



1. Program Information

Country Cabo Verde	Practice Area (Lead) Macroeconomics, Trade and Investment
Programmatic DPF	
Planned Operations 0	Approved Operations 0
Operation ID P165631	Operation Name Cabo Verde DPO

L/C/TF Number(s) IDA-64250	Closing Date (Original) 30-Jun-2020	Total Financing (USD) 39,642,418.80
Bank Approval Date 05-Jun-2019	Closing Date (Actual) 30-Jun-2020	
	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	40,000,000.00	0.00
Revised Commitment	40,000,000.00	0.00
Actual	39,642,418.80	0.00

Country Cabo Verde	Practice Area (Lead) Macroeconomics, Trade and Investment
Operation ID P171080	Operation Name CV DPF2 (P171080)



L/C/TF Number(s) IDA-64250,IDA-67440	Closing Date (Original) 07-Jul-2021	Total Financing (USD) 25758531.03
Bank Approval Date 07-Aug-2020	Closing Date (Actual) 07-Jul-2021	
	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	25,000,000.00	0.00
Revised Commitment	25,000,000.00	0.00
Actual	25,758,531.03	0.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The Financing Agreement for the First State-Owned Enterprises Reform and Fiscal Management DPF did not specify the Program Development Objectives (PDOs). It referred to the Letter of Development Policy, which stated that the DPF would support government reforms "to reduce fiscal risks in key SOEs, while boosting private sector led provision of infrastructure services" and "to strengthen efficiency, accountability, and transparency in fiscal management". The Program Document of DPF1 defined the PDOs similarly: (i) reducing fiscal risks from SOEs while improving service delivery in infrastructure, and (ii) strengthening effectiveness and accountability in fiscal management.

The Financing Agreement for the Second DPF did not state the PDOs either and referred to the corresponding Letter of Development Policy, which IEG could not locate. The Program Document of DPF 2 retained the same PDOs as the first.

For the purpose of this ICRR, the PDOs of the DPF series are taken to be:

- to reduce fiscal risks in key SOEs;
- to boost private sector led service delivery in infrastructure; and
- to strengthen effectiveness and accountability in fiscal management

b. Pillars/Policy Areas



The DPF series had two pillars that mirrored the two PDOs (para 36 PD of DPF1). For the purpose of this ICRR, the pillars are as follows:

- Pillar A: reducing fiscal risks in key SOEs;
- Pillar B: improving private sector led service delivery in infrastructure; and
- Pillar C: strengthening accountability and effectiveness in fiscal management

c. Comments on Program Cost, Financing and Dates

The financing consisted of two IDA credits of SDR 28.9 million (US\$40.0 million equivalent) and SDR 18.3 million (US\$25.0 million equivalent), approved on June 5, 2019, and August 7, 2020, respectively. Both DPFs became effective a few weeks after approval, with the credits fully disbursed (actual disbursements were US\$39,642,419 and US\$25,758,531, respectively) before closing on schedule one year later. Given the impact of Covid-19, the Bank financed DPF2 under IDA's Crisis Response Window.

3. Relevance of Design

a. Relevance of Objectives

The objectives were highly relevant to country conditions, government programs, and the WBG partnership strategy.

The objectives addressed a key challenge identified in the 2015 Systematic Country Diagnostic- that weakly managed SOEs posed a considerable risk to Cabo Verde's macroeconomic stability. Despite fiscal consolidation efforts, public debt (130 percent of GDP in 2016) continued to rise. A significant part of the debt was held by large SOEs, with the total debt of the three largest companies reaching 34 percent of GDP.

The objectives were consistent with the priorities of the Strategic Plan for Sustainable Development (*Plano Estratégico de Desenvolvimento Sustentável* 2017/2021, which aimed to transform the country into a maritime and air transport hub and to ensure economic stability and sustainability (and social inclusion, sovereignty and democracy).

The objectives were central to Focus Area II of the CPF for FY20-25, which sought to strengthen the environment for a more diversified economy. CPF Objective 3 aimed to sharpen fiscal and macroeconomic resilience by introducing hard budget constraints on SOEs and streamlining tax expenditures, strengthening the medium-term fiscal framework, and bolstering public investment and public debt management. CPF Objective 4 supported government efforts to improve the foundations for private sector growth by addressing, among other things, air and maritime transportation constraints, through reform of transportation SOEs and promotion of private sector engagement.

b. Relevance of Prior Actions

Rationale



As designed, the theory of change was credible, with prior actions and triggers expected to contribute to the objectives. Loss-making SOEs represented a major source of extra-budgetary spending and a big driver of debt. The three largest SOEs were the Public Water and Electricity Company (ELECTRA), the state-owned Real Estate Company (IFH), and Cabo Verde Airlines (CVA). Reform of these and other SOEs would improve their financial position and reduce fiscal exposure. Strengthening regulation and management would improve the delivery of critical services by private providers. An enhanced legal framework would allow better budget and debt management and greater fiscal accountability. In addition, several DPF2 prior actions adapted the triggers to reflect reform progress, strengthening the results chain.

Following the Covid-19 outbreak, some reforms stalled, leading to the dropping of three triggers. In a couple of cases (energy and social housing), the Bank changed the intent of the prior actions from cost recovery for the targeted SOEs to affordability to maintain access for the poor, disabled, and youth to the services provided by these SOEs. In addition, three new prior actions under DPF2 (renewable energies, energy efficiency, and information and communication technology) expanded the scope of the DPF series. While a reasonable response to changing circumstances, these changes were de facto fundamental changes to the objectives of the operation but were not reflected in the approve PDOs.

This ICRR uses the prior action numbering system in the ICR to avoid confusion. Related prior actions (e.g., sequential support in the same area as part of the same results chain) are discussed together.

Objective 1: Reducing fiscal risk in key SOEs was supported by five prior actions - three under DPF1 and two under DPF2.

DPF1-PA1 (Moderately Satisfactory): The Recipient has adopted and implemented a strategy to reduce fiscal exposure to SOEs while boosting air connectivity, as evidenced by (i) the approval, through Resolution 87/2017 of August 2017, of an agenda and a list of 23 entities (including the airline CVA) for SOE restructuring, privatization or concession; and (ii) the issuance of Resolution 23/2019 of March 2019, authorizing that the debts absorbed by the central government as part of the national airline's sale be offset by the proceeds from the restructuring of select entities.

The 2017 SOE Report by the government identified CVA as the SOE posing the greatest fiscal risk and drain on public finances. Including CVA in the list of SOEs for restructuring and approving the list were initial steps toward repositioning the state's role in the air transport sector. DPF1-PA1 authorized the allocation of revenues from the disposal of the government's stake in CVA to be used exclusively to pay off CVA's debts that the government had absorbed during the privatization of the airline. This was an important step in reducing the fiscal burden of CVA. The triggers for DPF2 were to support continued divestment of CVA and further implementation of the CVA reform plan. However, the Covid-19 outbreak thwarted these plans, and prior action for DPF2 did not support further CVA reform.

DPF1-PA3 (Moderately Satisfactory): To improve the financial situation of the energy utility, the Recipient has approved a new performance-based management contract with ELECTRA, incorporating adequate targets, results indicators, and incentives.

Poor management of the Public Water and Electricity Company (ELECTRA) was the main cause of the long-standing high electricity losses. Approving an improved performance-based management contract with the public utility represented a credible effort to improve its management efficiency and financial situation. If



followed up with full implementation of the action plan to reduce commercial losses and approval of a new tariff structure (DPF2 triggers), it could reduce fiscal risks from ELECTRA.

DPF2-PA3 (Moderately Unsatisfactory): To increase the sustainability of the energy sector and reduce the cost and environmental impact of power generation, the Recipient has adopted a resolution approving the 2018-2040 Power Sector Master Plan fostering the use of renewable energies.

DPF2-PA4 (Unsatisfactory): To promote energy efficiency, the Recipient has adopted a decree law establishing a national labeling system for electrical equipment, including fines for suppliers, distributors, and retailers who do not comply with the labeling system.

Adopting a power sector master plan would be a foundational step for modifying the power generation mix towards cheaper and cleaner sources. Establishing a labeling system would allow consumers to make better-informed purchase decisions and contribute to reduced demand for energy. While both PAs were relevant for reducing the environmental impact of energy production and consumption, contributing to increased electricity generation from cheaper sources, and improving ELECTRA's profitability in the long run, they were not clearly connected to the approved fiscal or financial objectives of the operation.

DPF1-PA4 (Satisfactory): To reduce fiscal risks associated with the social housing program Casa Para Todos, the Recipient has instructed the IFH to open separate dedicated bank accounts for collecting the proceeds of the sale of those units remaining with IFH (standing I and II), and IFH has opened the accounts.

DPF2-PA5 (Moderately Satisfactory): To improve fiscal transparency and increase social inclusiveness of the social housing program, Casa Para Todos, the Recipient has (i) carried out an independent financial audit of IFH's 2019 accounts dated March 30, 2020; and (ii) issued a resolution establishing subsidies for youth and people with disabilities to buy their first home.

Opening dedicated bank accounts for collecting the proceeds from the social housing units managed by the state-owned Real Estate Company (IFH) would improve the transparency of the flow of funds related to the social housing program (CPT). Reinforced by an independent financial audit of IFH's accounts, which would provide more information on the actual cost of the CPT and facilitate program management, the actions would help reduce fiscal risks associated with CPT. DPF2-PA5 also supported providing subsidies to youth and people with disabilities to access housing, although these actions did not support the objectives of reducing fiscal risk in the social housing sector.

Objective 2: Boosting private sector led service delivery in infrastructure was supported by five prior actions - one under DPF1 and four under DPF2.

DPF1-PA2 (Satisfactory): For enhanced financial sustainability and quality in maritime inter-island service provision, the Recipient has (i) proceeded to grant an exclusive concession to a qualified private strategic partner for the provision of minimum inter-island public transportation services.

DPF2-PA1 (Satisfactory): To enhance financial sustainability and quality in maritime inter-island service provision, the Recipient has established in the concession contract rules governing public service obligations and quality requirements of maritime inter-island transportation.

To improve inter-island maritime transport services, the government decided to open the sector to the local private sector. Granting exclusive concession to a qualified private partner and adopting necessary regulations that govern service obligations and quality requirements, including availability and frequency of



services in the less profitable routes, for the concessionaire were important actions for introducing an effective partnership with the private sector to enhance financial sustainability and service quality in maritime transport services.

DPF2-PA2 (Unsatisfactory): To increase energy affordability for low-income households, the Recipient has (i) adopted a decree law granting access to the social electricity tariff to households classified as very poor and poor in the Single Social Cadaster and (ii) issued a joint directive making the enrollment of these households into the social tariff scheme automatic.

To make energy more affordable to low-income households, the government introduced a social tariff in 2018 that provided a discount of up to 30 percent of the electricity bill to poor households. DPF2-PA2 supported harmonizing the social tariff criteria with other social programs and making the enrollment of beneficiaries automatic. While these actions would make it easier for poor households to access the social tariff scheme, they were irrelevant to the approved objective of boosting private sector led electricity delivery.

DPF2-PA6 (Satisfactory): To improve competition and ensure an open and non-discriminatory access regime in the international bandwidth capacity market, the Recipient has adopted a decree implementing regional ECOWAS regulation (C-REG-06-06-12), stipulating conditions for accessing landing stations for international submarine fiber optic cables.

The DPO series envisioned adding ICT to DPF2. The Covid-19 pandemic underscored the critical importance of digital connectivity in business continuity and service provision. Implementing ECOWAS regulations on conditions for access would improve the regulatory regime for broadband services, which were provided by private companies, address alleged anti-competitive practices, allow for the development of an equitable broadband market, and enhance digital connectivity. These actions would contribute directly to the objective of boosting private sector led ICT services.

Objective 3: Strengthening effectiveness and accountability in fiscal management was supported by eight prior actions - five under DPF1 and three under DPF2.

DPF1-PA5 (Satisfactory): To enhance budget management, the Recipient has submitted to Parliament a draft Organic Budget Law defining the rules and budgetary principles that apply to the preparation, implementation, evaluation, control, and accountability of the budget.

DPF1-PA6 (Satisfactory): To enhance debt management, the Recipient has submitted to Parliament a draft Debt Law which in Article 16 enshrines development of regular MTDS and associated annual borrowing plans consistent with public debt targets defined in the MTDS (Article 5).

DPF2-PA7 (Satisfactory): To strengthen the medium-term fiscal framework, the Recipient has enacted a law approving the 2020 Budget that includes a Medium-Term Fiscal Framework (MTFF) consistent with the provisions of the new budget and debt laws and reflecting medium-term fiscal targets that support a decline in the public debt to GDP ratio.

Despite constitutional requirements, Cabo Verde did not have an Organic Budget Law or a rigorous debt management strategy. The DPF1 supported filling these important legal lacunae, which was needed to instill fiscal discipline, accountability, and transparency in the preparation, implementation, evaluation, and control of the budget, strengthen the link between the annual budget and the MTFF, and guide borrowing operations and properly manage debt risks. DPF2 supported strengthening the MTFF by implementing the new budget and debt laws. The preparation of the MTFF would inform policymakers on the sustainability of fiscal policy.



At the same time, developing the medium-term debt management strategy would underpin decisions on the desired profile of new borrowers and the debt portfolio. These actions would contribute to improved fiscal and debt management results.

DPF1-PA7 (Highly Satisfactory): To enhance fiscal accountability, the Recipient has introduced a new Court of Account Law extending the powers of the supreme audit institution to all entities managing public funds and introducing additional audit methods, including performance and compliance audits.

DPF2-PA8 (Highly Satisfactory): To improve the financial independence and sustainability of the Court of Accounts, the Recipient has adopted a decree law updating the Court of Accounts' legal regimen, including the establishment of inflation-linked services fees.

A 1993 law had governed Cabo Verde's supreme audit institution with significant shortcomings, including the scope and types of audits undertaken. Parliament had delayed passing a bill to modernize the Court of Accounts for a decade. Adopting the long-awaited Court of Account Law was an important step toward expanding the supreme audit institution's mandate to ensure adequate accountability in public funds and to reinforce a performance and evaluation culture in the public sector. DPF2 supported efforts to strengthen the financial autonomy of the Court of Accounts by updating the fees charged to different government agencies to current prices and indexed to inflation. These measures were important steps toward full financial autonomy and would enhance its ability to deliver on its mandate without interference from the government or other state players.

DPF1-PA8 (Satisfactory): To implement the standards of the Global Forum on Transparency and Exchange of Information for Tax Purposes, the Recipient has applied for membership in the Global Forum.

DPF2-PA9 (Moderately Satisfactory): To rationalize tax expenditures, the Recipient has enacted a law to revoke or streamline the main cost of ineffective tax incentives.

Despite substantial progress, Cabo Verde remained on the EU watchlist for non-cooperative tax practices. Joining the Global Forum on Transparency and Exchange of Information for Tax Purposes would help the country adopt global tax transparency standards through the forum's monitoring and peer review activities. This was a condition of the EU to prevent the inclusion of Cabo Verde on the blacklist of non-cooperative jurisdictions for tax purposes. Cabo Verde also had a complex tax incentive system, with pervasive tax exemptions and disputable effectiveness in attracting investment. Eliminating and streamlining inefficient taxes would yield fiscal savings and contribute to more rationalized tax expenditures. The Government adopted a formal benchmark model to systematically evaluate and publish all tax incentives, which was a useful tool for identifying those that should be eliminated. However, the PA was vague, without a target amount nor any criteria for assessing effectiveness..

DPF1-PA9 (Satisfactory): To rationalize public investment selection, consistent with the 2014 planning law and the 2018 budget decree-law, all new investment projects in the Recipient's 2019 Budget submitted to Parliament have been selected in accordance with phase 1 of the Public Investment Management System and consistent with the Recipient's development objectives.

Capital spending was a major driver in the build-up of Cabo Verde's debt. Enhanced screening and prioritization of public investment projects were important part of controlling ineffective public spending, although this action became irrelevant a year later when no new investment in the 2020 budget met the minimum size threshold to be subject to the required analysis.



Rating

Moderately Satisfactory

4. Relevance of Results Indicators

Rationale

RI0 (satisfactory) captured the impact of the PA and measured progress toward the objective of CVA reducing its reliance on fiscal transfer. DPF2 dropped the follow-up support due to the severe impact of Covid-19 on the air travel industry and the impossibility of pursuing the planned reforms of CVA. However, it retained the indicator with a revised baseline and target. ICR notes, "RI was dropped prior to program closing date." IEG reviews the approved PDOs, PAs and RIs, and thus includes this indicator in the assessment.

RI3 (moderately unsatisfactory) was added in DPF2. While adopting a long-term power sector master plan would foster increased generation from renewable sources, many things needed to happen (e.g., investments in renewable energy facilities) to achieve the target outcome and contribute meaningfully to progress toward the objective. While a good measurement of progress in renewable energy generation, the indicator did not inform on the impact of the PA, the financial situation of ELECTRA, or the fiscal risks to the government. Also, for an indicator introduced in 2020, retrospectively setting the baseline in 2018 and a target for 2021 practically guaranteed to achieve the target, diminishing its usefulness for measuring the impact of the DPF support.

RI4 (unsatisfactory) was added in DPF2 and appropriately measured the impact of the PA. However, there is a significant logical leap between better labeling of electrical equipment and reducing fiscal risk from ELECTRA, making the RI less relevant to achieving the objective. Again, for an indicator introduced in 2020, retrospectively setting the baseline in 2018 and a target for 2021 practically guaranteed meeting the target. The ICR raises questions about the measurability and tractability of this indicator.

RI5 (satisfactory) measured progress toward achieving the objective and captured the impact of the PAs, albeit with some gaps. That is, opening separate, dedicated accounts for IFH's social housing transactions and conducting audits of IFH's financial accounts would improve the transparency of the social housing program, which could in turn contribute to better program management and reduced fiscal support to IFH.

Indicators under Objective 2

RI1 (satisfactory) captured the impact of the PAs and measured progress toward the objective of improved maritime service delivery. Revisions in DPF2 strengthened the relevance of the indicator by tracking more closely what the private service provider could control.

RI2 (moderately unsatisfactory) replaced an original indicator that measured ELECTRA's commercial performance. While it captured the impact of the new PA and progress in better targeting the social tariff for electricity, it did not measure achievement of the objective of private sector led service delivery.



RI6 (satisfactory) was added in DPF2 and reasonably captured the impact of the PA to support improved ICT competition through the implementation of regional ECOWAS regulation. A lower bandwidth price would enhance access for the carriers and, thus, the end users.

Indicators under Objective 3

RI7 (satisfactory) captured the impact of the PAs in the two DPFs and measured progress toward the objective of enhanced fiscal management.

RI8 (satisfactory) adequately captured the impact of the PAs to expand the mandate and the independence of the audit institution. It measured strengthened capacity of the audit institution to perform its check and balance functions to ensure fiscal accountability.

RI9 (satisfactory) captured the impact of the PA and measured progress toward meeting global tax transparency standards through the Global Forum peer review process.

RI10 (unsatisfactory) Although revoking/streamlining main cost ineffective tax incentives would facilitate the elimination of poorly targeted, redundant, and ineffective exemptions, which could yield critical fiscal savings, many other factors influence tax expenditures as a share of GDP.

Results Indicator	Associated PAs	RI Relevance	Baseline	Target	Actual Value	Actual / Targeted Change	RI Achievement Rating
Objective 1: Reducing fiscal risk in key SOEs							
RI0 Decline in central government financial support (transfers, subsidies, capitalization, and guarantees) to CVA	DPF1-PA1	S	2.4% GDP (2018)	1.5% GDP (2021)	NA	-	Negligible
RI3: Increased power generation from additional variable renewable energy facilities	DPF2-PA3	MU	0 (2018)	30 MW (2021)	40.8 MW (2021)	136%	Substantial
RI4: Increased proportion of energy-efficient labeled electrical equipment	DPF2-PA4	U	0 (2018)	30% (2021)	48% (2021)	160%	Modest
RI5: Decline in central government financial support (transfers, subsidies, capitalization, and guarantee) to IFH	DPF1-PA4, DPF2-PA5	S	1.6% GDP (2018)	< 0.5% GDP (2021)	5.1% GDP (2021)	-318%	Negligible
Objective 2: Improving service delivery in infrastructures							
RI1: Improved frequency and safety of inter-island maritime services (regular	DPF1-PA2, DPF2-PA1	S	7 (2017)	32 (2021)	27 (2021)	80%	Substantial



weekly frequencies by class-certified ships)							
RI2: Share of poor and extremely poor households enrolled in the energy social tariff.	DPF1-PA3, DPF2-PA2	MU	0% (2018)	100% (2021)	35.6% (2021)	35.60%	Modest
RI6: Wholesale price of international capacity (bandwidth price for 1 STM1 in euro/Mbps/month)	DPF2-PA6	S	€775 (2018)	< €600 (2021)	€45.14 (2021)	417%	High
Objective 3: Strengthening effectiveness and accountability in fiscal management							
RI7: Successful implementation of government fiscal targets (fiscal primary balance as a share of GDP)	DPF1-PA5, DPF1-PA6, DPF2-PA7	S	-0.3% GDP (2018)	0.4% GDP (2021)	-11.1% GDP (2021)	-1543%	Negligible
RI8: Increase in number of additional audits completed by SAI under the new legal framework	DPF1-PA7, DPF2-PA8	S	0 (2018)	5 (2021)	23 (2021)	460%	High
RI9: Completion of all necessary reforms to obtain a largely compliant rating in the Global Forum peer-review process	DPF1-PA8, DPF2-PA9	S	No (2018)	Yes (2021)	Yes (2021)	100%	High
RI10: Streamlined tax expenditures (as evidenced by a decline in tax expenditures as a share of GDP)	DPF1-PA8, DPF2-PA9	U	4.5% (2018)	4.0% (2021)	7.0% (2021)	-500%	Negligible

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Reducing Fiscal Risks in Key SOEs

Rationale



Two PAs in DPF1 and three in DPF2 supported this objective, including approving a list of 23 SOEs for restructuring, privatization, or concession; a concession for a private partner for inter-island shipping; and a new management contract for ELECTRA. Among the results, there was a more than threefold increase in fiscal support to IFH rather than the planned decline to below a third of the baseline. Central government support for ELECTRA was not tracked. Instead, the results framework measured renewable power generation and energy efficiency labeling of electric equipment, the targets of which were substantially exceeded (by 36 percent and 60 percent, respectively). However, they were less relevant for measuring progress toward reducing fiscal risk in the targeted SOEs. The ICR does not report on the government's financial support to CVA, selling 51% of CVA to a subsidiary of Icelandair in March 2019 and another 10% in December 2019. However, the impact of Covid-19 on the travel industry resulted in poor performance of CVA and an accumulation of debt, rendering continuous implementation of the CVA reform plan (full public divestment of CVA) impossible.

Rating

Moderately Unsatisfactory

OBJECTIVE 2

Objective

Objective 2 Improving private sector led service delivery in infrastructures

Rationale

PAs in DPF1 and three PAs in DPF2 supported this objective, including establishing rules for the private provider of maritime transportation services and implementing regional ICT regulations. Regular weekly frequencies by class-certified ships increased, reaching 80 percent of the target. Improvement in ICT access as measured by reduced bandwidth price exceeded expectation by over four times. However, the PAs on enrolling the poor and extreme poor households in the energy social tariff and subsidizing the vulnerable to access housing were irrelevant to Objective 2, as were the associated results.

Rating

Moderately Satisfactory

OBJECTIVE 3

Objective

Strengthening effectiveness and accountability in fiscal management

Rationale



Five PAs in DPF1 and three PAs in DPF2 supported this objective, including adopting budget and debt laws, approving the 2020 budget with a medium-term fiscal framework, introducing laws to extend the powers and financial independence of the supreme audit institution, participating in the global forum on tax transparency, and streamlining ineffective tax incentives. There was significant progress in enhanced audit capacity and compliance with international tax transparency standards. However, achieving government fiscal targets was out of reach during the Covid-19 pandemic, with the primary balance as a share of GDP rising to a deficit of 11.1 percent instead of a surplus of 0.4 percent. Tax expenditures rose from 4.5 percent of GDP to 7 percent instead of declining to 4 percent.

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

Overall, the reforms supported by the DPF series helped improve services delivery in maritime inter-island transport, ICT access, accountability in the use of public funds, and tax transparency. They were less successful in helping reduce fiscal risks in key SOEs or strengthening fiscal management. DPF2 recognized that reducing fiscal support to SOEs was challenging amid the Covid-19 crisis. However, instead of adjusting the objectives of the DPF series to reflect the new realities, it maintained the original objectives while shifting DPF2's focus to supporting social inclusion in accessing infrastructure services. This reduced the relevance of some PAs and RIs.

Overall Efficacy Rating

Moderately Unsatisfactory

6. Outcome

Rationale

The original design of the DPF series was logical, with sound theory of change and generally well-defined indicators. The objectives of reducing government financial support to SOEs and improving fiscal balance



became inconsistent with the urgent response in the aftermath of the Covid-19 outbreak. Regrettably, the objectives of the series were not amended, rendering some of the results irrelevant to their achievement..

a. Rating

Moderately Unsatisfactory

7. Risk to Development Outcome

The risk to the sustainability of the outcomes achieved is moderate. The best results were maritime and ICT services delivery, fiscal accountability and tax transparency. The DPF series achieved them through legal and institutional improvements that are likely to be sustained. The ICR notes weakness in the current set up for the supreme audit institution, which may threaten the independence of the audit authority and reduce its mandate and the quality of its work. For the outcomes missed, which were in the areas of SOE reforms and fiscal management to reduce public debt, the ICR reports that the government remains committed to pursuing the related reforms as soon as the socioeconomic condition allows. The World Bank provides continued support through SOEs Related Fiscal Management Project, ongoing TAs, and the Cabo Verde Sustainable and Equitable Recovery DPF series (phase 1 of the series is under way).

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

In designing the DPF program, the team drew lessons from the last programmatic Poverty Reduction Support Credit (PRSC) 8 and 9, which closed in 2016, three years before the approval of DPF1. The ICR of the PRSC series pointed out the importance of acknowledging the political economy challenges associated to sensitive SOE-related reforms and the need to align the ambition of DPF support to the government's capacity to deliver on the reforms. In response, the DPF series focused on ongoing reforms that enjoyed certain momentum and champions in Cabo Verde. It learned from unsuccessful previous experience with non-enforcement of performance-based contracts with SOEs, anchoring the contract in a broader framework of SOE law and incorporating adequate targets, results indicators and incentives.

All the PAs drew from analytical work and project experience of the Bank and others. The theory of change shows a good understanding of the critical issues and the reforms needed. There were shortcomings in the relevance of some new PAs in DPF2 and the impact of some DPF1 PAs when they lost follow-up support. The RIs were straightforward, although some of the new indicators introduced in DPF2 were irrelevant and the lack of data sources was problematic.

The Program Document of DPF1 identified eight risks. It assessed the overall risk as substantial, including high macroeconomic risks and substantial risks in the implementation capacity of sector strategies and policies and stakeholder support. It noted that delays in reforming SOEs would derail efforts to reduce fiscal financing needs



and that external and natural shocks could increase fiscal pressure and result in fiscal slippages, which is what happened. There were efforts to strengthen SOE oversight, as well as Bank support through the SOEs Related Fiscal Management Project, the Disaster Risk Management Development Policy Credit and loan with Cat DDO, and World Bank and IMF support for the implementation of a comprehensive strategy for improved debt management. These measures were appropriate even if they could not fully mitigate the fiscal impact of Covid-19. The mitigation measures to address capacity constraints and stakeholder resistance were also credible (e.g., TA and concentrating on reforms that benefited from ongoing policy dialogue, that leveraged other WBG operations, and that had champions and momentum).

The Program Document of DPF1 indicated that the design of the DPF series drew on consultation at several levels (Parliament, Council of Ministers, key stakeholders, management, and employees). The World Bank participates in the 5-member Budget Support Group led by the African Development Bank and discussed with partners the program supported by the DPF series (The ICR reports that the Bank presided during the preparation and implementation of the program, from 2019 to 2021).

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

The Bank prepared an ISR of DPF1 in June 2020. It reported adequate reform implementation and outcome achievement, exceeding three RI targets by December 2019, progressing well in three other RIs, but achieving no advance in the other three RIs. Notably, central government financial support to CVA and IFH declined, ELECTRA's commercial loss lessened, and the authorities exceeded the fiscal primary balance and tax expenditure targets. However, the socioeconomic impact of Covid-19 halted the progress in SOE reforms in the aviation and the energy sectors. The ISR noted that these reforms would be delayed until after the pandemic was under control and the authorities would adjust the policy matrix for DPF2 accordingly. The ISR also adjusted the risk ratings: while maintaining the overall risk at substantial, it raised the institutional capacity risk to high and reduced fiduciary and stakeholder risks to low.

Changes to several PAs and RIs reflected the new realities and government priorities, and the final RIs captured the impact of the revised PAs. However, with the formal objectives left unchanged, some of the impacts were not relevant to the operation. The objectives of reducing fiscal support to key SOEs and public debt were inconsistent with the COVID response and the Bank should have formally amended them.

The Program Document of DPF2 accurately assessed the heightened macroeconomic risks and indicated that additional mitigation measures would include supplemental support from the IMF, the World Bank, and other partners.

The ICR notes shortcomings in M&E during supervision, although the issues raised (problematic collection, quality control, and sharing of administrative data across government agencies) are not specific to this DPF series.



Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

The objectives and prior actions were mostly relevant and selected based on extensive analytical work, prior engagement, and close coordination with the IMF and other development partners through an established mechanism. The Bank assessed key risks appropriately, proposed reasonable mitigation measures, and used tools (e.g., Crisis Response Window) to mitigate them when they materialized. The adjustments to the support program were timely and consistent with the new needs. It would have helped with results achievement if the PDOs were also revised when it became clear that major SOE reforms were unlikely during a crisis.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

The ICR notes an increased poverty rate in 2020 due to the economic impact of the crisis, but a reduction in 2021 as a result of resumed economic growth. The DPF2 strengthened the support for the poor and vulnerable to access energy and social housing.

b. Environmental

The ICR notes that one potential source of the negative environmental impact of the program was the electricity social tariff, which could increase energy demand. On the other hand, the program supported actions to promote renewable energy and energy efficiency, which could partly offset some of the negative impacts.

c. Gender

The ICR does not refer to gender.

d. Other



None identified.

10. Quality of ICR

Rationale

The ICR provides helpful information on the implementation and results of the DPF series. It is also candid in pointing out the shortcomings in the program's focus and the M&E framework and draws valuable lessons.

However, it is thin on the evidence and analysis. For example, paragraph 26 states that the four PAs “strengthened the overall program but also the rating”. However, the discussion presents only why reforming ELECTRA was needed, not why the specific prior actions were important to achieving the PDOs or how they strengthened the overall program. It is also unclear what rating is referred to here – outcome achievement, World Bank performance, or relevance of the PAs or RIs.

There is a certain inconsistency in the ICR. For example, it judges that removing DPF1-PA1 and the related results indicator weakened the overall program. However, the discussion only reports on the evolution of events regarding CVA, not on how dropping the PA and the associated indicator may have weakened the program. The discussion concludes “dropping this prior action and related results indicator allowed the program to maintain its overall relevance” (para 24). This contradicts the title sentence and suggests that their removal - if it happened at DPF2 approval as dropping PAs and RIs are not allowed during implementation - would have strengthened the program.

Some lessons need more evidence or analysis in the ICR to back them up. For example, the first lesson, “sustained implementation and support missions could have helped the Beneficiary achieve stronger results” suggests that the DPF series suffered from inadequate missions, which was a major cause for weak results. The ICR presents no evidence or discussion of the link between missions and results. Similarly, while the lesson that “support to M&E system is key in a context with limited capability” is indisputable, the discussion ignores the fact that the ISR reported on all indicators – how, we do not know and the ICR does not offer insight – and does not differentiate between a functioning M&E system for monitoring this specific DPF series and a government’s overall M&E capacity. Likewise, the reflection on the role of a strong, independent SOE reform unit in SOE reforms is interesting, although the discussion reviews the sequence of events rather than evidence that the SOE reforms in Cabo Verde stalled because the regulator was under the Ministry of Finance.

a. Rating

Modest

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	DPF2 did not amend the PDOs despite significant changes to



the PAs and RIs in response to the Covid-19 crisis. This reduced the relevance of Bank support to achieving the PDOs even though the support was relevant to the new country context.

Bank Performance	Moderately Satisfactory	Moderately Satisfactory
Relevance of Results Indicators	---	Moderately Satisfactory
Quality of ICR	---	Modest

12. Lessons

This review concurs with ICR on the need to proactively adjust the DPF program, including its objectives, supported actions, and results monitoring systems, according to the changing circumstances. One additional lesson not discussed in the ICR is the importance of complementary support programs. The Bank implemented this DPF series in the context of several other Bank operations (lending and ASA) supporting SOE reforms, fiscal and debt management, taxation, energy, ICT, and transport, as well as a CAT DDO. These interventions laid the foundation for the reforms supported under this DPF series, helped achieve the progress tracked by this series' indicators, and will carry forward some of the unfinished reform agenda in this series.

13. Project Performance Assessment Report (PPAR) Recommended?

No