

**Committee for Development Policy
Expert Group Meeting
Review of the list of Least Developed Countries**

**Monitoring the progress of graduated countries –
Cape Verde**

(Background note by the Secretariat)

**New York, 27-29 January 2009
Conference Room DC2 – 19th floor**

On the basis of the recommendation of the CDP in its 2004 report, and General Assembly resolution 59/210 in 2004, Cape Verde's graduation from the list of least developed countries became effective on 20 December 2007. General Assembly resolution 59/209 (paragraph 12) requests the CDP to continue monitoring the development progress of countries that have graduated from the LDC category and to report its findings to ECOSOC as a complement to the triennial review. This report was prepared in response to the resolution and marks the first time the CDP monitors the development progress of a graduated LDC.

As indicated in its 2008 report (paragraphs 34-36), the Committee considers that the main purpose of monitoring is to assess any signs of deterioration in the development progress of the graduated country and bring it to the attention of the Economic and Social Council (ECOSOC) as early as possible.

1. Economic and social progress

Cape Verde's graduation is fairly recent (20 December 2007), and there seems to be clear indications of the continuing positive development path achieved by Cape Verde since the last triennial review in 2006.

1.1. Progress on LDC identification criteria

In its 2008 report, the CDP indicated that its monitoring of graduated countries would cover a relatively small set of indicators, the main ones being the country's performance on the criteria for identifying LDCs. The three criteria used by the Committee for the identification of LDCs indicate continued progress achieved by Cape Verde (see table 1): Average GNI per capita grew from \$1487 since the last review in 2006, to an average of \$2180 for the 2009 review (substantially above the graduation threshold). The human assets index (HAI) remains high and far above the graduation threshold. The economic vulnerability index (EVI) improved in relation

to the countries that were reviewed in 2009: Cape Verde's EVI is now lower than about half the countries included in the 2009 review.

Table 1. Cape Verde's performance on the 3 indicators used by the CDP for the identification of LDCs		
	2006	2009
GNI per capita (US\$)		
Graduation threshold greater than	900	1086
Ranking (compared to review group of 65 countries in 2006 and 60 countries in 2009)		
<i>Highest GNI per capita</i>	3393	8957
<i>Lowest GNI per capita</i>	90	100
<i>Cape Verde GNI per capita:</i>	1487	2180
<i>Position compared to highest GNI per capita</i>	4th	5th
HAI		
Graduation threshold greater than	64	65
Ranking (compared to review group of 65 countries in 2006 and 60 countries in 2009)		
<i>Highest HAI</i>	91	92
<i>Lowest HAI</i>	5	9
<i>Cape Verde HAI:</i>	82	82
<i>Position compared to highest HAI</i>	4th	6th
EVI		
Graduation threshold less than	38	34
Ranking (compared to review group of 65 countries in 2006 and 60 countries in 2009)		
<i>Highest EVI</i> ¹	92	75
<i>Lowest EVI</i> ²	19	17
<i>Cape Verde EVI:</i>	58	49
<i>Position compared to lowest EVI</i>	47th	30th

¹ Highest EVI indicates most vulnerable.

² Lowest EVI indicates least vulnerable

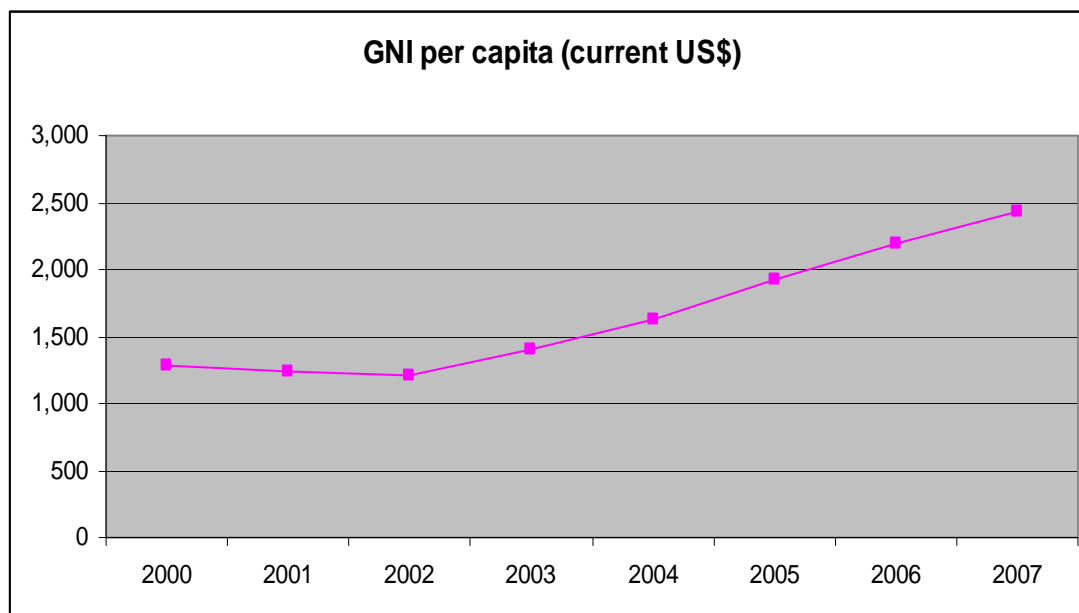
1.2. Progress on the MDGs and poverty reduction

On the base of available data, Cape Verde continues to progress towards meeting some of the Millennium Development Goals (MDG) and, according to the World Bank, is on target to meet most MDGs by 2015. Addressing food insecurity which affects a significant part of the population is an important element in achieving the MDG target of halving between 1990 and 2015 the proportion of people who suffer from hunger. Also, meeting the MDGs related to sanitation and infrastructure may be more difficult to attain due to the large investment needed to achieve

improvements. Poverty remains significant¹, but if the country is able to sustain its robust rate of growth, it is estimated that poverty may be halved of its 1990 value by 2015.²

1.3. Growth overview

Since 2000, Cape Verde's nominal GNI per capita has steadily increased from around \$1300 in 2000 to \$2400 in 2007 (see Graph below). The country's economic growth in recent years has been robust.



The economy has been supported by large inflows of official development assistance (see table 2), remittances from nationals living abroad and, more recently, by a fast growing tourism sector and the related foreign direct investment.

Although gradually reducing in importance, remittances from the country's extensive diaspora remain a major source of foreign currency earnings and are found to be less volatile than FDI and exports.³ Merchandise exports do not make a significant contribution to the country's foreign currency earnings

¹ Republic of Cape Verde, Ministry of Finance and Public Administration, General Planning Directorate. "Growth and Poverty Reduction Strategy Paper - II", May 2008.

² World Bank Country Brief Cape Verde. Accessed at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/CAPEVERDEEXTN/0,,menuPK:349633~pagePK:141132~piPK:141107~theSitePK:349623,00.html> on December 20, 2008.

³ IMF Country Report No. 08/243, July 2008, Cape Verde: Selected Issues.

Foreign direct investment has grown rapidly, particularly in the tourism sector. For instance the volume of approved projects increased from about US\$44 million in 2004 to about US\$509 million in 2006, contributing to about 38 percent to the real GDP growth rate (2006) as well as to job creation.⁴ This positive trend has continued in 2007, and the level of approved FDI in 2008 is very high.

Tourism represents a large share of GDP. As Cape Verde's economy becomes more dependent on tourism income and its export base remains narrow, a reduction in demand for tourism from foreign markets during a global economic downturn will be felt throughout the entire economy. Moreover, Cape Verde remains dependent on imports and is vulnerable to external economic shocks caused by changing prices, particular for food and fuel. But, so far, the effects of the global financial crisis have been limited and the country's growth continues to be sound.

**Table 2. Monitoring Cape Verde
Selected indicators**

	2001	2002	2003	2004	2005	2006	2007
Exports of goods and services (current US\$)	107	130	119	138	171	233	290
Remittances, receipts (BoP, current US\$)	80	85	108	113	137	136	138
FDI, net (BoP, current US\$ millions)	9	15	38	68	17	123	130
ODA (gross disbursement, million US\$)							
DAC countries	50.39	44.41	93.42	96.87	113.33	107.24	122.60
non-DAC countries	..	0.1	0.07	1.16	2.71	2.19	1.34
Multilateral	31.48	54.54	56.4	56.82	61.61	44.1	58.77
All donors	81.87	99.05	149.89	154.85	177.65	153.53	182.71
<i>of which: loans</i>	40.25	36.41	36.12	41.23	60.36	51.94	56.72
<i>grants</i>	41.62	62.64	113.77	113.62	117.29	101.59	125.99

Source: Exports of goods and services from UN Statistics Division. Remittances and FDI from World Bank World Development Indicators. ODA data from OECD Creditor Reporting System.

2. International cooperation

In preparation of Cape Verde's graduation from the list of least developed countries, the Government and its development partners set up a donor support group (Grupo de Apoio à Transição- GAT) in 2006, to prepare a transition strategy to adjust to the eventual phasing out of the support measures associated with the membership on the LDC list. The GAT has met 7 times. Its latest meeting on 18-19 January 2009 focused particularly on the diagnostic trade integration study (DTIS) of the Enhanced Integrated Framework for Trade related technical assistance (EIF) and measures on how to achieve "Cape Verde's insertion in the global economy" as summarized in the Priority Action Matrix (see below).

⁴ IMF Country Report No. 08/242, July 2008, "Cape Verde: Poverty Reduction and Growth Strategy Paper – II"

In June 2007, GAT adopted a declaration supporting Cape Verde's socioeconomic transformation agenda. Additionally, a Budget Support Group (BSG)—composed by the Government of Cape Verde, the World Bank, the European Union, and the Netherlands—was created in 2005 to align and harmonize donor support around the Growth and Poverty Reduction Strategy. In 2007 the African Development Bank, Austria, Spain and Portugal joined the BSG. During the last three years, around 25 per cent of ODA was in the form of budget support.

A few developments are worth mentioning:

- Bilateral and multilateral ODA flows increased to a total of \$183 million (see table 2). In 2007, Cape Verde's major bilateral donors were France, Luxembourg, the Netherlands, Portugal, Spain and USA. The European Union and United Nations were the major multilateral partners. The grant element of ODA over the years 2005-2007 remained stable at around 67 per cent of total gross disbursements.
- Following the country's graduation, the EU extended its Everything but Arms (EBA) preferences to the country for a transition period of three years.
- Cape Verde has not yet taken a position as regards to its eventual participation in the Common External Tariff (CET) of ECOWAS, of which it is a member, nor as regards to the West Africa Economic Partnership Agreement (EPA) with the EU.
- In 2007 Cape Verde signed a Special Partnership Agreement (SPA) and Mobility Agreement with the European Union. These are important initiatives which could have a major impact on Cape Verde's future. The SPA is unique among ACP countries, while for the Mobility Agreement (which includes the temporary, legal movement of people and circular migration), Cape Verde is one of the two pilot countries selected by the EU (the other is Moldova).
- In 2008, Cape Verde joined the WTO.⁵
- Cape Verde requested to participate in the EIF before it graduated from the LDC category. A DTIS was prepared and subsequently validated through the convening 8 thematic groups, followed by a national workshop- on 12 December 2008. This study and its priority action matrix are being actively followed-up, including at the GAT meeting of January 2009 (see above).
- At the latest review of the Policy Support Instrument (PSI) for Cape Verde (22 December 2008) the Executive Board of the IMF underlined

⁵ The terms of the country's accession package were accepted by the General Council of WTO on 18 December 2007. Subsequently, Cape Verde became the 153rd member of the WTO on 23 July 2008.

that Cape Verde's prudent economic management, reduction of domestic debt and buildup of official reserves has put the country in an advantageous position to deal with the current global economic crisis.

- The World Bank's 2008-11 Country Partnership Strategy is being prepared in collaboration with the African Development Bank. Under this partnership, support will be provided to the Cape Verde's GPRSP with an emphasis on growth, infrastructure, development of the private sector and small and medium enterprises, and human development capacity building.
- The UN World Food Programme provides assistance in the form of school meals to primary schools and kindergartens in the amount of \$5.6 million which will end in July 2010.

3. Conclusions and Recommendations

- Cape Verde's development progress continues to be very satisfactory,
- The country remains economically vulnerable and sustained efforts are needed to achieve success in the structural transformation and upgrading of the economy.
- In view of the country's track record of positive performance, together with its enduring vulnerabilities, the international community should continue to support Cape Verde's development
- Cape Verde should be able to access Tier 1 and Tier 2 of the EIF (or equivalent resources) as part of the recommended smooth transition measures in favour of recently graduated LDCs.

The next monitoring review by the Committee will take place in 2012.