-Middle Income Country (LMIC) status.

The recent positive trend (2016 - 2019) ended drastically with the advent of the COVID-19 pandemic. Being a tourism dependent Small Island Development State (SIDS), Cabo Verde is one of the hardest hit countries in terms of economic impact. Gross Domestic Product (GDP) plunged -14% in 2020; Public debt /GDP rose from 125 % in 2019 to an estimated 140.9 % in May 2021 (IMF). The financial affordability of mitigation and support measures, including critical cash transfers to households and individuals, and the medium term containment of fiscal and balance of payments' risks, are part of the urgent challenges. The significant level of remittances from the diaspora, worth about EUR 188 000 000 or 12.7% / GDP in 2020, reflects the instrumental role that migration plays in the midst of the COVID-19 crisis.

[2] JOIN (2020)17 final of 25.11.2020.

Strategically situated in the mid-Atlantic along main trade and illicit traffics routes, evolving as a hub for transatlantic digital optic cables, Cabo Verde is a reliable and stable democracy committed to the rule of law. Nonetheless the deep economic recession caused by COVID-19 is putting under strain the socio-economic achievements and social fabric of the country. With EU's support, Cabo Verde could regain its growth path, showing that it is possible to build back better, through a sustainable and inclusive economic model.

The 2014 - 2020 Good Governance and Development budget support programmes under the 10^{th} and 11^{th} EDF proved that in Cabo Verde, budget support is an effective modality to promote reforms and to enhance a transparent policy dialogue that is critical to EU-CV relations. Cabo Verde has shown a strong performance and absorption capacity, while lessons learned include the importance of counter cyclical budget support operations during crisis for this SIDS.

The EU Communication on budget support highlights the particular relevance of this implementing modality for SIDS as it can have an important impact to address their cross-cutting, long-term and structural challenges and threats, including:
- vulnerability (natural disasters, climate change, economic /trade shocks, aid volatility, high debt ratio's)
- volatility (in growth) due to concentration in specific sectors (for CV this is primarily the tourism sector)
- risks related to the way natural resources or the tourism sector are managed
- Institutional capacity.

This SDG contract will provide much needed support to the Government in the form of fiscal space to continue its crises-related mitigation measures, in the midst of its worst economic recession since independence, while supporting a recovery model based on incentives to green investment/growth and an inclusive and sustainable approach to reduce inequalities and poverty. This action will also allow the EU to keep an important role in the Budget Support Group reviews and the related strategic policy and political dialogue at the highest level. The disbursement of the eligible amounts for fixed and variable tranches to the treasury will support the implementation of national development strategy and reflect as well the continued EU engagement towards the transformative impact of the CV-EU Special partnership.

This action aims at supporting the Government's efforts to overcome the COVID-19 socio-economic crisis and promoting a more inclusive and green growth model. It will also contribute to create an enabling environment for the implementation of EU blending and guarantees as key instruments to support the country's development.

A technical assistance (TA) contract, part of this same AAP 2021, is being contracted in parallel to this SDG contract. This TA will contribute among others, to support the various Government entities (Ministry of Finance, Ministry of Industry and Energy, Ministry of Family and Social Inclusion, Court of Auditors) achieve this SDG contract's indicators.

Supporting directly national strategies ensures ownership by the partner country and direct policy dialogue with leading institutions while limiting parallel implementation and reporting procedures. Finally, this action will allow the EU to steer a joint Team Europe Initiative (EU-MS) policy dialogue, as well as monitor reforms on the regulatory framework for a 'green and inclusive economy'.

2.2 Problem Analysis

Short problem analysis:

Due to the impact of the COVID-19 crisis, Cabo Verde is experiencing the worst economic crisis since independence. Macroeconomic indicators turned suddenly red as the tourism dependent country faced a more than 75% drop in tourism receipts in 2020 leading to a GDP drop of -14.8% in that same year. Formal unemployment reached 20%, public debt had reached 140% of GDP by December of 2020 (an exceptional strong increase compared to the 124.6% end of 2019). The public debt stock of EUR 2.33 billion brings Cabo Verde, a tourism dependent SIDS economy, into the countries with the highest debt per capita globally. The repercussions on the national developmental ambitions and the social fabric are considerable.

The International Monetary Fund (IMF) and World Bank (WB) assess Cabo Verde's public debt still as sustainable, supported by manageable debt service indicators, even under various stress scenarios. However, debt sustainability is subject to considerable downside risks, including from a more severe or prolonged impact of the pandemic shock. The COVID-19 reality reversed the progress made during recent years and contributed to the recent strong increase of the public debt/GDP ratio.

The Cabo Verde Central Bank set the 2020 tax revenues at EUR 292 000 000 (19 % GDP). Compared to 2019, tax revenues reduced by EUR 88 660 000(-23%). Additional budget support grants, including EUR 17 250 000 from the EU, and concessional credits partially compensated the fiscal gap in 2020. Foreign exchange reserves are currently close to 7 months of imports.

Although overall political, fiscal and monetary policies underpin a macro-economic stability oriented strategy, the IMF indicated in its April 2021 country report the seriousness of the current macroeconomic challenges and fiscal framework risks, with an estimated fiscal deficit of EUR 136 000 000 (8.9% GDP). The 2021 national budget amounts to EUR 706 000 000, funded primarily by estimated tax revenues of EUR 366 000 000 or 20.9% GDP, and external credits (EUR 157 000 000). It indicates a deficit of EUR 100 000 000 which may lead even to problems to cover non-discretionary expenses. As the crisis prolongs, a revision of the expected tax revenue level and alternative financing is required.
The country's economic recovery depends on external factors such as foreseen under the new economic paradigm. The recovery of air transport and tourism, and progress on national vaccination plan. The timing of the return of tourism plays a critical role as this will trigger economic growth and relief the Government from financing mitigation measures through increasing debt.

Within the macroeconomic context described above the social emergency is now at the centre of government priorities, placing the fight against impoverishment as one of the three man priorities, in order to achieve the eradication of extreme poverty by 2026 and, the eradication of poverty by 2030. Additional budgetary resources and Technical Assistance are needed to ensure that these goals are met in a context where, currently, the volume of non-debt-generating aid flows directly allocated to poverty reduction programs, represents only 0.2% of GDP. Poverty has as well a strong gender bias with 67% of poor households being headed by women. Poverty coupled with an extremely high rate of adolescent pregnancy (19% in 2018) also weighs heavily on young women, resulting on low secondary school enrolment rates that push young girls into the informal labour market. Using the international poverty line, according to estimates from the National Statistics Institute (INE), in 2020 there were 72 874 extreme poor persons (that is, persons living on less than USD 1.90 a day) in Cabo Verde, equivalent to 13.1% of the population. Extreme poverty is more acute in rural areas, where 24.3% of the population is poor, while in urban areas the figure stands at 8.1%. Using the national poverty line, according to the same source, in 2020 there were 175 844 poor persons (that is, persons living on less than USD 2.77 a day) in Cabo Verde, equivalent to 31.6% of the population. Although there is no available data as of yet, extreme poverty is likely to have risen in 2021.[3] A Social Response, Recovery and Development Plan was launched at the early stages of the COVID-19 and is being implemented to fight poverty. However, there is a need to provide fiscal space to ensure the short, medium and longer term technical and financial sustainability of these measures (Notably social protection, with the so called Rendimento Social Inclusivo) in order to achieve the 2026 and 2030 Government goals during the recovery phase.
The high electricity cost affects not only the budget of the poor families (reflected also in the cost of water which is often from desalinised sources), it is as well identified as a key factor hampering the competitiveness of doing business in the country. The dependency on water supplied through fossil fuel generated desalination plants further increases overall costs and underpins the need for a major transformational initiative in support of renewable energy production. As a response to these challenges the country betting on shifting from fossil fuels to renewable energies. One of the most salient issues in Cabo Verde's development policy is its commitment to promote a renewable energy transition with a national target of reaching 50% of all consumption from renewable sources by 2030. Cabo Verde's ambition is realistic and, if successful, it will place it among first countries in Africa, and in the world, to reach this goal. Although the ambitions are high, the country needs to implement reforms to enable investments in this green transition (including through blending and guarantees). Other critical measures to ensure a green growth model pertain to the circular economy and in particular the recycling of waste, notably in the tourism and fishing industries as well as major ports.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

The Government of Cabo Verde is the main stakeholder and beneficiary of this action as a duty-bearer. Despite the relatively small envelope of this action, the transfer of budget support to the treasury will balance the loss of revenues and increased expenditures, and provide additional fiscal space for the COVID-19 social and economic mitigation measures in place and benefit to the most vulnerable businesses and families. Additional vulnerable groups (rights-holders) to benefit from this action are: individuals and families living under extreme poverty and living in vulnerable

[3] 2021 Voluntary national review on the implementation of the 2030 agenda for sustainable development

situations (including student mothers and their children benefitting from day-care services); businesses and women and men job seekers in the renewable energy sector.

Government will coordinate with the relevant key stakeholders the efforts to reach the agreed performance requirements under the respective variable tranches. The key stakeholders include the Ministry of Finance, the National Tax Authority (DNRE), the Court of Auditors, the National Statistics Institute, the Parliamentary Accounts Committee, the Ministry of Industry and Energy, the Ministry of Social Inclusion and Family, the CNPS (national centre for social protection), the ICIEG (national institute for gender equality), major municipalities, the Ministry of Education, the three National Chambers of Commerce, energy sector companies (private sector) and civil society representing the different voices of the society.

Based on the already existing policy dialogue and the results obtained through the previous 11th EDF budget support, this action will underpin a continued EU engagement on transversal issues including gender, inclusiveness, green energy and energy efficiency. Since the Mid Term Review of the previous programme, the gender dimension became more prominent in the policy dialogue, covering inter alia the Parity Law, gender based violence and social protection. Actions will be developed and implemented from a human-rights based approach. CSO's can be further engaged on policy based budgeting and transparency, including the open budget initiative, which is not yet initiated in Cabo Verde. In synergy with CV-EU Special Partnership, selected dimensions from the key pillars of the partnership will receive particular attention, including security, technical and normative conversion with EU standards.

2.3 Additional Areas of Assessment

2.3.1 Pre-condition on Fundamental Values

The national development policy is built on the values of democracy, human rights and the rule of law. Mutual respect for these fundamental values is recognized as an important basis of the CV - EU Special Partnership, created in 2007.

The high level of respect for fundamental values, human rights and democratic governance in CV are at the basis of the Special Partnership between Cabo Verde and the EU. The country shares core democratic values and principles with the EU. CV is a party to the main International Humanitarian Law conventions and has ratified the main UN conventions on Human Rights protection. In 2017 the country was almost unique in Africa to publicly defend the Rome Statute.

Furthermore, CV is the only African country to benefit of preferential trade access to the EU in the framework of the General System of Preferences Plus +. Its status is conditional on the ratification, implementation and reporting on 27 UN Conventions on Human Rights, Gender, Labour Rights and Environment issues. In September 2020, CV satisfactorily replied to a detailed list of issues related to the implementation of those conventions. The good performance of the country, despite the severe impact of the COVID-19 crisis, was highlighted in the reply of ECVP Dombrovskis on 13/01/2021 and was confirmed by preparatory studies on the Human rights situation, and ongoing studies on Labour Rights. Further assessment missions have been delayed due to COVID 19 but could be resumed in a near future.

Based on the above, the fundamental values pre-condition is considered as being met.

2.3.2 Public Policy

The action is aligned with Cabo Verde's Strategic Plan for Sustainable Development ***(Plano Estratégico de Desenvolvimento Sustentável – PEDS)*** covering the period 2017/2021. https://peds.gov.cv

The PEDS, which is aligned with and built upon several axes of the Sustainable Development Goals, provides the medium-term growth policy of the Government and redefines the country´s position in the regional and global economy and aims for progress on four objectives:
- an open economy based in the middle Atlantic;
- ensure economic and environmental sustainability;
- social inclusion and reduction of inequalities including the gender dimension;

- strengthening sovereignty, valuing democracy and guiding diplomacy to the challenges of the country's development.

The PEDS had overall political support and a mid-term evaluation in 2019 indicated clear progress for a number of programmes. In view of the broad perspective and multiple programmes, full financing was a recurrent challenge and became extremely problematic in 2020 with the dramatic budgetary impact caused by the COVID-19 crisis. In 2020 and 2021 budgetary restrictions were imposed to cover at least the non-discretionary expenses. Implementation was well hampered by the structural conditions of a SIDS (e.g. inter-island connectivity; small and scattered administration.)

In 2020 Government adopted as well an 18-months national response and recovery plan (PNRR) to adapt to the economic recession caused by COVID-19, detailing mitigation plans in the areas of social transfers, measures to keep Small and Medium Enterprises SMEs afloat / reduce lay-offs, health and education.

A second phase of the PEDS, covering 2022-26 is expected to be concluded by end of 2021 and will be based on the *Cabo Verde 2030 ambition strategy* which was elaborated in 2020 after a broad based consultation including parliament, civil society, private sector and development partners. This new strategic agenda includes new 'anchors' for the Cape Verdean economy, namely the blue economy (after tourism) which will become the 2nd anchor and the digital economy that will become Cape Verde's 3rd international anchor. https://peds.gov.cv/cva2030/cva2030/

The overreaching vision of the country's development strategy matches with EU priorities and this action will provide additional synergies with the **Cabo Verde - European Union Special Partnership. This Special Partnership Agreement represents a crucial** anchor for synergies in cooperation and political dialogue on the 6 pillars (Good Governance, Security and Stability, Regional Integration, Convergence of Technology and Standards, Knowledge-based Society, Fight Against Poverty), which were enlarged in 2018 with an additional focus on economic growth, ocean management and maritime economy.

The voluntary national review on the implementation of the 2030 agenda for sustainable development provides a detailed analysis of progress made on the various SDG´s, on the new and emerging challenges including COVID-19, and on the financing challenges for resilience and SDG's. The operationalisation of the Integrated National Financing Framework (INFF) for which Cabo Verde is a pilot country, combined with debt relief/restructuring are considered as potential avenues. https://www.mf.gov.cv/web/mf/-/relat%C3%B3rio-nacional-volunt%C3%A1rio-vnr-2021

Government expects that the existing macroeconomic policies, supported by the progress achieved between 2016 - 2019, will minimise the effects of the pandemic, protect employment and vulnerable groups, and support economic recovery in a 2-3 year period. In this context, the implementation of the relief measures related to COVID-19 requires close monitoring to identify vulnerabilities and enable optimal inclusion of vulnerable groups.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows:

The Central Bank of Cabo Verde provides regular statistical information on economic and finance developments. The monthly statistical updates (Boletim de Estatísticas) include details on the national accounts, labour market, inflation, the external sector, the monetary and financial sector and public finances including debt related information /creditor. https://www.bcv.cv/pt/Estatisticas/Paginas/Estatisticas.aspx

The National Statistical Institute (INE) provides general statistical data. Timely completion of reports remains a challenge. Due to COVID-19 the 2020 census took place in mid-2021 and is expected to provide a wide variety of updated information as the last census dates from 2010. This census received financial support from the previous EU Good Governance and Development Contract (GGDC), from Luxembourg and Spain. Preliminary data were released early August 2021 and final consolidated data are expected early 2022. https://ine.cv/en/

In addition to the monitoring units at the Ministry of Finance, the Central Bank and INE a key partners within our policy dialogue, both bilaterally and in the context of the BSG. Continued support through TA or twinning can be envisaged under the support measures action.
In terms of the specific policies to be supported by this SDG contract the main entities in charge of monitoring the social inclusion policy is the CNPS (National Centre for Social Transfers) and the Castro Social Unico (Single Social Registry), currently part of the Ministry of Family and Social Inclusion but soon to become an autonomous entity.

The later produces regular reporting in terms of eligibility for social transfers around four categories of vulnerability (which are co-monitored and validated by Municipalities), while the later monitors the transfers per se.

In terms of green economy and in particular renewable energy monitoring is done by the Ministry of Industry and Energy (Directorate of Energy) in terms of installed capacity, tenders and regulatory framework while energy prices are monitored and reported by ARME (Multisectorial Economic Regulatory Agency).

In conclusion, the policies are sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

2.3.3 Macroeconomic Policy

The country economy is in a steep recession as a result of the COVID-19 impact on international tourism and transport, reduction of related economic activities and domestic containment measures. The authorities adopted several social and business-oriented mitigation measures while pursuing a stability-oriented macroeconomic policy. The eligibility criterion for sustainable international debt support are still met; but the economic outlook remains highly uncertain and dependent on the duration of the pandemic and the global economic recovery.

The impact of the pandemic was significant in 2020, due to the global economic downturn, travel restrictions and other COVID-19 containment measures. Tourism receipts (previously responsible for 25% of GDP) dropped 75% and significantly affected other sectors. Preliminary data indicate that at end-September 2020, exports and imports of goods declined by 50% and 13% respectively, while services (net) contracted by 72%. Formal unemployment reached 20%.

In response to the COVID-19 crises, the Government increased substantially expenditure from 31.2% of GDP (in 2019) to 34.7%, with a projected expenditure of 37.6% in 2021. The funds helped businesses, households, and vulnerable groups address the impact of the pandemic, through increased health services, social protection measures (e.g. cash transfer programs), moratorium on tax payments and loans, lay-off regimes, among others. But, it also increased public debt as government revenues declined by 23% in 2020. Additional budget support grants, including EUR 17 000 000 from the EU, and concessional credits partially compensated the fiscal gap in 2020.

With annual contributions between 10% and 13% of GDP, remittances from the diaspora provided an important share of foreign currency to the national economy and a direct contribution to the social welfare of many families. The latest figures from the Central Bank indicate that the level of remittances slightly increased, despite the pandemic in the countries where the diaspora resides. While in 2019 remittances reached EUR 180 000 000 (10.2% of GDP), the latest figures for 2020 indicate an upward trend to EUR 188 000 000 (12.7 GDP).

The country macroeconomic situation remains fragile after an estimated GDP contraction of -14% and a cumulative public debt of 140.9% in 2020 (IMF, 2021). Foreign exchange reserves are currently close to 7 months of imports. The Public debt is expected to remain high in the next years, being projected at 138.7% and 132%, respectively, by 2021 and 2022 (IMF, 2021).

In its April 2021 country report, the IMF indicated the seriousness of the current macroeconomic challenges and fiscal framework risks, with an estimated fiscal deficit of EUR 136 000 000 (8.9% GDP). The 2021 national budget amounts to EUR 706 000 000, funded primarily by estimated tax revenues of EUR 366 000 000 or 20.9% GDP, and external credits (EUR 157 000 000). As the crisis prolongs, a revision of the expected tax revenue level and alternative financing may be required.

The Government secured additional fiscal space through the moratorium on debt service for an amount of EUR 41 200 000, reducing expenses by EUR 24 600 000, and increased use of single treasury account (+ EUR 11 700 000). Under the G20 debt relief initiative (DSSI) a debt service suspension of USD 15 500 000 was obtained in 2020. An additional USD 24 900 000 may be deferred with an extension until end of June 2021. The overall debt service represents about 1.1% of GDP and is primarily domestic, not covered by international debt suspension initiatives. This relatively low debt service will however increase substantially once the moratoria granted by the bilateral debt creditors ends in 2022.

Despite the adverse impact of the pandemic, important gains were made through the IMF Policy Coordination Instrument (PCI) in 2020. All end-September 2020 quantitative and non-quantitative continuous targets were observed; The two reform targets (RTs) which were missed because of constraints generated by the pandemic are expected to be completed in 2021. The implementation of structural reforms, notably restructuring some of the State-Owned enterprises () are already on going.

The economic outlook remains challenging and uncertain. The GDP growth is projected to reach 5.8% in 2021 and to average around 6% in the medium term, but these projections remain fragile and depend on key factors such as the global economic rebound and the resumption of tourism and capital flows from Europe to Cabo Verde. There are significant downside risks that may lead to increase public debt. The Government intends to support macroeconomic stability by continuing critical social mitigation measures, implementing key reforms (e.g. in the electricity, transports and financial sector) and successfully negotiating debt suspension or release with international partners. **In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.**

2.3.4 Public Financial Management

The Delegation analysed in 2019 in detail the progress and reforms in the field of PFM and budget oversight & transparency. This assessment is attached to this action document *(Cabo Verde Assessment of eligibility of Public Financial Management and budget oversight and transparency. July 2019*). Given the moderate risk concerning PFM in the Risk Management Framework (RMF), this assessment can be conducted every 3 years.

PFM reforms have continued in 2020 and 2021 under difficult conditions. One major concern remains the need to create contingent liabilities through the provision of guarantees for state owned enterprises and for private companies with a large governmental participation (Cabo Verde Airlines). This practice increases debt distress related risks but the options that the Government has are limited. A major ransom attack on the Governmental IT system and related e-platforms blocked the normal functioning of public administration for several weeks end of 2020.

Recent developments are reflected in the *'Relatório do Plano de ação das reformas de gestão das finanças públicas 2020'* (February 2021). This government report highlights the following key priorities for further improvements:

(i) enhanced domestic revenue mobilization to restore the revenue base after the erosion caused by the pandemic, in addition to improving its performance;
(ii) strengthening expenditure management and better implementation of projects underpinned by public investment;
(iii) advancing public enterprise reforms to reduce fiscal risks and support fiscal and debt sustainability in the medium term;
(iv) improving the monetary policy transmission mechanism;
(v) strengthening the financial system;
(vi) increased access to finance and improving the business environment to support the private sector and stimulate inclusive growth.

Cabo Verde has achieved progress in the area of e-governance. With the creation of the Operational Nucleus of the Information System (NOSI), the digitalisation of public management advanced strongly. However, end of 2020 a major ransom-ware attack blocked almost all governmental e-services and related platforms, and highlighted the need for a National Cyber Security Plan and the enforcement of Information Technology security.

The 2020 PFM reform implementation report also highlights specific demands for capacity building to further improve ongoing or new processes:

- Request for technical assistance for the assessment of the institutional performance of the new legal framework at the level of Public Finance Management and the design of an action plan;
- Request for technical assistance for the elaboration of a new PEFA by the end of 2022;
- Updating of the SIM (Sistema de Informacões Municipais);
- Introduction of E-Procurement at the municipal level.
- Continuous training and capacity building of technicians in areas such as public finance, planning, public administration, leadership and languages.

The law on the Court of Auditors (Law nº 24/IX/2018) which came into force on 4 April 2018 reinforces and enlarges the oversight and audit mandate of the Court, namely by increasing the scope of entities subject to external control, the adoption of performance audit and the possibility of carrying out concomitant audit. The new Strategic and

Operational plans 2020-2014 of the Court of Auditors reflect this enlarged mandate. Specific COVID-19 auditing is ongoing with EU financial support and a first report is expected by October 2021.

Over the last years, major efforts were made to improve **domestic revenue mobilisation**. Tax related income grew by 13.2% between 2017 and 2018, reconfirming the positive trend already noticed between 2016 and 2017 (+ 11.2%). This outcome was a combined result of sustained economic growth and stronger performance and higher effectiveness at the level of tax collection administrations. 2020 was marked by a considerable decrease of tax revenues from 21.5% of GDP in 2019 to an estimated 19 % in 2020. In nominal terms, this represented a reduction with EUR 88 660 000. For 2021, IMF estimates tax revenues to reach 20.7% of GDP or about EUR 340 000 000 that, under the current conditions, seems rather unlikely. Reduced tax collection by 12.2% or **-** EUR 44 000 000 have contributed to a public deficit of -13.7% GDP.

As part of the IMF – Policy Coordination Instrument a report on fiscal exemptions was completed. The target of streamlining exemptions for import duties, excises and value added tax (VAT) was however only met for import duties.
Establishment agreements for large scale investment projects include various incentives, including beneficial tax clauses as described in the EU funded report 'Investment incentives in Cabo Verde' (World Bank, 2018). Curbing the widespread use of such tax related incentive clauses was also a recommendation in the 'Cabo Verde investment policy Review' (UNCTAD, 2018). Recent agreements continue to provide long term fiscal incentives, which will considerably limit the optimization of future domestic revenue flows. The same applies for investments and economic activities in the Special Economic Zones (SEZ) as the recently approved law on Special Economic Zones includes provisions for preferential tax rates. These SEZ and their tax regime are designed to attract Foreign Direct Investment (FDI), a policy that, through other mechanisms, has been extensively used by the Government in areas of particular economic interest like the port of Mindelo (and adjacent business) and the Tourism industry. The effectiveness of SEZs has been discussed in the (BSG) Grupo d'Apoio Orcamental (GAO) meetings by partners and Government in various occasions (notably the last GAO of June 2021) highlighting that while tax incentives may attract FDI, they reduce Government revenue and weaken the capacity of the authorities to invest and provide public services (more effective ways of providing incentives in the Cabo Verde context are the reduction of energy costs for business through the accelerated development of renewable energy production).

Curbing false-invoicing and transfer-pricing practices within the international tourism sector remains a key challenge for the Cabo Verde tax administration. Progress in this field may create considerable room for additional revenue generation.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.3.5 Transparency and Oversight of the Budget

The availability of information on budgetary issues is extremely good. The general site of the Ministry of Finances: www.mf.gov.cv publishes draft budgets and related annexes at the time of submission to the national assembly. A subsection on budget transparency, gives in general terms budget execution levels, including for COVID-19 related expenses. This section also includes a simplified 'citizens budget' to improve accessibility and transparency for a wider public.

The 2021 budget (Lei nº 109/IX/2020) was approved by the national assembly and published on the Official Journal on 31/12/2020 https://www.mf.gov.cv/web/dnocp/oe-2021. The revised 2021 budget was published on 16th July. Details on the status of State Accounts including IPSAS reports are posted on: https://www.mf.gov.cv/web/dnocp/contas-geral-estado/

The latest general accounts report relates to 2019 and was published in December 2020. The latest provisional accounts covers the first trimester 2021. The most recent monthly execution summary refers to April 2021.

The website of the Central Bank provides in a timely manner detailed statistical updates, monetary reports and budgetary details, including on domestic and external debt.
https://www.bcv.cv/pt/Estatisticas/Publicacoes%20e%20Intervencoes/Relatorios/Paginas/REE2020.aspx

Approved budgets, provisions of financial guarantees, institutional credit contracts and investment establishment agreements are published in a timely manner in the Official Journal https://kiosk.incv.cv .

Laws, regulations, and audit reports are accessible on the following links:

- Parliament: http://www.parlamento.cv
- Official Journal: https://kiosk.incv.cv
- Court of Auditors: http://www.tribunalcontas.cv

The opinion of the 2017 accounts was delivered in December 2020. The opinion on the 2018 accounts was foreseen to be concluded for February 2021, but was delayed due to the cyber-attack on the governmental IT system end of 2020. It was submitted on 10 August 2021 to the President of the National Assembly. The Parliament follows up on the recommendations and the main opposition is active in requesting clarifications and encouraging a public debate on Government accounts. The Court of Auditors 2020-2024 Strategic Plan is published with support of the EU Pro PALOP-TL project and as well posted on the Court of Auditors website.

An announced new Public Expenditure and Financial Accountability (PEFA) exercise is now moved towards end of 2022 due to the COVID-19 crisis (previous PEFAs were in 2008 and 2016) Cabo Verde is not taking part in the Open Budget Survey carried out by the International Budget Partnership. The new Budget framework law does not make a specific reference to an Open Budget Survey and government indicated that no decision is taken on the matter. Civil society organisations and academic institutions received from the EU funded PRO PALOP regional programme specific capacity building and guidance on oversight, gender budgeting and monitoring.

Room for further progress remains on the transparency of public procurement processes, of State Owned Enterprises (SOE) reform processes and on the overall pace and quality of audit reporting. These topics will be taken on board in future PFM related policy dialogue.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3. DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The **Overall Objective** (Impact) of this action is contribute to sustainable development, poverty reduction and an inclusive green growth model

The Specific Objectives (Outcomes) of this action are to:

1. Reduce extreme poverty, inequality and exclusion, while supporting gender equality policies including through girl's education

2. Improve public finance management (PFM) and domestic resource mobilisation (DRM)

3. Create the enabling environment for an inclusive green growth model.

The induced Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

1. contribution to outcome 1: **Reduce extreme poverty, inequality and exclusion, while supporting gender equality policies including through girl's education**

   Induced output

   1.1 improved social protection policies and coverage, leading to the national target of eradication of poverty;

1.2 Improved gender equality and inclusion in secondary education

2. contributing to outcome 2: **Improve public finance management (PFM) and domestic resource mobilisation (DRM)**

   Induced output

   2.1 Enhanced PFM and fiscal reforms to increase DRM for an green economic recovery

3. contributing to outcome 3: **Enhance policy reforms conducive for an inclusive green growth model**

   Induced output

   3.1 Enhanced policy reforms and regulations conducive for a green growth model, particularly for the transition to renewable energy, blue economy, sustainable tourism and a circular economy.

The Direct output to be delivered by this action contributing to all induced outputs are:

1. Increased fiscal space and predictability of funds to support the development programmes and policy reforms.
2. Improved strategic policy dialogue and coordination, both bilaterally and in the context of the BSG
3. Improved policy performance assessment and monitoring

3.2 Indicative Activities

This action consists in a General Budget support program that will be implemented under a **Sustainable Development Goal contract**. Complementary support and technical assistance will, whenever required, be financed through a separated action.

For all the outputs of this action, Government and national entities will be in charge of reaching the targets on the agreed variable tranche performance indicators in the respective result areas. The EU Delegation will, aside of the general eligibility criteria, closely **monitor and assess the performances** which will determine the disbursement size of the variable tranches.

Throughout the implementation of this SDG contract, a continued **policy dialogue** is conducted, both bilaterally and in the context of the semi-annual joint BSG reviews. Whenever required, these exchanges will be supported with a dialogue at political level. The policy dialogue will cover inter alia the areas of:

- Poverty reduction, social protection coverage, reduced inequalities, gender equality policies ;
- Macroeconomic stabilisation, improved PFM and domestic resource mobilisation & the creation of an institutional framework for economic recovery.
- Progress on renewable energy targets and on the reforms and regulations supporting investments and job creation under a green growth model.
- Innovative financing for economic recovery and the green growth model

3.3 Mainstreaming

Mainstreaming in AAP is very general and provided possibly before the mandatory analysis at action level are realised. This sections is based on the mainstreaming annex.

Environmental Protection & Climate Change

Outcomes of the SEA screening (relevant for budget support and strategic-level interventions): The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

Outcomes of the EIA (Environmental Impact Assessment) screening (relevant for projects and/or specific interventions within a project)
The EIA (Environment Impact Assessment) screening classified the action as Category C (no need for further assessment).

Outcome of the CRA (Climate Risk Assessment) screening (relevant for projects and/or specific interventions within a project)
The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment)

The impacts of climate change and environmental protection are at the core of the proposed intervention and will be specifically addressed during the implementation of relevant components of the Action

Gender equality and empowerment of women and girls
As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that a gender responsive approach will be applied throughout implementation in all activities undertaken under this action.

Human Rights
Respect for human rights is a fundamental value of the European Union. Strengthening the human rights dialogue, protection of people living in vulnerable situations (including migrants), and reporting obligations in the framework of international human rights treaties are key activities under this Action. The Delegation will finalise its new Human Rights Strategy by the end of 2021. The action will take a human rights-based approach and will comply with the 5 working principles: respect to all rights, participation and access to decision making, non-discrimination, transparency and accountability.

Disability
As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0. This implies that disability is not considered the overall nor a specific objective of the facility. However, in all activities all possible measures will be taken to ensure an inclusive policy dialogue. Therefore, attention will be paid to ensure and enable the participation of people with disabilities in the activities under the facility, and to ensure that the achieved results will be accessible for people with disabilities.

Democracy
This action will support basic pillars of democratic state building such as the increase in budget transparency, accountability measures, the delivery of services to citizens and the reduction of inequalities.

Conflict sensitivity, peace and resilience
Protecting the environment, adapting to climate change, reducing inequalities and building resilience of communities will be key issues in the foreseen sector policy dialogue.

Disaster Risk Reduction
The socio-economic situation in Cabo Verde remains fragile after the worst recession in the country history (-14% GDP in 2020). Unemployment levels, poverty and vulnerability increased considerably in 2020, and in beginning of 2021. The progressive decline of international financial support, in view of the estimated public debt level - 150% of GDP for 2021 - in conjunction with uncertainty of the tourism return and slow domestic revenue mobilisation, will limit the social spending for the years to come, affecting the country capacity to prevent disasters and to react to external shocks (such as the recurrent adverse weather (drought) events). This action will support Cabo Verde in decreasing disaster's risk by providing additional fiscal space for social spending and contingency spending in case of crisis or natural disasters. It will also contribute to increased energy autonomy, through renewable energy produced nationally (versus imported fossil fuels) reducing the country exposure risk to external (energy) shocks that affect considerably the cost and standard of living.

Other considerations if relevant
In the case of Cabo Verde, remittances from the large diaspora constitute a significant factor that is part of the macroeconomic analysis. If properly used, remittances can contribute to better and increased domestic resource mobilisation.

3.4 Risks and Lessons Learnt

Category	**Risks**	**Likelihood (High/ Medium/ Low)**	**Impact (High/ Medium/ Low)**	**Mitigating measures**
Macro-economic stability, including debt sustainability	A continued economic recession and increased debt burden beyond 2022.	Medium	High	Continued policy dialogue with government and central bank on macro-economic policies, PFM reforms, domestic resource mobilisation and debt management. This dialogue takes place both bilaterally and in the context of the regular budget support group reviews (Luxemburg, Portugal, EU, African Development Bank (AfDB), WB) Provision of budget support (SDG contract) to create additional fiscal space for macro-economic recovery and for the implementation of the national development strategy. Mitigation measures include the current negotiations around the restructuring of the debt and the support that the EU (but also Luxemburg, World Bank and African Development Bank) are mainstreaming to support socio-economic response measures. In the case of a continued recession, extra mitigation measures will be needed requiring additional funding mechanisms including through blending, guarantees, additional budget support and enhanced policy dialogue with international lending institutions on debt restructuring.
Vulnerability to external shocks.	The structural vulnerability for external shocks, characteristic for a tourism dependent SIDS is reconfirmed.	High	Medium	Continued policy dialogue on external risk mitigation measures including climate change Climate change mitigation measures are supported
Lessons Learnt: Lessons learned from the previous 2014-2020 Multiannual Financial Framework under the 11th EDF indicated that budget support is an efficient cooperation tool in the context of Cabo Verde and the EU-CV Special Partnership. The 2021-2020 period allowed for an architecture of variable tranche indicators specifically linked to many of the critical areas of the special partnership, including Gender, inclusion and labour policies. Budget Support allowed having a direct and close line of dialogue with the Vice-Prime Minister and Minister of Finance, resulting in access to vital information and leverage with line ministries, municipalities and international partners.				

A recent evaluation of the 2016-21 Good Governance and Development Contract (GGDC - June 2021) highlights that the ‘budget support’ modality has demonstrated remarkable advantages as compared to other aid modalities, allowing the EU and the government of Cabo Verde to establish a more structured dialogue, better articulating the country's development strategy with the EU cooperation strategy. The GGDC contributed to the macroeconomic stability of the country, thanks to the transfers to the public treasury and to policy dialogue in the context of the Joint Reviews. Those transfers allowed the increase of budgetary space for the financing of discretionary public expenditure. The GGDC made as well an important contribution to support the PEDS implementation.

3.5 The Intervention Logic

The underlying intervention logic for this action is that through the provision of general budget support, the EU will be contributing to the country's recovery during its worst crisis since independence. This engagement will send a strong signal of support and trust that will further contribute to consolidate its strategic partnership with Cabo Verde. It will also contribute to create the conditions for the expansion towards EU blending and guarantees as key instruments to support the country's development.

An important assumption for the realisation of the objectives of this action consists in the resumption of the pre-COVID-19 macro-economic growth path after a 2/3 year recovery period, primarily based on the reactivation of the international tourism sector as of 2022.

In accordance with the objective of the MIP this action will support the national institutions to strengthen the response to the COVID-19 crisis ensuring citizen's rights and to reduce inequalities, while creating an enabling environment to pave the way for an inclusive green growth model.

The use of budget support as the implementing modality of this action ensures that alignment with national policies and systems is guaranteed, while parallel implementing and reporting procedures are avoided and transaction costs limited. A high level strategic policy dialogue with the Vice Prime Minister, Minister of Finance, business development and digital economy is combined with a sectoral engagement with leading departments and institutions on the performance tranches. This action will allow the EU to keep a prominent role in the national Budget Support Group and to steer the related multi donor policy dialogue.

At the level of results, the action intends to focus on three areas:

- supporting specific measures for improved public finance management (PFM) and Domestic Resource Mobilisation (DRM),
- supporting reforms and regulations to create an enabling environment for transformative investments in 'green economy' particularly in transition to renewable energy, 'blue economy', sustainable tourism and circular economy. Incentives will also be provided to the coexistence and complementarity of different touristic products in the country, under common 'green' principles such as 'clean' energy, recycling and protection of biosphere reserves.
- promoting and supporting national measures to fight inequality, exclusion and the national target of eradicating extreme poverty and supporting gender equality policies including through girl's education.

3.6 Logical Framework Matrix

At action level, the indicative logframe should have a maximum of 10 expected results (Impact/Outcome(s)/Output(s)).
It constitutes the basis for the monitoring, reporting and evaluation of the intervention.
On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.
The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

BUDGET SUPPORT MODALITY as reflected by the national/sector public policy supported (4 levels of results / indicators / Baselines / Targets / Source of Data - no activities)

Caveat: the indicators used in the LFM refer to the budget support intervention logic. They help monitoring the implementation of the programme in view of its objectives and later evaluate its contribution to country policy's achievements. The list of indicators below should not be understood as the list of indicators informing the disbursement of variable tranches and spelled out in the relevant part of the financing agreement signed with the partner country, although some indicators may be used for both purposes and will be marked accordingly.

Results	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data (1 per indicator)
Indicative Impact of the policy	Contribute to sustainable development, poverty reduction and an inclusive green growth model	1. National poverty rate	1. 31.6% (2021)	1. 20% (2024)[4]	1. INE/SDG Voluntary Report
Expected Outcomes of the policy	1. Reduced extreme poverty, inequality and exclusion, while supporting gender equality policies including through girl's education were supported	1.1 Extreme Poverty rate 1.2 Gini Index 1.3. Secondary School Girls' enrolment rate	1.1 13.1% (2021) 1.2 42.4 (2021) 1.3. 61% (2020/2021 school year)	1.1 4% (2024) 1.2 46 (2024) 1.3. 73% (2024/2025 school year	1.1 INE/SDG Voluntary Report /Cadastro Unico 1.2 INE/SDG Voluntary Report /Cadastro Único 1.3. Ministry of Education reports/INE
	2. Improved public finance management (PFM) and domestic resource mobilisation (DRM)	2.1. Fiscal revenue as % of GDP	2.1. 21.5% (2019)	2.1. 24.7 % (2024)	Ministry of Finance Reports
	3. Created the enabling environment for an inclusive green growth.	3.1 % of energy consumption from Renewable Sources	3.1. 20% (2021)	3.1 30% (2024)[5]	Ministério da Indústria, Comércio e Energia (MICE)
Induced Outputs	1.1 improved social protection policies and coverage, leading to the national target of eradication of poverty.	1.1.1.. Coverage of 'Programa de Cuidados' focusing specifically in adolescent girls 1.1.2 Rate of extreme poor covered by 'Rendimento Social de Inclusão' (RSI)	1.1.1 30% (2021) 1.1.2 25% (2021)	1.1.1 50% (2024) 1.1.2 75% (2024)	1.1.1 INE/SDG Voluntary Report /Cadastro Unico 1.1.2 INE/SDG Voluntary Report /Cadastro Unico
	1.2 • Improved gender equality and inclusion in secondary education	1.2.1 Enrolment rate of adolescent girls of the lowest income quintile.	1.2.1 Stable (2021)	1.2.1 20% increase (2024)	1.2.1 Ministry of Education

[4] National target is eradication of national poverty by 2030.
[5] National target is to achieve 50% by 2030

	2.1 Enhanced PFM and fiscal reforms to increase DRM for an green economic recovery	2.1.1 Adoption of the Fiscal and PFM reforms 2.1.2 % RSI funding through fiscal revenue 2.1.3. Greening of PFM	2.1.1. Not adopted. 2.1.2 RSI funding through loans stands at 30% 2.1.3 No greening PFM action undertaken	2.1.1 Fiscal reforms for increased revenue approved and PEFA assessment finalised. 2.1.2 RSI is entirely funded. From fiscal revenues. 2. 1.3. PFM greened by 2024	Ministry of Finance Reports
	3.1 Enhanced policy reforms and regulations conducive for a green growth model, particularly for the transition to renewable energy, blue economy, sustainable tourism and a circular economy	3.1.1 Implementation of the regulatory framework to incentive green investments on renewable energy, electric mobility and circular economy 3.1.2 Status of the privatisation (concession) for the management of the national electric company (Electra) 3.1.3 Implementation of the regulatory framework for the selling and buying of Renewable Energy from Independent Renewable Energy Producers (IREP) 3.1.4 Implementation of the regulatory framework for the recycling of industrial and domestic waste, including in the tourism industry	3.1.1 Current regulatory framework ineffective. 3.1.2 Electra privatisation plans on hold 3.1.3 No regulatory framework for IREP 3.1.4 No regulatory framework	3.1.1 Reforms and incentives approved by 2024. 3.1.2 Electra's management under concession and creation of a single buyer by 2024. 3.1.3 Regulatory framework approved by 2024. 3.1.4 Regulatory framework approved	3.1.1 UNDP/INE 3.1.2 Official State Journal 3.1.3 Official State Journal 3.1.4 Official State Journal
Direct Outputs	3. Increased fiscal space and predictability of funds to support the development programmes and policy reforms	1.1 Disbursement level of the BS for each induced output	1.1. 0 transfers in year 2021	1.1. 100% by 2024	Ministry of Finance Reports EU Reports
	2. Improved strategic policy dialogue and coordination,	2.1 Status of policy dialogue.	2.1 Policy dialogue restricted to general overview of the	2.1 Quarterly meetings to monitor progress of policies	2.1 Minutes of the meetings reflecting progress

	both bilaterally and in the context of the BSG		budget in GAO meetings	at Director level, biannual meetings with line Ministers. Progress monitoring in the biannual Budget Support Group (GAO) meetings.	
	3. Improved policy performance assessment and monitoring	3.1 Status of the policy monitoring systems	3.1.Monitoring systems not specific for each policy/insuficient data	3.1. Specific quarterly reports with supporting data issued to monitor each policy publicly available	3.1. Ministry of Finance and line ministries/INE

4. IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the Republic of Cabo Verde.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.
Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation of the Budget Support Component

4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 17 800 000. Complementary support will be provided under the support measures as foreseen in the MIP/ AAP 2021. EUR 100 000 is foreseen for evaluation and audit.

Annual disbursements of EUR 6 000 000 will represent about 0.84 % of the national budget and 0.34 % of the GDP. In terms of the impact of current fiscal revenue the annual disbursements will represent around of 1.7 % of the 2020 fiscal revenue.

In view of the current recession and the peaking public debt the amount provided will provide critically needed fiscal space for the Government to continue its mitigation measures and finance the recovery. It will also have a significant impact in moderating the increase of the debt burden, which is one of the major challenges the national economy is currently facing. As it was the case in the previous programming cycle, which included a Good Governance and Development Contract, budget support and the related high level policy dialogue will be instrumental for the EU engagement with Cabo Verde on EU developmental and political priorities. The prominent role of the EU within the Budget support Group can be maintained which facilitates direct access to critical information.

4.3.2 Criteria for Disbursement of Budget Support

a) Conditions.
The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the *Plano Estratégico de Desenvolvimento Sustentável – PEDS* and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities:

Inclusion policies notably in support of the social response, recovery and development plan and the national care programme ('programa de cuidados').
The renewable energy elements of the National Electricity Master plan.

The green economy actions contained in the PEDS.
Fiscal and PFM policies

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3 Budget Support Details

Budget support is provided through fixed and variable tranches as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Cabo Verde escudos will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.
In terms of the balance between variable tranches and fix tranches this intervention will allocate 30% of the total budget to a fix tranche and the remaining 70 % will be in the form of variable tranches.

4.4 Indicative Budget

Indicative Budget components[6]	**EU contribution (amount in EUR)**
Budget support - cf. section 4.3	17 800 000
Evaluation – cf. section 5.2 **Audit** – cf. section 5.3	100 000
Totals	**17 900 000**

4.5 Organisational Set-up and Responsibilities

The EU is member of the Budget Support Group (BSG). Other members are currently Luxemburg, Portugal, African Development Bank, World Bank. In-depth six monthly reviews take place two times a year. These reviews are the presented to the BSG and discussed through sessions lasting four days. A press release and aide memoire with the conclusions of the meeting is prepared jointly by the Government and BSG donors.

[6] N.B: The final text on audit/verification depends on the outcome of ongoing discussions on pooling of funding in (one or a limited number of) Decision(s) and the subsequent financial management, i.e. for the conclusion of audit contracts and payments.

In addition specific policy dialogue platforms will be organised around the main policies, namely inclusion (including reduction of poverty and empowerment of young girls) and favouring an enabling environment for green investments.

The oversight of the National Budget is ensured by the Parliamentary Finance and Budget committee and the Court of Auditors. Both institutions have been supported by the EU in the past. The EU will continue to provide support to strengthening their capacities through the TCF (included in the same AAP 2021). The EU may support, as well, CSOs budget oversight capacities, regarding specifically execution at municipal/local level. As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows:

The Central Bank of Cabo Verde provides regular statistical information on economic and finance developments. The monthly statistical updates (Boletim de Estatísticas) include details on the national accounts, labour market, inflation, the external sector, the monetary and financial sector and public finances including debt related information /creditor. https://www.bcv.cv/pt/Estatisticas/Paginas/Estatisticas.aspx

The National Statistical Institute (INE) provides general statistical data. Timely completion of reports remains a challenge. Due to COVID-19 the 2020 census took place in mid-2021 and is expected to provide a wide variety of updated information as the last census dates from 2010. This census received financial support from the previous GGDC and from Luxembourg. Preliminary data were released early August 2021 and final consolidated data are expected early 2022. https://ine.cv/en/

In addition to the monitoring units at the Ministry of Finance, the Central Bank and INE a key partners within our policy dialogue, both bilaterally and in the context of the BSG. Continued support through TA or twinning can be envisaged under the support measures action.

5.2 Evaluation

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components through a joint mission.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders. The Commission shall inform the implementing partner at least 2 months in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination[7]. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

[7] See best practice of evaluation dissemination.

APPENDIX 1 REPORTING IN OPSYS

An Intervention (also generally called project/programme) is the operational entity associated to a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Interventions are the most effective (hence optimal) entities for the operational follow-up by the Commission of its external development operations. As such, Interventions constitute the base unit for managing operational implementations, assessing performance, monitoring, evaluation, internal and external communication, reporting and aggregation.
Primary Interventions are those contracts or groups of contracts bearing reportable results and respecting the following business rule: 'a given contract can only contribute to one primary intervention and not more than one'. An individual contract that does not produce direct reportable results and cannot be logically grouped with other result reportable contracts is considered a 'support entities'. The addition of all primary interventions and support entities is equivalent to the full development portfolio of the Institution.

Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).
The level of the Primary Intervention is defined in the related Action Document and it is revisable; it can be a(n) (group of) action(s) or a (group of) contract(s).

Tick in the left side column one of the three possible options for the level of definition of the Primary Intervention(s) identified in this action.
In the case of 'Group of actions' level, add references to the present action and other action concerning the same Primary Intervention.
In the case of 'Contract level', add the reference to the corresponding budgetary items in point 4.4, Indicative Budget.

Option 1: Action level		
☒	Single action	Present action: all contracts in the present action
Option 2: Group of actions level		
☐	Group of actions	Actions reference (CRIS#/OPSYS#):
Option 3: Contract level		
☐	Single Contract 1	
☐	Single Contract 2	
☐	Single Contract 3	
☐	Group of contracts 1	