IMPACTS OF COVID-19 ON CABO VERDE
THE IMPERATIVE TO BUILD A MORE RESILIENT ECONOMY
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This article analyses the socio-economic impacts of COVID-19 on Cabo Verde and provides policy options to reconstruct the country’s economy in a more resilient and sustainable manner. Section 1 assesses the impacts of COVID-19 on key macroeconomic and social sectors, while the second section sets out the policy options needed to build a more resilient economy going forward.

1. ECONOMIC AND SOCIAL IMPACTS OF COVID 19

In 2019, Cabo Verde's GDP grew by an estimated 5.5%, compared to 5.1% in 2018. However, due to the outbreak of the COVID-19, GDP growth is expected to decrease by 4% in 2020, fueled by falling tourism revenues, remittances and capital flows¹.

Tourism is the mainstay of Cabo Verde’s economy and accounts for close to 45% of GDP, 75% of FDI inflows, and 39% of total job creation in the country.² International tourist arrivals will decrease by 20–30% worldwide in 2020 when compared with 2019 figures.

ECA has projected two scenarios. The more optimistic scenario envisions a decrease of 25% in tourism revenues, which could decrease the overall sectoral contribution to the country’s GDP and employment by an annual 11% and 9% respectively. The second scenario posits a larger decline of 30% in tourism revenues. In that event, the overall sectoral contribution to the country’s GDP and employment would result in larger decreases of 22% and 19% respectively (Figure 1).³

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Despite measures taken by the government to support the private sector cope with COVID-19, the budget deficit is expected to widen further in 2020 compared to 2019. The easing of monetary policy, together with supply shocks on food and industrial production, will lead to a slight increase in inflation from 1.1% in 2019 to 1.3% in 2020.\(^4\)

The pandemic has constrained FDI inflows, which are expected to decrease by US$ 26 million from the 2019 level to US$ 41.6 million in 2021.\(^5\) This decline is expected to persist in the short run before rebounding in 2022.

As an island country, Cabo Verde is highly dependent on trade which contributed to 115% of GDP in 2019. However, the country’s exports share dropped by about 5% in the first quarter of 2020 compared to the same quarter in 2019 (Figure 2), partly attributable to the rise of Covid-19 in its main export markets in Europe, viz. Spain, Portugal and Italy. Only two African countries, Guinea-Bissau and Algeria, appear in its top 10 export markets list (Table 1). Yet, there is a high need for diversification of the country’s markets.

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\(^5\) Ibid.
Cabo Verde's migrant remittances represented approximately 11.7% of GDP pre-COVID. Unfortunately, migrants living and working around the world are facing job losses and loss of incomes due to the pandemic. Consequently, remittance flows to Africa in 2020 are projected to decline by 21%. In the specific case of Cabo Verde, reducing the transaction costs, which are on average 8.04%\textsuperscript{6}, could lead to an increase of remittance inflows. Indeed, the cost-elasticity of remittances for Cabo Verde is negative, meaning that Cabo Verde can expect a more than proportionate increase in remittances from a reduction of remittances costs. As an illustration, a decrease of remittance costs by 0.81% will increase the remittances inflows from Portugal by US$711 417.8.

\textsuperscript{6} World Bank, 2019
In 2019, youth Unemployment rate was estimated at 24.9%. Yet, it is estimated that despite the government fiscal support to the economy, Cabo Verde will lose 19,800 jobs in 2020, with the unemployment rate skyrocketing to nearly 20%.

The country’s health system is also fragile with less than one physician per 1,000 of the population and an estimated 7.8 physicians and 12.6 nurses per 10,000 of the population. Likewise, capacity is only 21 hospital beds per 10,000 of the population. The healthcare system is under enormous pressure.

Fortunately, the strong social protection coverage for workers will help to staunch the deteriorating working and living conditions for the general population. The proportion of the population covered by social protection systems in 2016 was 85.8% in Cabo Verde, while in other ECOWAS countries it ranged from 2.7% (Burkina Faso) to 23.5% (Senegal).

2. BUILDING A MORE RESILIENT ECONOMY—POLICY OPTIONS

Despite the structural development challenges facing the country, COVID-19 crisis offers opportunities to hasten diversification of the economy, by focusing on building a blue economy and climate finance and digital economy. Such a shift requires the formulation and implementation of the right mix of policies, as outlined below.

a) Transformation toward a Blue Economy

The adoption of the Cabo Verde Blue Economy Charter will help to build long-term resilience to external shocks like this pandemic. The endorsement of the African Union Blue Economy Strategy and the launch of the African Continental Free Trade Area offer an opportunity for African SIDS such as Cabo Verde to transform their fishery and maritime sectors by encompassing them into regional value chains.

Cabo Verde could build from Seychelles' experience in issuing a debt-for-nature swap, leading to the creation of new marine protected areas (MPAs). Innovative financial mechanisms such as blue bonds could sustain the funding of Blue Economy related activities, in concert with an approach promoting Building Back Better.

b) Accelerate implementation of the African Continental Free Trade Area (AfCFTA)

The AfCFTA presents an opportunity for the diversification of Cabo Verde’s economy and its access to regional and global markets. It has the potential to increase market access to more than 1.2 billion people. ECA’s recent research indicates that nearly two-thirds of the expected intra-African trade gains would be in industrial sectors. The following policy actions are recommended:

- **Capacity building:** A training strategy to reinforce negotiation skills in the ministry, in collaboration with the African Union and ECA, should be elaborated.

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- **Ports infrastructure**: Investment and development of ports and sea transportation infrastructure is critical for an island nation like Cabo Verde. Public–private partnerships and other innovative modes of financing should be promoted.

- **Maritime networks**: A clear strategy to put Cabo Verde on the trade route connecting it with neighbouring African countries should be drafted, in partnership with relevant member States.

- **NTBs at ports**: Trade between Cabo Verde and neighbouring countries is largely non-existent due to lengthy administrative delays and corruption, which need to be removed. A single window for customs issues (a “one-stop-shop” policy) is recommended.

- **Ports administration**: To ensure smooth flow of communication and operations, the 3 separate units — namely, ports, maritime resources and customs administration — should be integrated into a single unit.

(c) **Develop the private sector to attract regional and international foreign investment**

- **Investment in human capital**, including technology skills, to foster a workforce skilled in the latest global IT developments.

- **Emphasis on linking tourism with local economies** including in supply chains and infrastructure and promoting a foreign investment framework that stimulates local resources.

- **Increase the productive capacities of local producers** and provide incentives for exportation.

- **Improve the business environment** by ensuring a reliable and affordable supply of electricity, water to businesses and improved digital connectivity.

(d) **Leveraging Technology and Innovation**

Cabo Verde is well positioned to harness technology and innovation to shape the nature, speed and quality of its post COVID-19 recovery. Some of the key positive enablers include its relatively high income per capita, youthful and highly educated population that is urbanized with a high life expectancy (73 years). In many ways, Cabo Verde is among the few African trailblazer whose mobile phone penetration rates and internet and social media usage are close to those of advanced economies.

**Table 2: Selected Cabo Verde science and technology related indicators**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban population as % of total</td>
<td>66%</td>
</tr>
<tr>
<td>Adult literacy rate (%)</td>
<td>87%</td>
</tr>
<tr>
<td>Tertiary; Gross enrolment ratio (%)</td>
<td>24%</td>
</tr>
<tr>
<td>Mobile phone subscriptions (penetration rate)</td>
<td>120%</td>
</tr>
<tr>
<td>Internet users (% of population)</td>
<td>63.3%</td>
</tr>
<tr>
<td>Researchers in R&amp;D (FTE per million in habitants)</td>
<td>100</td>
</tr>
<tr>
<td>Gross expenditure on research and development as % of GDP</td>
<td>0.1%</td>
</tr>
<tr>
<td>Patent application, residents per million inhabitants</td>
<td>3</td>
</tr>
</tbody>
</table>

*Source: World Development Indicators; UNESCO Institute of Statistics; and World Internet Statistics*
As a service dependent economy, investment in digital technologies could drive diversification of economic activities, especially exports, and enhance competitiveness. Key policies measures include the following:

- **Development and implementation of a National Digital Transformation Strategy** informed the African Continental Digital Transformation Strategy as a blueprint to position Cabo Verde

- **Investment in the development of digital skills** (particularly among the youths) and in research and development (R&D) and creating enabling regulatory, legal and administrative regimes for digital businesses and innovations. Some of the ongoing efforts to establish digital technology park could achieve the above goals and strengthen its position as exporter of services. Cabo Verde’s exports of ICT services have grown from about US$8.8 million in 2005 to US$30.2 million in 2018\(^9\).

- **Strengthen** research in higher education to accelerate achievement of the country’s ambitious goal to generate 100% of its electricity from renewable energy. Currently, about 81% of its electricity comes from thermal power, 17% from wind and 1.4% from solar power. As costs of new energy technologies fall rapidly and off-grid business models take root, a critical mass of researchers, innovators and entrepreneurs are needed to provide the solutions needed to exploit the abundant solar, wind and geothermal resources to create jobs, reduce dependence on fossil fuels and become Africa’s energy technology innovation hub.

By adopting the policies summarized above, the challenges posed by the pandemic could be transformed into a springboard to kick-start a more resilient and sustainable economy, to the benefit of Cabo Verde’s population and the country’s development.

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\(^9\) World Development Indicators Database (https://data.worldbank.org/indicator/BX.GSR.CCIS.CD?locations=CV)