Case study

Breaking the cycle of debt in Small Island Developing States: the Cabo Verde experience

José Lopes and João Brito

May 2024

Abstract

This study analyses the evolution and current status of public debt in Cabo Verde, a small archipelagic island nation located in the Atlantic Ocean. Cabo Verde has struggled with high debt over recent years, and although its debt load is currently considered sustainable, this is in large part because most is highly concessional. The authorities have taken important measures to strengthen domestic revenues, build debt management capacities and invest debt resources strategically in high growth economic sectors like tourism. Cabo Verde has also recently experimented with innovative debt instruments, such as debt-for-climate swaps and blue bonds. Overall, however, debt risks remain high due to Cabo Verde's vulnerability to external shocks, which have led to large increases in debt in the past. Recommendations include reviewing and expanding the criteria for access to concessional financing to ensure that all small island nations, including Cabo Verde, can access financing at affordable levels. There is also a need for a step change in the availability of concessional financing to ensure small island nations can make the investments they need in resilient prosperity.

Funded by







Readers are encouraged to reproduce material for their own publications, as long as they are not being sold commercially. ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI or our partners.

This work is licensed under CC BY-NC-ND 4.0.

How to cite: Lopes, J. and Brito, J. (2024) *Breaking the cycle of debt in Small Island Developing States: the Cabo Verde experience*. London: ODI (https://odi.org/en/publications/breaking-the-cycle-of-debt-in-small-island-developing-states/).

Acknowledgements

Many thanks to Gail Hurley for her thoughtful comments and suggestions for improving this case study.

Contents

Acknowledgements / III

Acronyms / V

1 **Introduction** / 1

2 **Cabo Verde's current debt picture: key data and trends** / 3

2.1 Evolution of public debt / 3
2.2 Debt spending: how it is being used / 7
2.3 Debt service / 9

3 **Impact of debt** / 12

4 **Strategies to manage Cabo Verdean public debt** / 14

4.1 Fiscal policy institutional reforms / 14
4.2 Engagement of multi-lateral and bilateral partners in debt-reduction initiatives / 15
4.3 Zero non-concessional debt policy / 16

5 **Cabo Verde's international engagement on debt sustainability** / 18

6 **Looking forward: Cabo Verde on the road to reach debt sustainability and promote sustainable development** / 20

6.1 Policy measures at the national level / 20

7 **Policy measures recommended for the international community** / 23

References / 25

Annex 1 Methodology / 27

Annex 2 Institutions interviewed / 28

Annex 3 Debt service / 29

Acronyms

COVID-19	coronavirus 2019
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
FDI	foreign direct investment
GDP	gross domestic product
IMF	International Monetary Fund
LMIC	lower-middle-income country
MFFE	Ministry of Finance and Business Development
PEDS	Sustainable Development Strategic Plan
RSF	Resilience and Sustainability Facility
SDG	Sustainable Development Goal
SIDS	Small Island Developing States
UNDP	United Nations Development Programme

1 Introduction

Cabo Verde stands at a crossroads. As a lower-middle-income country (LMIC) that is extremely vulnerable to exogenous shocks, the country faces the dilemma of how to finance its sustainable development; that is, whether this should this be done predominantly through debt financing, or through increasing fiscal revenues. Over the last 17 years, both strategies have been tried. As the country's debt soars, however, and amid prospects of declining access to concessional finance and grants, the fiscal revenue option seems to have gained momentum.

The decline in access to concessional finance has occurred whilst Cabo Verde has also grappled with multiple external shocks. The 2008 global financial crisis hit the country heavily, and for a protracted period following this – from 2009 to 2015 – there was a significant deceleration of economic growth. This was despite countercyclical fiscal measures implemented by the government. Amid this crisis, there was a sharp increase in the stock of public debt, which doubled from 58% in 2009 to 115% of gross domestic product (GDP) by 2015.

In addition to the global financial crisis, the outbreak of the coronavirus 2019 (COVID-19) pandemic in 2020 further demonstrated the country's extreme vulnerability to external shocks. The border closure and lockdown measures had a significant impact on the economy, causing the country to experience an unparalleled economic recession, as real GDP fell by 20.8% in 2020.

In 2021, the national debt reached a historic high of 144% of GDP. Despite the economic repercussions of the Russia–Ukraine war, the post-COVID-19 scenario appears more positive. As the country reopened its doors to tourists, the economy recovered quickly, expanding by 6.4% in 2021 and 17% in 2022. The shrinking budget deficit and the lowering debt-to-GDP ratio – which fell to 127.1% of GDP in 2022; a 16.9 percentage point drop from the previous year – are encouraging.

Despite the promising post-COVID-19 scenario, Cabo Verde's 'overall risk of debt distress remained high' in 2022 and 2023 (IMF, 2024: 1). This has raised continued concerns and sparked debate among government, political parties, civil society and donors. As critical voices from opposition parties and civil society express concerns about the 'unsustainable' and 'uncontrollable' levels of public debt, the government and its supporting party maintain that effective debt control mechanisms are in place, and they are keen to emphasise positive debt trends in the coming years. International development partners, meanwhile, recommend prudence. They also offer technical support, including through the International Monetary Fund (IMF) Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF), to support debt sustainability.

Key challenges to Cabo Verde's economy stem from its narrow economic base and its heavy reliance on foreign capital inflows, which makes it especially vulnerable to external economic shocks. Tourism is the largest economic sector, and this drives many other activities indirectly,

and accounts for 25% of the country's GDP. The country's limited natural resources, smallness and insularity, and its heavy reliance on foreign capital (such as tourism, migrant remittances, foreign direct investment (FDI), and food imports) pose significant challenges to public finances. The climate crisis will further exacerbate Cabo Verde's vulnerability and amplify its development challenges. An estimated $2 billion will be required to finance the implementation of mitigation and adaptation efforts over the next decade (IMF, 2024). In this context, Cabo Verde's long-term debt sustainability is a continued matter of public concern.

In this context, this report analyses the issue of debt sustainability in Cabo Verde, focusing on the period 2007–2024. Key successes and challenges in managing debt are discussed, and recommendations are made on how debt sustainability in Cabo Verde can be more effectively supported.

Box 1 Cabo Verde: a snapshot

Cabo Verde is a volcanic archipelago comprising 10 islands and 8 islets located around 550 km off the coast of Senegal. It has a population of about 0.5 million people (INE-Census, 2021), spread across nine inhabited islands. Despite covering 4033 km², only 10% of the land is arable and much remains undeveloped owing to rainfall constraints. The economy is now mostly driven by large beach resorts on two islands, Sal and Boa Vista, 'but overall, the main natural asset of the country still has a large margin for further opportunities' (World Bank, 2019). Tourism is the largest economic sector, accounting for 25% of the country's GDP and 39% of employment in 2019 (World Bank, 2019). The service sector accounts for 80% of GDP, followed by the secondary and primary sectors, which account for 15% and 5%, respectively (Banco de Cabo Verde, 2023).

Cabo Verde has been hailed as a story of development success, and a beacon of democracy and stability in Africa. With a GDP of $2.231 billion in 2019, the country ranks 39th out of 45 sub-Saharan African countries, and 8th in terms of per capita GDP, ($4,053.65). Nevertheless, in 2019, Cabo Verde was the third most indebted country in sub-Saharan Africa (IMF, 2023); its debts totalled 110% of GDP. The net total of official development assistance and aid given to Cabo Verde has been decreasing in recent years. It fell from 6.2% of GDP in 2010 to 2.8% in 2019. Much of the progress mentioned above was impacted by the COVID-19 pandemic, and this led to a historic economic recession of 14.8%. Furthermore, despite significant economic, social and democratic progress having been made since the country became independent in 1975, it remains a vulnerable country, scoring 60.5 on the multidimensional vulnerability index (United Nations, 2023).

2 Cabo Verde's current debt picture: key data and trends[1]

2.1 Evolution of public debt

Before its transition from a least developed country to LMIC in 2007, Cabo Verde's public debt fell from 70% in 2002, to 52% of GDP in 2008 (see Figure 1).[2] This is well below the 60% debt sustainability threshold agreed upon with its lending partners. Nevertheless, in the years following the country's graduation, both grants and concessional financing were expected to fall. This, in turn, was projected to affect the public debt trend.

Initially, Cabo Verde benefited from a grace period during which concessional credits were made accessible. This was intended to support its transition to LMIC status while Cabo Verde switched to non-concessional finance and the 'Blend windows of MDBs' (OECD, 2018). Grants, for example, grew from $52 million (4% of GDP) in 2007 to $93 million (6% of GDP) in 2010; this was primarily due to the first compact of the Millennium Challenge Account provided by the US government.

While this transition was underway, the 2008 global financial crisis took Cabo Verde by surprise. FDI fell from 11.5% of GDP in 2007 to 3.3% in 2013, resulting in slow GDP growth (GDP increased by only 1.1% yearly on average, between 2009 and 2015). Furthermore, external grants decreased, as did emigrant remittances in terms of GDP and visitors to Cabo Verde. To mitigate the effects of the financial crises, the government took advantage of the concessional lending 'grace period' and embarked on an expansionist investment programme to build roads, airports, ports, schools, health centres, social housing and dams; while also investing heavily in administrative reforms and institutional capacity building. The implementation of this debt-financed programme in the context of slow growth led the debt stock to increase by almost twofold; it rose from 58% in 2009 to 115% of GDP in 2015. This increase caused alarm over potential debt distress, and possible limits on access to new financing.

In response to this debt 'distress warning', the authorities implemented packages of budgetary policy reforms to control the fiscal deficit. Combined with higher GDP growth, which averaged

---

1 This analysis of public debt evolution in Cabo Verde refers to the period between 2000 and 2024 (data for 2023 and 2024 is based on the Ministry of Finance's projections). This period is deemed important, as it helps us understand the country's debt trajectory prior to and after its graduation from a least developed country to LMIC in 2007. Nevertheless, the analysis focuses primarily on the period after the transition.

2 This is justified by the Cabo Verdean currency being pegged to the euro, following the agreement with Portugal on the exchange rate, which was signed in 1998. Following the entry of Portugal into the eurozone, Cabo Verde had to comply with the reference criteria of the eurozone member states, which sought to maintain public debt at around 60% of GDP.

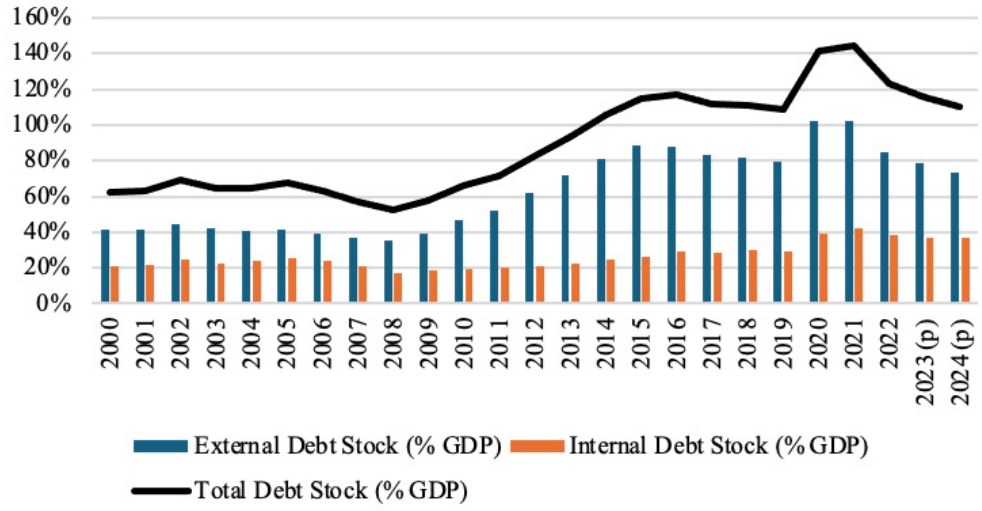
around 5.1% between 2017 and 2019, the public debt stock decreased from 112% in 2017 to 108% of GDP in 2019. Nevertheless, the COVID-19 pandemic outbreak in 2020 caused an historic economic recession, with GDP falling by 20.8% from the previous year. The public debt stock climbed from 141% and 144% of GDP in 2020 and 2021, respectively. As the impact of COVID-19 lessened, the economy started to recover from deep recession, and debt began to fall, reaching 121% of GDP in 2022. The government expects public debt to continue its decreasing trajectory in 2023 and 2024, reaching 115% and 110% of GDP, respectively.

In terms of debt sustainability, key national stakeholders and partners agree that Cabo Verdean public debt is broadly sustainable. However, this assessment should be viewed with caution. Debt has remained consistently above 100% of GDP since 2015, bypassing the 60% threshold recommended by the IMF, the World Bank and other partners – including the Budget Support Group – by a wide margin.

Looking at the debt composition in 2022, around 68% was foreign debt, and 94.4% had been signed under concessional terms (that is, with a low interest rate and extended amortisation period). Domestic debt accounts for 38% of GDP. This latter category is causing considerable anxiety among many stakeholders in Cabo Verde due to its shorter maturities and higher interest rates, and potential 'crowding-out' impacts.

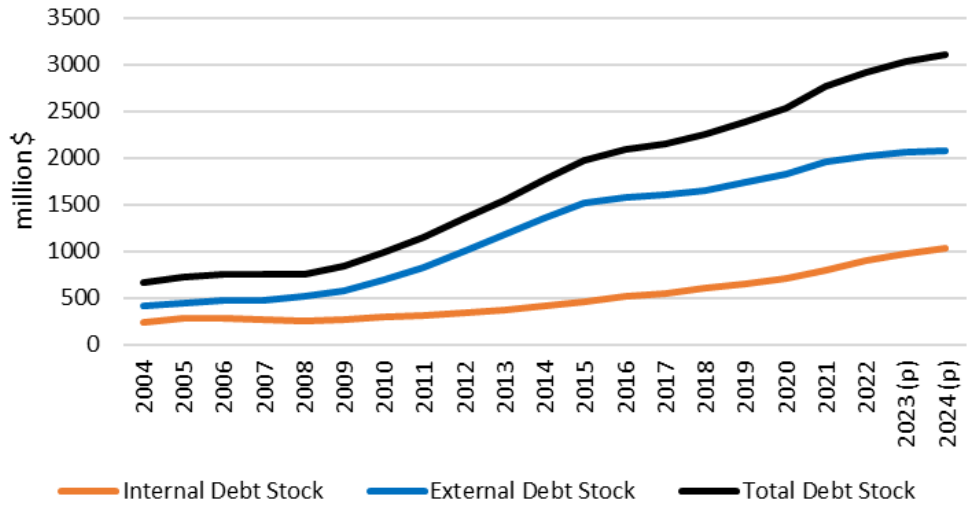
The most recent Debt Sustainability Analysis from the IMF (2024) reinforces stakeholders' concerns about Cabo Verde's debt sustainability, as it considers that the overall risk of debt distress is high, despite classifying the risks of external debt distress as moderate. Nevertheless, the analysis finds that public debt is sustainable overall. This is owing to the manageable debt service arising from a favourable debt structure based mostly on concessional debt, with fixed and low interest rates.

Figure 1 Evolution of Cabo Verde's public debt stock (% of GDP)



Source: Elaborated by the authors based on data provided by the Ministry of Finance.

Figure 2 Evolution of Cabo Verde's public debt stock (million $)



Source: Elaborated by the authors based on data provided by the Ministry of Finance.

2.1.1 External public debt

The data shows that the volume of external public debt expanded significantly over the period under consideration (see Figures 1 and 2). This is understandable given Cabo Verde's weak economic structure, limited resources, and low domestic savings. This necessitates inflows of external capital to encourage development. From 2012 to 2022, the stock of external public debt doubled, rising from $1,008 million to $2,015 million. Projections for 2023 and 2024 show an increasing stock of $2,061 and $2,073 million, respectively. In GDP terms, the external debt stock increased from 62% in 2012 to 88.6% in 2015; this is owing primarily to sluggish GDP growth. From 2016 onwards, a downward trend can be observed, decreasing to 79.2% by 2019. However, that decreasing trend was interrupted in 2020 by the COVID-19 pandemic, and debt climbed to 102% of GDP. Projections indicate that the stock of external debt will represent 78.4% and 73.6% of GDP in 2023 and 2024, respectively.

The government's external debt portfolio has the following characteristics:

- Currency: around 58% of the stock is in euros, followed by XDR (25%) and US$ (9%), and the remainder is in 11 different currencies.
- Interest rate: the average interest rate is around 1%. For the bilateral creditors, the interest rate averages 0.9%, and 1% for multilaterals partners, while it hovers at around 1.5% for commercial creditors.
- Maturity: the average maturity is around 19 years; that is, 15 years for bilateral creditors, 20 years for multilaterals and 19 years for commercial creditors.
- Groups of creditors: multilateral creditors represent approximately 58% of the total debt. Bilateral creditors represent 19%, and international commercial credit represents around 23%.
- Concessionality: about 94.4% of the total debt stock is concessional, 5.4% is semi-concessional, and only 0.2% represents commercial debts.

Analysis of data from the last two decades (2000–2022) shows that Cabo Verde's main creditors are highly concentrated. Among multilateral creditors, the World Bank/International Development Association, the African Development Bank and the IMF are the three primary creditors; these account for 38%, 29% and 8% of the total disbursements made, respectively. Bilateral creditors include the Governments of Portugal, China and Kuwait (Kuwait Fund), who hold approximately 58%, 13% and 9%, respectively. The main export credit agencies are the Japanese International Cooperation Agency (with around 48% of total disbursements), the French Development Agency (with around 27% of total disbursements) and the Official Credit Institute (with around 25% of total disbursements). With regard to commercial creditors, the banks *Caixa Geral de Depósitos* and *Banco Português de Investimentos* (both Portuguese) are the major lenders, with total disbursements of around 82% and 17%, respectively.

2.1.2 Domestic public debt

Like external debt, the stock of domestic public debt increased steadily over the period under analysis (see Figures 1 and 2). After decreasing from 20% in 2000 to 17% of GDP in 2008, domestic debt skyrocketed to 41.8% in 2021; this was caused by the state's response to the emergency needs imposed by the COVID-19 pandemic. Nevertheless, in the post-COVID-19 scenario, the percentage of domestic debt in relation to GDP is decreasing, despite the increase in its nominal value. Domestic debt went down to 38% in 2022, and projections by the Ministry of Finance point to a decrease to 36.9% and 36.6% in 2023 and 2024, respectively, due to the country's economic recovery. Domestic public debt stock has nearly tripled in nominal terms over the last decade, rising from $340 million in 2012 to around $904 million in 2022 (the stock increased by approximately $201 million in 2021 and 2022, to meet the economic and financial challenges caused by COVID-19). This rise represents an average annual growth rate of 10.3%.

The government's domestic debt portfolio has the following characteristics:

- The banking system holds around 65.5% of the overall debt, while the non-banking system holds the remaining amount.
- Treasury bonds (medium and long-term securities) account for around 95.9% of total debt, while treasury bills (short-term securities) make up 2.4%.
- Securities with a maturity of 8–10 years account for 30% of the total stock, while those with a maturity of 5–8 years account for 49%. Securities with a maturity of 3–5 years make up about 14%.
- Interest rates have decreased in recent years, with treasury bills currently averaging 1% and treasury bonds averaging 3%.

2.2 Debt spending: how it is being used

Looking at debt spending, in 2008, investment in infrastructure – comprising airports, ports and roads – accounted for 59.3% of total debt disbursements; however, this fell to 36.9% in 2013. Agriculture and public housing also consumed a significant part of loan disbursements, particularly between 2012 and 2015. In the agricultural sector, investment focused on the construction of dams and rural infrastructure in the major agricultural islands. The housing programme, Casa Para Todos – which was financed by funding from the Portuguese commercial bank *Caixa Geral de Depósitos* totalling $200 million – accounted for the largest portion of debt disbursements from 2011 to 2017.

The stakeholders interviewed agree in general that Cabo Verde made the correct decision by taking advantage of the 'grace period', following its transition to LMIC, to contract large-scale external debts on concessional terms in order to invest in critical economic sectors between 2008 and 2015. Nevertheless, opinions differ on the efficiency of some of these investments, given their perceived relatively minor impact on the country's economy.

The current ruling party, Movement for Democracy (MPD), for example, has been harshly critical of the social housing programme, Casa Para Todos, which was implemented by the former government supported by the African Party for the Independence of Cabo Verde (PAICV). One respondent questioned why the government committed more than $200 million to the programme, while reducing the market for private real estate; or to infrastructure that did not address the population's immediate needs. Nonetheless, despite some criticisms, the stakeholders interviewed also emphasised the increase in the country's agricultural outputs, and in its intra- and inter-island connections as a positive result of major investment in the construction of roads, ports and airports from 2009 to 2016. Investments in the three international airports – in Boa Vista, Santiago and São Vicente – are yielding results, with approximately 1 million tourists visiting the country in recent years. This is expected to reach 1.2 million by 2026.

It is widely accepted that investments made between 2009 and 2015, implemented in line with the Growth and Poverty Reduction Strategy Papers (World Bank, 2023), despite doubling Cabo Verdean public debt, were critical to the country's successes in achieving the majority of the Millennium Development Goals in 2015 (Nshimyumuremyi and Marone, 2014). The Sustainable Development Strategic Plan (PEDS) – which succeeded the Growth and Poverty Reduction Strategy Papers in 2017 – was drawn and implemented in a context of economic growth, as the impacts of the global financial crisis diminished. The PEDS (of which there are two: PEDS I, covering 2017–2021, and PEDS II, which covers 2022–2026) outlines key government strategies to achieve the Sustainable Development Goals (SDGs). However, it does not provide any insights into how these aspirations could be financed in the face of financial constraints. There are concerns that financial constraints – as well as the recent defunding of some of key economic sectors such as transportation (sea and air connectivity between the islands), education and agriculture – may reverse some of the gains the country has recently won on some SDGs such as health (SDG3), work and economy (SDG8), industry and innovation (SDG9), and inequalities (SDG10).

More recently, the strategic focus of public investments has shifted, and significant amounts of public debt have been allocated to growing the digital economy. This is due to the government's plan to 'promote Cabo Verde as a digital platform' (PEDS, 2022–2026) in the Atlantic. This includes developing an outstanding digital capacity to facilitate national administrative work, improve the business environment, and serve as an international digital hub from which top-tier services can be provided to any company or institution in the world. In 2012, the digital economy (including all investments made in information and communications technology) represented 1.0% of loan disbursements, which totalled $1.9 million. That sum climbed to $2.1 million in 2014, representing 1.3% of total debt disbursements. In 2020, disbursements for the digital economy increased significantly, amounting to 3.8% of total loan disbursements. The government's goal for the digital economy has been so high in the last few years that projections for 2024 show that loan disbursements for the sector are set to climb to $12.2 million, representing 15% of overall debt disbursements for the year (Ministério das Finanças, 2024). Government investment in the digital economy is bearing fruit across many sectors. Internet users, for instance, increased from 193,000 users in 2014 to 350,000 in 2022. In 2022, 7% of public services were provided through

digital platforms; this figure is expected to increase to 60% in 2026, and to 80% by 2030. Cabo Verde's internal achievement in 'digital transformation' positions it in the top tier (Group A) of the World Bank GovTech Maturity Index (2022); ranking 38th globally, fourth in Africa and first in West Africa.

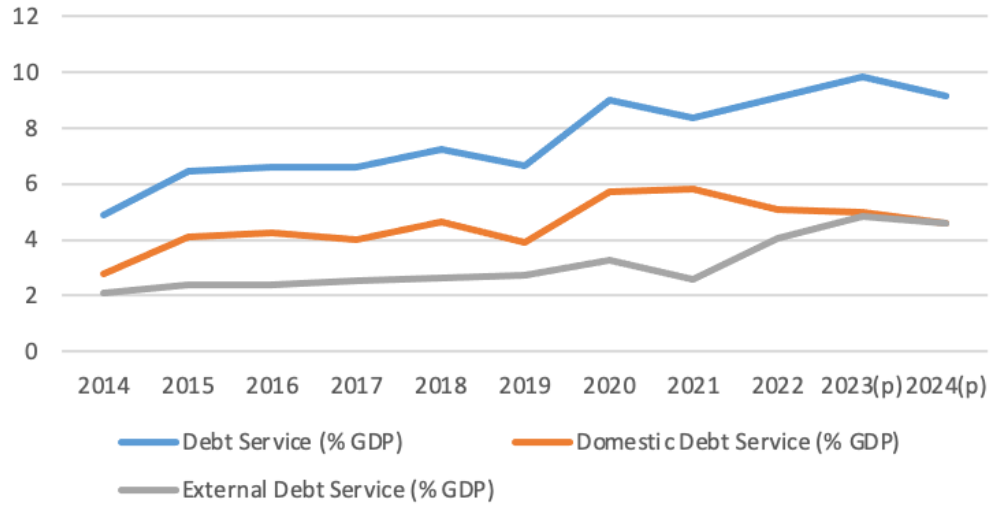
In addition to this, Cabo Verde also requires funding to strengthen its response to the climate crisis, green its economy and recover from environmental disasters. Floods, droughts, earthquakes and volcanic eruptions pose unique risks to the country. The cost of 'adaptation and mitigation' to the climate crisis is anticipated to be around $18 million (1% of GDP) per year (MFFE, 2022: 5–6); and is expected to be over $2 billion in public and private expenditure by 2034. This amounts to nearly 6.1% of the country's yearly GDP, compared with the 3.8% already allocated in the state budget for adaptation and mitigation efforts for climate breakdown (IMF, 2024: 57). As such, the climate crisis will have an increasing impact on the country's public debt profile in the coming years. These challenges will therefore require strenuous financial efforts from the state authorities. Cabo Verde already has some financing mechanisms in place to respond to natural hazards and to invest in climate resilient economic activities, including: the environmental fund, the Sovereign Emergency Fund and private blue/green/social bonds initiatives.

Another example is the RSF agreement with the IMF, for a loan of $31.45 million. The RSF disbursements will increase external debt by approximately $21 million in 2024, and by $10 million in 2025. Nevertheless, this financing mechanism will replace more expensive domestic financing with cumulative estimated savings in debt service of around 0.7% of GDP until 2028. These savings will help Cabo Verde develop buffers and become more resilient to climate-related shocks, while also enabling fiscal room to finance crucial climate-related public investment (IMF, 2024). Cabo Verde's high risk of overall debt distress, as well as its growing vulnerability to climate breakdown, demonstrate that it still requires concessional funding to avoid a financial catastrophe, and to enhance resilience and adaptation to the crisis (IMF, 2024).

2.3 Debt service

Rising debt levels caused debt service to increase twofold, from 4.88% of GDP in 2014 to 9.1% of GDP in 2022. Projections also indicate that in 2023 and 2024 debt service will remain notably high, at 9.82% and 9.17% of GDP, respectively (see Figure 3). In 2020 and 2021, due to the COVID-19 pandemic, Cabo Verde benefited from temporary debt service relief provided through the G20's Debt Service Suspension Initiative. This reduced debt service payments from participating bilateral and multilateral creditors by a total of $14 million in 2020 (World Bank, 2022a). However, it is important to note that despite this initiative being helpful in the short term, it did not lead to any reduction in the overall public debt stock, since repayments were simply deferred while interest continued to accrue.

Figure 3 Evolution of public debt as a % of GDP (2014–2024)



Source: Elaborated by the authors, based on data retrieved from the Bank of Cabo Verde data set.

Much of the overall debt service burden is due to domestic debt service; this represented, on average, around 63% of total debt service from 2014 to 2021. After growing from 2.78%, to a historic high of 5.81% of GDP in 2021, domestic debt service decreased again in 2022 to 5.7%; and it is expected to narrow to approximately 50%, equalling external debt service.

The majority of interviewees expressed concerns about debt service as a proportion of state total revenues, which limits the state's capacity to respond to social needs such as housing, health or education. Debt service grew substantially from 23.4% of total revenues in 2014 to 39.4% in 2022. It peaked at 40.4% in 2023, and is projected to fall again to 33.8% in 2024.[3]

Between 2014 and 2024, debt service represented, on average, 42% and 33% of taxes and current revenues, respectively. In 2022, it reached 48% of taxes and 40% of current revenues, respectively. Debt service then climbed to 59% of taxes and 48% of current revenues in 2023. As for 2024, projections indicate that debt service will stand at 41% of tax revenues and 34% of current revenue.[4]

3 Cabo Verde's debt service stayed below the 35% of revenue threshold between 2014 and 2019, as determined based on the IMF Stress Test Scenarios (IMF, 2024). However, this threshold was breached between 2020 and 2023 because of the reduction in revenues caused by the COVID-19 pandemic.

4 Tax revenues include direct taxes, indirect taxes, taxes on international transactions and other taxes. Current revenues include tax revenue plus social security revenues, donations and transfers, and other current revenues (sales of goods and services by the State, fines and other penalties, property income, etc.). Total revenue includes current revenue plus capital revenue.

In relation to external debt service as a proportion of exports, between 2014 and 2019 it hovered around 6%. However, the effects of the COVID-19 pandemic – mainly on tourism – caused external debt service to reach 13.4% of exports in 2020. Debt service then decreased to 10.5% in 2021, and to 9.9% in 2022. This was triggered by the rebirth of tourist activity in Cabo Verde. These values are nevertheless within the sustainability threshold of 25% of exports, as established by the government.

3 Impact of debt

Cabo Verde's high debt, and its 'high risk' classification in terms of debt distress over the last eight years, is already causing some creditors to reconsider lending. This will impact the country's 'access to certain sources of external debt financing' (Morris et al., 2018: 21). Despite estimations of a decreasing debt ratio – which is expected to reach 83.3% of GDP in 2026 (PEDS II: 2022–2026) – the nominal value of the debt stock will continue to increase. Domestic debt is also raising concerns about the crowding-out effect, despite the positive trend of credit being available in the economy, as data by the Central Bank of Cabo Verde shows. Nevertheless, stakeholders expressed concerns about the increasing complaints from businesses in obtaining credit, as demonstrated by banks' perceived preference for public financing over private industry. The argument is that, knowing the state's plans to expand domestic debt, banks – despite their ample liquidity – tighten financing standards for private sector businesses, crowding out the private economy. Nonetheless, bank executives dismiss these arguments, and counter that the private sector is responsible for its failure to create and submit bankable projects.

There is some evidence to suggest that high debt service levels are constraining state spending in some critical sectors. Debt service consistently outpaced spending on education, health and environmental protection from 2014 to 2024. In 2014, the amount spent on debt service was $81.4 million, while the amount spent on education was $80.4 million. In the health sector and in environmental protection, the amounts spent were $35.4 and $15.5 million, respectively. This means that debt spending was more than twice the amount spent on the health sector and more than five times the amount spent on environmental protection. In 2022, the amount spent on debt service was $210.5 million, while only $108.3 million, $70.7 million and $10.8 million was spent on education, health and environmental protection, respectively. This means that the amounts spent on debt service increased much more than spending on education, health and environmental protection. In 2024, it is projected that debt service will increase to $258.4 million, while the amount spent on education, health and environmental protection will amount to around $113 million, $96.8 million and $24.6 million, respectively.

The high levels of debt repayment relative to spending in the aforementioned areas suggests that Cabo Verde will continue to struggle to meet the basic needs of its inhabitants. The data shows that a large portion of tax revenue is used to pay debt service, rather than being directed toward education, health, housing and urban development, and environmental protection. This is especially concerning for environmental protection, given the country's vulnerability to the climate breakdown, and the increasing urgency of investing in this area. For example, droughts have frequently devastated the country.

Another key challenge is the high domestic interest that is paid on debt, which averaged roughly 61% of total interest paid from 2012 to 2022, despite the fact that external debt is twice the size of domestic debt. Between 2014 and 2024, debt interest payments will account for around 2.3% of GDP.

Representatives from several institutions interviewed agree that Cabo Verde is unlikely to face potential debt default in the coming years. However, debt service has increased quickly, especially in recent years. Projections indicate that debt service will continue to increase, if one takes into consideration the guarantee system for credits granted to private investors. If these investors along with highly indebted state-owned enterprises default, public debt will undoubtedly go up. The contingent liability stock relating to endorsements and guarantees by the state, reached $262.2 million in 2022; of this total, the public sector accounted for 75% and the private sector accounted for 25%. Therefore, sound policies are needed to bring greater efficiency to the management of public finances, both in collecting revenues and in expenditure management, so as not to jeopardise some basic functions of the state that are critical for increasing social well-being and promoting economic development.

4 Strategies to manage Cabo Verdean public debt

Cabo Verde's debt management strategies have focused on three main aspects over the last 10 years: (i) fiscal policy institutional reforms, (ii) engagement of multilateral and bilateral partners in debt-reduction initiatives such as debt swaps and (iii) a new approach to borrowing and spending.

4.1 Fiscal policy institutional reforms

Institutional reforms implemented after Cabo Verde's transition to LMIC focused on comprehensive budget transparency, a programme-based approach and measures to enhance expenditure control through rigorous financial and accounting records. Reforms also aimed at improving the monitoring system of the State Business Sector, and the regular publication of financial reports on the Ministry of Finance website. These reforms have been assisted by the project Pro-Palop, financed by the European Union and implemented by the United Nations Development Programme (UNDP) in Cabo Verde.

Another wave of reforms, which were first implemented in 2016, has tried to minimise the budget deficit through a range of administrative tax reforms. These reforms, which are based on a programme of 'revenue-driven fiscal consolidation', aimed to: increase the tax base and combat tax avoidance and evasion; mitigate the risk of contingent liabilities of financially distressed companies; implement debt management diplomas, and the issuance and management of state guarantees. An ambitious programme of 'formalisation of the economy' was also put in place, including packages of incentives for boosting private investment, with the creation of a 'business financing ecosystem'[5] in 2017. Although the COVID-19 pandemic in 2020 hampered the implementation of these reforms and policy initiatives, the post-COVID-19 scenario looks optimistic, as the government forecasts an increase in tax revenue and a declining budget deficit in the coming years (World Bank, 2022b). Indeed, these measures have already reduced the public budget deficit from –7.4% of GDP in 2014 to –1.6% in 2019. The effects of COVID-19 on the economy caused a budget deficit increase in 2020 (–8.3% of GDP); this then slowly decreased in 2021 (–7.4% of GDP) and again in 2022 (–4% of GDP). Tax revenues also increased from $266 million (16% of GDP) in 2014 to $415 million (19% of GDP) in 2019. For 2023 and 2024, tax revenues are expected to reach $436 million (17% of GDP) and $544 million (19% of GDP), respectively.

5 The 'business financing ecosystem' resulted from the signature in 2017 of a 'pact' between the central government, local governments and the commercial banks in Cabo Verde, with the aim of easing and improving access to funds for micro, small and medium enterprises.

4.2 Engagement of multi-lateral and bilateral partners in debt-reduction initiatives

This strategy has recently taken three forms: (i) credit moratorium related to the COVID-19 pandemic; (ii) debt for nature swap (with Portugal); and (iii) technical assistance initiatives provided by the IMF/World Bank Group.

4.2.1 Credit moratorium and debt consolidation

Cabo Verde benefited from a debt service moratorium from some of its development partners, under the aegis of the G20 Debt Service Suspension Initiative. Portugal, for instance, approved suspensions of all debt service payments until 31 December 2021 on direct loans. However, as this strategy has now expired and did not result in any actual 'hair cut' on the debt, debt service has since soared to new highs. In response, Portugal consolidated Cabo Verde's debts in 2022, transforming them into a single debt, with a longer maturity and a single interest rate. This will reduce external debt service in the future.

4.2.2 Debt swap

The recent debt swap with the Portuguese government can be seen as an innovative mechanism to reduce the Cabo Verdean debt burden. The debt swap agreement was signed on 20 June 2023 (Government of Cabo Verde, 2023a) in Portugal, with Portugal committing to convert €12 million of Cabo Verde's debt into financing and investing in the country's climate transition by 2025. Furthermore, the agreement could be extended to cover the remaining €140 million, depending on the 'success of this operation'. The €12 million will be allocated to Cabo Verde's forthcoming Climate and Environmental Fund, which was recently announced as part of the government's strategy to increase the country's resilience to the climate breakdown and to achieve the SDGs.

In August 2023, during the inter-regional preparatory meeting for the fourth Small Island Developing States Conference (SIDS4) in Praia, Cabo Verde, Prime Minister Ulisses Correia e Silva affirmed that the debt swap is a good example that could be replicated with other partners (Government of Cabo Verde, 2023b). Stakeholders are unanimous that Cabo Verde, along with other SIDS, should advocate for bolder actions from the international community, as they contribute very little to global warming. For example, Cabo Verde has one of the lowest levels of greenhouse gas emissions per capita in the world. This is estimated to be around 0.99 tCO_2eq/inhabitant, and there are ambitions to reduce that amount even further, to between 200,000 and 280,000 tCO_2, by 2030 (Cabo Verde, 2020).

4.2.3 Technical assistance initiatives

In 2019, the IMF approved a Policy Coordination Instrument (PCI: 2019–2021) requested by Cabo Verde for assistance in the implementation of a reform package focused on fiscal consolidation

and growth-enhancing policies to support medium-term budgetary and debt sustainability (IMF, 2019), and supporting macroeconomic stability. This PCI did not include any financial package. In 2022,[6] Cabo Verde requested an ECF from the IMF to continue implementing economic and fiscal reforms until 2025. In addition to the ECF, an RSF package of $63 million was approved to implement reforms that would improve the country's capacity in key priority areas, including revenue administration, tax policy, public financial management, real sector statistics, debt management, central bank operations, and banking supervision and financial stability.

4.3 Zero non-concessional debt policy

This strategy took some of interviewees by surprise, because as Cabo Verde transitioned to an LMIC in 2027, access to concessional finance was expected to close in the mid to long term. However, given the country's high overall risk of debt distress, a zero non-concessional debt policy has been enforced under the IMF ECF arrangement (IMF, 2024). In the short- to mid-term period, that policy is expected to help maintain debt service at manageable levels. At the same time, on the spending side, the government focus has shifted towards smaller-scale urban infrastructure projects, the digital economy and human capital development.

Looking forward, key strategies that Cabo Verde can implement to strengthen tax revenues and help safeguard against debt distress include:

- Reduction of fiscal incentives. In 2016, treasury losses due to tax exemptions corresponded to 23.6% of tax revenues. In 2018, this had fallen to 13.7% of tax revenues (Expresso Das Ilhas, 2020). However, data shows that, in 2022, tax waivers grew to 22% of tax collections, totalling approximately $94 million. There have been no credible studies to evaluate the impacts of these tax losses, and the country's important stakeholders are advocating a decrease to the lowest level possible, or even abolishing these fiscal incentives, to improve state tax collections.
- Smarter use of remittances. In 2022, remittances from the Cabo Verdean diaspora generated a turnover of $375 million, accounting for 18.2% of the national GDP. In the words of one respondent, remittances are the country's second 'biggest social protection institution', but as they are predominantly invested in consumption and not in productive sectors, they yield less than their potential. Incentivising investment of remittances in key productive economic sectors should be prioritised. These sectors should include clean energy, science, technology and innovation, island connectivity, agriculture and the digital economy, among others.
- Governance: there should be collaborative platforms or structures in place which bring together the various stakeholders across society, including national and foreign/international organisations, public entities, and private and civil society actors engaged in economic and financial policy management, as a tool to provide the government with strategies and policy

6 After reaching $414.7 million in 2019, fiscal revenues decreased substantially in 2020 and 2021 due to COVID-19 impacts, and then recovered again to $435 million in 2022.

guidance on public finances and debt. Such inclusive structures are deemed extremely important to promote policy coherence, efficiency, good governance and sound resource management. UNDP, for example, is helping Cabo Verde – in conjunction with the other Lusophone countries in Africa and East Timor – to develop and implement these types of inclusive governance structures in public finance management (UNDP, 2022).

- Strengthening national capital markets as a mechanism to increase and diversify sources of finance, especially for the private sector. Recently, sustainable bonds – including blue bonds, green bonds and social bonds – have been issued by the Cabo Verdean Stock Exchange at the request of private entities. The Stock Exchange's digital platform, Blu-X, has been expressly designed as a venue to trade 'sustainable securities' to promote capital raising for the private and third sectors. So far, these mechanisms have not been used by the state, mostly because they imply higher transaction costs relative to traditional securities. Additionally, concessional credits are still being made available by international partners. However, the experience of these early issuances has been positive for the private sector, and a new bond – the diaspora bond – is now being developed; this is dedicated entirely for Cabo Verdeans living abroad. As concessional financing becomes less available in the future, Cabo Verde may have to rely more heavily on these types of innovative financial mechanisms.

5 Cabo Verde's international engagement on debt sustainability

Cabo Verde has been a prominent voice in advocating for SIDS and 'recognition of their specificities and positive discrimination' within the international community, and the organisations to which it belongs. Cabo Verde is a member of several regional and international organisations, including the African Union, Alliance of Small Island States, Economic Community of West African States (ECOWAS) and Portuguese-speaking African countries, among others, and enjoys a special partnership status with the European Union.

Cabo Verde, in the ambit of PEDS II, has designed its National Strategy for SIDS integration, EN-SIDS, which highlights the country's willingness to engage and share innovative solutions with other SIDS. EN-SIDS aims to strengthen and revitalise global partnerships for Cabo Verde's sustainable development, while promoting cooperation within other SIDS.

Cabo Verdean authorities have joined their voices to other SIDS in demanding the international community review the eligibility criteria for access to concessional finance, arguing that eligibility based on gross national income per capita keeps SIDS within the debt trap. Prime Minister Ulisses Correia e Silva defended publicly the need to 'relieve the external debt of developing countries and SIDS' during the height of COVID-19, as these countries were becoming more indebted as they responded to the extraordinary expenses incurred in health, economic and social protection.

As a member of ECOWAS, Cabo Verde's position and effective integration within this organisation has been questioned in view of the country's specificities. It has also been failing to regularly pay its dues to the organisation, and in 2022 it had accumulated a total estimated debt of $32,000,000, increasing from $20,888,200 as reported in 2019. Government officials often justify this, citing the difficulty they face in raising funds to invest in the improvement of infrastructure, education, health, roads and improving the life conditions of Cabo Verdeans, while also meeting its responsibilities with international organisations. Nonetheless, there are critical voices pointing to Cabo Verde's lack of commitment to become fully integrated within that organisation. Cabo Verde is in fact a weak actor within ECOWAS. In 2017, the country lost its 'turn' to hold the presidency of the ECOWAS in large part due to this. Nevertheless, Cabo Verde has a relatively strong voice within other platforms to which it belongs, and it is often referred to as a development 'success story' within the Portuguese-speaking African countries, the Community of Portuguese Speaking Countries and SIDS.

Another strategy Cabo Verde has implemented to engage its partners and mobilise funds is the 'International Conference of Partners', which was organised for the first time in 2018 in Paris, under the motto of 'Building New Partnerships for the Sustainable Development of Cabo Verde'. The aim of this annual conference is to bring international development partners, private sector

and the government together to 'promote a tripartite partnership' and synergies to support the country in its development process. Cabo Verde's success in signing a debt swap agreement with Portugal is illustrative of its role in advocating for the SIDS cause.

Stakeholders argue that Cabo Verde needs to take advantage of these forums and others to mobilise finance to support investment in the key strategic sectors of clean energy, the blue economy, the digital economy, agriculture and island connectivity; and then catalyse growth as a means to reduce the country's dependency on aid and concessional loans in the medium and long term.

6 Looking forward: Cabo Verde on the road to reach debt sustainability and promote sustainable development

Cabo Verde's national debt is deemed sustainable, and the government has never defaulted. Nonetheless, despite optimistic expectations of a downward trend in the next years, it is still classified as a 'high-risk' country, with debt levels consistently exceeding 100% of GDP for several years; indicating that debt sustainability remains a major concern. When one considers the nominal value of public debt, the debt service, the country's ability to raise funds to continue boosting its development, and potential future shocks (including climate-related shocks), ensuring debt sustainability in the medium term will remain a challenge. Action is required by both national policymakers and the international community to maintain the public debt at a sustainable level.

6.1 Policy measures at the national level

At the national level, measures to strengthen debt sustainability should focus on four streams of policies: (i) increasing fiscal revenues, (ii) defining investment priorities, (iii) identifying alternative finance mobilisation mechanisms and (iv) building and strengthening collaborative governance.

i. Increasing fiscal revenues: this focuses on strong and inclusive institutions that count on a broader tax base, enhanced tax efficiency, and a better rationalisation (or even elimination) of tax incentive packages granted to foreign investors. This latter piece is of paramount importance, as tax waivers amounted to 22% of tax revenues in 2022, but there were no known returns to the state and to the real economy.
ii. Defining investment priorities: Cabo Verde needs to identify areas for structural investments that will help reduce its dependence and its vulnerability to external shocks, and will catalyse growth and sustainable development. Some of these areas include renewable energy, investments in human capital, economic diversification, island connectivity and digital transformation. Engaging the diaspora, by leveraging remittances in these investments, is also crucial. Ensuring that these investments yield tangible mid- and long-term returns will be crucial for the country to support debt sustainability.
iii. Alternative finance mobilisation mechanisms: the projected decline in official development assistance and concessional financing flowing into Cabo Verde, provide the country with a unique opportunity to start venturing into new financing mechanisms. These should not only include traditional FDI, remittances and the different sorts of grants available, but should most importantly tap into as-yet unexplored avenues. This can be done by, firstly, revitalising the country's domestic financial markets, and creating incentive mechanisms for private and

social institutions to launch operations in Cabo Verde's Stock Exchange 'Blu-X' (see Box 2) sustainable securities platform; for instance, promoting 'sustainable bonds', blue bonds, green bonds and social bonds. Despite incurring additional transactions costs for the private sector and charitable institutions, these new financing mechanisms can also offer attractive financing options. Cabo Verde can also use its early experiences of corporate blue bonds to increasingly position itself as a centre of knowledge and expertise among SIDS on sustainable securities.

iv. Building and strengthening collaborative governance: promoting sustainable development 'is everyone's business', and so is debt sustainability. There should be collaborative platforms in place that engage political actors, the private sector, civil society and donors in meaningful conversation with the government on the country's investment priorities, the resources required and the strategies to mobilise them in order to promote development. Collaborative governance increases ownership, and catalyses sustained growth.

Box 2 The Blu-X platform

Blu-X is hosted under the Cabo Verdean National Stock Exchange and is a listing and trading platform for blue, green, social and other sustainability-linked bonds that are intended to promote a sustainable economy. UNDP funded the platform design to unlock financing for high-growth, high-impact initiatives in the blue, green and social economies; thereby assisting Cabo Verde's integration into regional and worldwide markets. The Blu-X platform connects issuers and investors with sustainable bonds, and aims to attract impact investors and brokers, fund managers, small and medium enterprises, and entrepreneurs from the ECOWAS and the Community of Portuguese Speaking Countries, as well as from other markets such as the United States and the European Union. So far, there have been three issuances of blue, social and green bonds by private companies; as explained below.

Blue bond

The Cabo Verde Stock Exchange first launched 'blue bonds' in 2020; these were issued by the International Investment Bank. There were 25,000 bonds offered for a price of 10,000 escudos each ($100) – with a maturity of five years and an interest rate of 4% – to finance projects in the blue economy area. The initial amount offered was $2.5 million but, due to high demand, this increased to $3.5 million. Demand was 1.5 times greater than supply; thus yielding the maximum expected value of 350 million escudos. Regarding subscription, there were 96 valid orders, including 87 from individuals and nine from companies or institutions, including Cape Verdean immigrants in Angola, France, Italy, Luxembourg, Portugal, Switzerland, Uganda and the United States.

Green bond

The company Águas de Ponta Preta issued the first green bond in Cabo Verde in August 2023, worth $5 million; this aimed to finance a photovoltaic solar plant in Salamansa, on the island of São Vicente. There were 500,000 ordinary book-entry bonds issued, with a nominal value of 1,000 escudos ($10). The issue had 100% funding, with the National Social Security Institute being the sole investor in the APP green bond; for which the maturity period is 10 years (2023–2033), and interest rates range from 4.75% in the first four years to 5.75% in the final years.

Social bonds

Cabo Verde's first social bond was issued in 2022 by Morabi Cooperativa de Poupança e Crédito, a national non-governmental organisation and microcredit institution. Aiming to raise a capital in the amount of 100,000,000.00 escudos (approximately $1 million) in the Cabo Verde Stock Exchange, the MORABI social bond operation was described as a 'symbolic' operation because of the impact it has on the lives of the disenfranchised fringes of the population. The funds raised contribute to doubling MORABI's credit portfolio, with an impact on promoting social and financial inclusion, economic growth and the country's sustainable development.

7 Policy measures recommended for the international community

At the international level, policy measures should focus on the following:

i. Reviewing and expanding the criteria for countries such as Cabo Verde to access concessional financing, taking into account that the gross national income per capita measure does not convey the real development status. This policy should take vulnerability into account, including exploring how the United Nations' multidimensional vulnerability index might give support, as it incorporates facets of development that the current gross national income criterion does not.
ii. Debt maturity: that is, extending repayment terms at no additional cost, especially when there are environmental or natural hazards that require strenuous financial resources for state responses. This maturity extension would give the country expanded fiscal space to manage responses to crises, while promoting economic development.
iii. Responsible lending. Easing access to finance for SIDS does not mean lending at all costs. There should be a careful investment assessment mechanism in place to guarantee that the identified investment areas are consensual among the key stakeholders, and that they have clear outputs, objectives and expected returns. This assessment is especially important for an extremely vulnerable country such as Cabo Verde, where the risks of economic, social and environmental crises are always present.

Other key issues that SIDS can advocate for at SIDS4 include the following:

i. A greater autonomy and capacity for SIDS to explore their marine and other natural resources. The extensive marine resources of SIDS have been massively overexploited by foreigners, including through 'unbalanced' agreements, such as the contested fishing agreement between the European Union and Cabo Verde, or through downright illegal exploitation. One way to help SIDS break the cycle of aid dependence and catalyse sustainable growth is to ensure they have the capacity and means to exploit their own resources, and develop national industries.
ii. SIDS must join their voices to unanimously demand access to financing under concessional conditions, and with maturity, grace periods and interest rates that correspond to their vulnerable situation.
iii. SIDS need to tap into innovative financing solutions, diversifying their sources of financing, while ensuring this financing is affordable. These can include, among other things, the following:

    a. The creation of dedicated SIDS stock exchange platforms, as a way of internationalising their financial operations, and tapping into broader investors who might be attracted not only by profit but also by the idea of ethical and sustainable investments.

b. SIDS can create mechanisms that encourage national banks and other financial institutions to create supranational banks, or investment funds specifically aimed at investing in SIDS. Blended finance could play a potentially useful role in such SIDS-specific financing mechanisms.

References

Banco de Cabo Verde (2023) *Relatório do Estado de Economia*, Praia: Banco de Cabo Verde. (https://www.bcv.cv/SiteCollectionDocuments/2022/REE%202022/REE%202022_junho2023%20VF.pdf)

Cabo Verde (2017) *Plano Estratégico de Desenvolvimento Sustentável* (*PEDS*) (2017–2022)

Cabo Verde (2020) *Update to the first Nationally Determined Contribution* (*NDC*)

Cabo Verde (2022) *Plano Estratégico de Desenvolvimento Sustentável* (*PEDS*) (2022–2026)

Expresso Das Ilhas (2020) 'Perdas por renúncia fiscal diminuíram cerca de 10% em dois anos'. (https://expressodasilhas.cv/economia/2020/02/25/perdas-por-renuncia-fiscal-diminuiram-cerca-de-10-em-dois-anos/68146)

Government of Cabo Verde (2022) 'Cabo Verde enquanto SIDS reivindica o reconhecimento das suas especificidades e uma discriminação positiva' (https://www.governo.cv/cabo-verde-enquanto-sids-reivindica-o-reconhecimento-das-suas-especificidades-e-uma-discriminacao-positiva/)

Government of Cabo Verde (2023a) 'Cabo Verde e Portugal firmam acordo para converter dívida em investimento no Fundo Climático e Ambiental' (https://www.governo.cv/cabo-verde-e-portugal-firmam-acordo-para-converter-divida-em-investimento-no-fundo-climatico-e-ambiental/)

Government of Cabo Verde (2023b) 'Discurso do Primeiro Ministro na abertura da Reunião Inter-regional Preparatória da IV Conferência Internacional sobre os Pequenos Estados Insulares em Desenvolvimento (PEID)' (https://www.governo.cv/discurso-de-s-e-o-primeiro-ministro-na-abertura-da-reuniao-inter-regional-preparatoria-da-iv-conferencia-internacional-sobre-os-pequenos-estados-insulares-em-desenvolvimento-peid/)

IMF – International Monetary Fund (2019) 'Executive Board Approves a New Policy Coordination Instrument with Cabo Verde' (https://www.imf.org/en/News/Articles/2019/07/15/pr19278-cabo-verde-imf-executive-board-approves-a-new-policy-coordination-instrument)

IMF – International Monetary Fund (2023) 'Staff Report For The 2023 Article Iv Consultation, Second Review Under The Extended Credit Facility Arrangement, And Request For Modification Of A Performance Criterion—Debt Sustainability Analysis'

IMF – International Monetary Fund (2024) 'Cabo Verde: third review under the extended credit facility arrangement, request for modification of performance criteria, and request for an arrangement under the resilience and sustainability facility', IMF Country Report Nº. 24/9, Washington DC: IMF

INE – National Institute of Statistics (2021) 'Cabo Verde National Census, 2021' (https://ine.cv/censo-2021/)

MFFE- Ministério das Finanças e Fomento Empresarial (2022) Declaração dos Riscos Orçamentais Cabo Verde, Secretariado da Comissão de Gestão de Riscos Orçamentais

Ministério das Finanças (2024) *Contas Geral do Estado*. Praia: Ministério das Finanças de Cabo Verde. (https://www.dgo.gov.pt/politicaorcamental/Paginas/Conta-Geral-do-Estado.aspx?Ano=2024)

Ministério das Finanças Direção-Geral do Tesouro (2020) 'Relatório de Execução da Dívida pública do ano de 2020'

Nshimyumuremyi, A., and Marone, H. (2014) 'African Economic Outlook: Cabo Verde'. Ministério das Finanças de Cabo Verde

Morris, R., Cattaneo, O. and Poensge, K. (2018), 'Cabo Verde Transition Finance', Country Pilot, OECD

OECD – Organisation for Economic Co-operation and Development (2018) 'The State of Blended Finance' (https://www.oecd.org/water/OECD-GIZ-Background-document-State-of-Blended-Finance-2018.pdf)

UNDP – United Nations Development Programme (2022) 'Development Finance Integration in Cabo Verde'. Praia: Edições Uni-CV

United Nations (2023) *High-Level Panel on the development of a Multidimensional Vulnerability Index*, Final Report

World Bank (2019) *Country Partnership Framework for the Republic of Cabo Verde for the Period FY20-25*

World Bank (2022a) 'Debt Service Suspension Initiative', (https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative)

World Bank (2022b) 'Cabo Verde's Potential Digital Dividends' (https://www.worldbank.org/en/country/caboverde/publication/cabo-verde-potential-digital-dividends-economic-update-2022)

World Bank (2023) 'Cape Verde - Joint IDA-IMF staff advisory note on the third growth and poverty reduction strategy (2012 - 2016)' (https://documents.worldbank.org/en/publication/documents-reports/documentdetail/828231468020990509/cape-verde-joint-ida-imf-staff-advisory-note-on-the-third-growth-and-poverty-reduction-strategy-2012-2016)

World Bank and IMF – International Monetary Fund (2024) 'Extended Credit Facility Arrangement' (https://www.imf.org/en/Publications/CR/Issues/2024/01/16/Cabo-Verde-Third-Review-Under-the-Extended-Credit-Facility-Arrangement-Request-for-543874)

Annex 1 Methodology

This report adopted a qualitative approach, and it is based on multiple consultations and interviews held with key stakeholders in the economic and financial sectors in Cabo Verde, including senior staff at the Ministry of Finance, central and commercial banks, private sectors, donors, and members of civil society. A total of 11 interviews were done. The interviews were based on semi-structured opened-ended questions that were prepared, assessed and shared with the stakeholders well in advance. All questions focused on Cabo Verde's debt picture, the impact of debt and strategies for its management, international engagement, and recommendations for SIDS to guarantee debt sustainability and promote sustainable development.

Some interviewees chose not answer some questions, either because they were not well informed about specific policies, or because they wanted to avoid violation of codes of conduct enforced by the institutions they represent. Likewise, some interviewees did not allow interviews to be recorded, even though they were informed in advance that all citations would be anonymised. The diversity of the interviewees is judged to be relevant, and allows the researchers to grasp a wider range opinions on debt sustainability in Cabo Verde.

All the recorded interviews were transcribed to allow the researchers to look into them more in depth. Summary reports of non-recorded interviews were written based on the researchers' notes. The researchers then did a thorough thematic analysis of the interviews, by identifying and matching extracts of interventions to the main areas to be covered in the report.

Annex 2 Institutions interviewed

Institutions	Staff Interviewed	Date of the interview
PNUD	Chief Technical Financial Advisor PALOP- TL	19/12/2023
Ministry of Finance	The person in charge of compiling debt data at the Ministry of Finance	18/01/2024
Ministry of Finance	General Directorate of Planning	19/01/2024
Council of Public Finances	Board members	19/01/2024
Bank of Cabo Verde	Head of the Economic Studies and Statistics Department	23/01/2024
Commercial Chamber or General Secretary	General Secretary	23/01/2024
European Union Delegation in Cabo Verde	Chefe de cooperação da EU/Programme manager – Operational Section	31/01/2024
Stock Exchange	Director Departamento Operaçoes de Mercado Bolsa de Valores de Cabo Verde	02/02/2024
Banco Commercial do Atlântico	Administrator/Board Member	09/02/2024
Civil society	Economist/ Consultant	12/02/2024
Portuguese Cooperation	Senior officer at the Portuguese Cooperation	21/02/2024

Annex 3 Debt service

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023(p)	2024(p)
Debt service (million $)	81,4	110,7	120,1	126,7	147,1	144,8	155,8	153,5	210,5	258,1	258,4
Domestic debt service (million $)	46,4	69,8	77,2	77,5	94,1	85,1	99,1	106,5	117,1	131,0	129,5
External debt service (million $)	35,0	40,9	42,9	49,2	53,0	59,8	56,7	47,0	93,3	127,1	129,0
Spent on education (million $)	80,44	97,70	92,75	95,82	97,05	129,00	112,88	108,73	108,32	112,87	113,41
Spent on health sector (million $)	35,40	44,94	41,29	41,74	50,98	62,96	72,95	79,94	70,70	97,86	96,83
Spent on environmental protection (million $)	15,47	30,58	18,84	26,49	9,20	11,82	9,86	5,30	10,79	28,77	24,56
Interest (million $)	33,9	40,7	41,6	44,5	46,5	49,1	47,3	41,9	52,9		
Debt service (% revenues)	23,35	26,90	28,25	26,07	28,83	25,65	36,19	35,04	39,05	40,37	33,77
Debt service (% GDP)	4,88	6,47	6,62	6,59	7,26	6,63	8,98	8,38	9,10	9,82	9,17
Debt service (% education)	101,15	113,33	129,52	132,24	151,59	112,27	138,04	141,18	194,30	228,65	227,89
Debt service (% health)	229,86	246,38	290,92	303,60	288,53	230,05	213,58	192,02	297,68	263,74	266,92
Debt service (% environmental protection)	525,92	362,04	637,51	478,38	1598,43	1225,39	1580,26	2894,23	1949,71	897,02	1052,26
Domestic debt service (% GDP)	2,78	4,08	4,26	4,03	4,64	3,90	5,71	5,81	5,07	4,98	4,60
External debt service (% GDP)	2,10	2,39	2,37	2,56	2,62	2,74	3,27	2,57	4,04	4,84	4,58
External debt service (% exports)	5,63	5,81	5,70	6,09	5,70	5,86	12,91	10,46	9,86		
Interest (% GDP)	2,03	2,38	2,29	2,32	2,29	2,25	2,73	2,29	2,29		
Grant (% GDP)	1,54	2,21	2,14	3,15	1,25	2,81	2,96	2,14	0,91	1,79	1,38
Tax revenue (% GDP)	15,96	17,55	17,50	18,35	19,67	19,00	18,66	18,10	18,81	16,60	19,31

Source: Elaborated by the authors based on data provided by the Ministry of Finance and Central Bank of Cabo Verde.