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Report No: PAD1347

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 3.7 MILLION  
(US\$5 MILLION EQUIVALENT)

TO THE

REPUBLIC OF CABO VERDE

FOR A

COMPETITIVENESS FOR TOURISM DEVELOPMENT PROJECT

APRIL 19, 2016

*Trade & Competitiveness Global Practice  
Africa Region*

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CURRENCY EQUIVALENTS  
(Exchange Rate Effective as of February 29, 2016)

Currency Unit = Cabo Verde Escudos (CVE)  
CVE 101.319 = US\$1  
US\$1.38131 = SDR 1

FISCAL YEAR  
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

3C	Cabo Verdean Community for Cruise Tourism ( <i>Comunidade Cabo-Verdiana de Cruzeiros</i> )
ADEI	Agency for the Development of Enterprises and Innovation
ADR	Alternative Dispute Resolution
ARAP	Public Procurement Authority ( <i>Autoridade Reguladora das Aquisição Públicas</i> )
CI-ATIC	Cabo Verde Investments-Agency of Tourism and Investments ( <i>Cabo Verde Investimentos-Agência do Turismo e Investimentos de Cabo Verde</i> )
BCV	Central Bank of Cabo Verde ( <i>Banco de Cabo Verde</i> )
CTD	Competitiveness for Tourism Development Project
CPS	Country Partnership Strategy
CQS	Selection Based on Consultants' Qualifications
CRM	Customer Relationship Management
CVI	Cabo Verde Investments ( <i>Cabo Verde Investimentos</i> )
DA	Designated Account
DDI	Direct Domestic Investment
DGA	Directorate General for the Environment ( <i>Direcção Geral do Ambiente</i> )
FDI	Foreign Direct Investment
FM	Financial Management
GDP	Gross Domestic Product
GoCV	Government of Cabo Verde
GPRSP	Growth and Poverty Reduction Strategy Program
GRS	Grievance Redress Service
IBRD	International Bank for Reconstruction and Development
IC	Selection of Individual Consultants
ICB	International Competitive Bidding
IDA	International Development Association
IFR	Interim Financial Report
IGQPI	Institute for the Management of Quality and Intellectual Property ( <i>Instituto De Gestão da Qualidade e da Propriedade Intelectual</i> )
IPI	Investment Promotion Intermediary

IRMS	Investor Relationship Management System
IT	Information Technology
KPI	Key Performance Indicator
MFP	Finance and Planning Ministry ( <i>Ministério das Finanças e do Planeamento</i> )
MSME	Micro, Small, and Medium Enterprise
MTIBD	Ministry of Tourism, Investment, and Business Development ( <i>Ministério do Turismo, Investimentos e Desenvolvimento Empresarial</i> )
MTIE	Ministry of Tourism, Industry, and Energy
M&E	Monitoring and Evaluation
NPL	Nonperforming Loan
NPV	Net Present Value
PDO	Project Development Objective
PIM	Project Implementation Manual
PIU	Project Implementation Unit
POT	Tourism Management Plan ( <i>Plano de ordenamento turístico</i> )
PSC	Project Steering Committee
PPD	Public-private dialogue
PTC	Project Technical Committee
ROI	Returns on Investment
SESA	Strategic Environmental and Social Assessment
SOP	Standard Operating Procedure
SSA	Sub-Saharan Africa
TOR	Terms of Reference
UGA	Procurement Management Unit
UGPE	Unit for Implementation of Special Projects ( <i>Unidade de Gestão de Projetos Especiais</i> )

Regional Vice President:	Makhtar Diop
Country Director:	Louise J. Cord
Senior Global Practice Director:	Anabel Gonzalez
Practice Manager:	Jean Michel Noel Marchat (Acting)
Task Team Leader(s):	Penelope Demetra Fidas Kofi-Boateng Agyen Julian Casal



**CABO VERDE**  
**Competitiveness for Tourism Development**

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**PAD DATA SHEET***Cabo Verde**Competitiveness for Tourism Development (P146666)***PROJECT APPRAISAL DOCUMENT***AFRICA**0000009367*

Report No.: PAD1347

<b>Basic Information</b>			
Project ID P146666	EA Category B - Partial Assessment	Team Leader(s) Penelope Demetra Fidas, Julian Casal, Kofi-Boateng Agyen	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 10-May-2016	Project Implementation End Date 31-May-2021		
Expected Effectiveness Date 30-Sep-2016	Expected Closing Date 31-May-2021		
Joint IFC No			
Practice Manager/Manager Jean Michel Marchat	Senior Global Practice Director Anabel Gonzalez	Country Director Louise J. Cord	Regional Vice President Makhtar Diop
Borrower: REPUBLIC OF CABO VERDE			
Responsible Agency: Ministry of Tourism, Investment, and Business Development			
Contact: Telephone No.:	Dalia Gomes 2382604832	Title: Email:	Advisor dalia.gomes@mtie.gov.cv
<b>Project Financing Data(in US\$, millions)</b>			
[ ] Loan	[ ] IDA Grant	[ ] Guarantee	
[ X ] Credit	[ ] Grant	[ ] Other	
Total Project Cost:	5.00	Total Bank Financing:	5.00
Financing Gap:	0.00		

<b>Financing Source</b>	<b>Amount</b>
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	5.00
Total	5.00

### **Expected Disbursements (in US\$, millions)**

Fiscal Year	2017	2018	2019	2020	2021					
Annual	0.50	1.50	1.50	1.00	0.50					
Cumulative	0.50	2.00	3.50	4.50	5.00					

### **Institutional Data**

#### **Practice Area (Lead)**

Trade & Competitiveness

#### **Contributing Practice Areas**

Finance & Markets

#### **Cross Cutting Topics**

- Climate Change
- Fragile, Conflict & Violence
- Gender
- Jobs
- Public Private Partnership

#### **Sectors / Climate Change**

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Industry and trade	General industry and trade sector	75		
Finance	SME Finance	25		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

#### **Themes**

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Financial and private sector development	Micro, Small and Medium Enterprise support	50
Financial and private sector development	Regulation and competition policy	50

Total	100
<b>Proposed Development Objective(s)</b>	
The project development objective is to create the conditions necessary to increase investment into and diversification of the tourism sector.	
<b>Components</b>	
<b>Component Name</b>	<b>Cost (US\$, millions)</b>
Component 1: Enhancing governance framework of the tourism sector	2.27
Component 2: Diversify tourism sector and increase inclusiveness of tourism-led growth by strengthening the competitiveness of local MSMEs	2.24
Component 3: Project implementation	0.49
<b>Systematic Operations Risk- Rating Tool (SORT)</b>	
<b>Risk Category</b>	<b>Rating</b>
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
<b>OVERALL</b>	Moderate
<b>Compliance</b>	
<b>Policy</b>	
Does the project depart from the CAS in content or in other significant respects?	Yes [ ] No [ X ]
Does the project require any waivers of Bank policies?	Yes [ ] No [ X ]
Have these been approved by Bank management?	Yes [ ] No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ] No [ X ]
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ] No [ ]
<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b> <b>No</b>
Environmental Assessment OP/BP 4.01	X

Natural Habitats OP/BP 4.04		X		
Forests OP/BP 4.36			X	
Pest Management OP 4.09			X	
Physical Cultural Resources OP/BP 4.11		X		
Indigenous Peoples OP/BP 4.10			X	
Involuntary Resettlement OP/BP 4.12			X	
Safety of Dams OP/BP 4.37			X	
Projects on International Waterways OP/BP 7.50			X	
Projects in Disputed Areas OP/BP 7.60			X	
<b>Legal Covenants</b>				
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>	
Strategic Environmental and Social Assessment		30-Sep-2017		
<b>Description of Covenant</b>				
For purposes of Part A.1 (d) of the Project, the Recipient shall, not later than twelve (12) months after the Effective Date, prepare, adopt and disclose a Strategic Environmental and Social Assessment (“SESA”) of the Recipient’s tourism sector under the SESA Terms of Reference approved by the Association.				
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>	
External auditor		30-Jan-2017		
<b>Description of Covenant</b>				
The Recipient shall recruit, not later than four (4) months after the Effective Date, an external auditor with qualifications, experience and terms of reference satisfactory to the Association, in accordance with the provisions of Section III of the Financing Agreement.				
<b>Conditions</b>				
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>		
IDA	Project Implementation Manual	Effectiveness		
<b>Description of Condition</b>				
The Recipient has adopted a Project Implementation Manual acceptable to the Association.				
<b>Team Composition</b>				
<b>Bank Staff</b>				
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Penelope Demetra Fidas	Team Leader (ADM Responsible)	Senior Private Sector Development Specialist	Private Sector Development	GTC07
Julian Casal	Team Leader	Economist	Finance & Markets	GFM01

Kofi-Boateng Agyen	Team Leader	Senior Private Sector Development Specialist	Private Sector Development	GTC07
Cheick Traore	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist	Procurement	GGO07
Fatou Fall Samba	Financial Management Specialist	Financial Management Specialist	Financial management	GGO25
Aissatou Diallo	Team Member	Senior Finance Officer		WFALA
Armando Heilbron	Team Member	Senior Investment Promotion Officer	Investment promotion	GTCIC
Gerard Joseph Mataban Jumamil	Counsel	E T Consultant	Legal	LEGAM
Luz Meza-Bartrina	Counsel	Senior Counsel	Legal	LEGAM
Cheikh Sagna	Safeguards Specialist	Senior Social Development Specialist	Social Safeguards	GSU01
Maman-Sani Issa	Safeguards Specialist	Regional Safeguards Adviser	Environmental Safeguards	OPSPF
Monica Rivero Riveros	Team Member	Program Assistant	Tourism and operations	GTCD01

#### Extended Team

Name	Title	Office Phone	Location
Antonio Manuel Baptista	Consultant		Cabo Verde
Bradley Lawrence Weiss	Tourism consultant		Mozambique
Laurent Mehdi Brito	Procurement consultant		Cabo Verde

#### Locations

Country	First Administrative Division	Location	Planned	Actual	Comments

#### Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required?    Consultants will be required



## I. STRATEGIC CONTEXT

### A. Country Context

1. **Located off the west coast of Africa, the Republic of Cabo Verde is an archipelago of ten islands of which nine are inhabited.** The country has around 520,000 inhabitants. Only 10 percent of its territory is classified as arable land and the country possesses limited mineral resources. Despite the arid climate and mountainous terrain, Cabo Verde has been developing rapidly, in a large part thanks to its flourishing tourism industry.

2. **In December 2007, Cabo Verde graduated from the United Nations list of Least Developed Countries.** Good governance, sound macroeconomic management, trade openness and increased integration into the global economy, as well as the adoption of effective social development policies underpinned an impressive development trajectory.

3. **The Republic of Cabo Verde experienced robust economic growth and poverty reduction during the beginning of the new millennium.** Growth in real gross domestic product (GDP) per capita averaged 7.1 percent between 2005 and 2008, well above the average for sub-Saharan Africa (SSA) and for small island states. Between 2002 and 2008, extreme poverty (at US\$1.25 per day) dropped by 7.3 percentage points to 13.7 percent. The share of income of the bottom 40 percent increased from 12.4 percent to 15.3 percent over the same period. Moreover, Cabo Verde is one of the few countries on track to achieve all Millennium Development Goals by 2020. Strong institutions have supported these achievements. Cabo Verde continues to share the highest Country Policy and Institutional Assessment score (3.9) among IDA countries. Strong democratic institutions are arguably Cabo Verde's most precious asset, having both facilitated accountability - important for pro-poor policies - and attracted considerable foreign direct investment (FDI).

4. **Sustaining and building on these achievements has turned increasingly difficult for this small open island economy, vulnerable to persistent global economic headwinds and natural disasters.** Cabo Verde's rapid economic ascent that had facilitated immense poverty reduction between 2002 and 2008 came to a sudden halt with the global financial crisis, given the country's close linkages with European economies and persistent economic weakness in the Eurozone. Economic growth in real terms fell from an average of 7 percent between 2002 and 2007 to 2 percent between 2008 and 2013, as FDI dropped from a peak of 13 percent of gross domestic product (GDP) in 2007 to 2 percent in 2013. Growth in 2014 was 1.8 percent and the estimate for 2015 is 3.5 percent. Expansionary fiscal policy, focusing exclusively on public investment, provided some support to the economy but, given the small multiplier, its short-term stimulus effect was limited, although it increased macro fiscal vulnerabilities as public debt surpassed 100 percent of GDP in 2014. Despite a high level of credit to GDP (58 percent relative to the Sub-Saharan Africa (SSA) average of 29 percent), growth of credit to the private sector has stalled and the cost of finance is high, with average interest rate spreads in 2014 of 8.5 percent relative to 4.4 percent in advanced economies. Given continued economic weakness, unemployment remains high, at 15.8 percent, as of 2014. In 2014, Cabo Verde experienced a drought, negatively affecting the harvest. Moreover, on November 23, 2014, Cabo Verde declared a national emergency when a volcano erupted on Fogo island, the country's second poorest and home to about 8 percent of Cabo Verde's population.

## B. Sectoral and Institutional Context

5. **The Government of Cabo Verde's (CoCV) third Growth and Poverty Reduction Strategy Program (GPRSP III), covering the period 2012 to 2016, introduces a private sector driven approach to renew growth, in which tourism plays a key role.** Based on a recent World Bank report, the islands where tourism is concentrated experienced significant declines in poverty during 2000–2010, with poverty decreasing in Sal by 59 percent and in Boa Vista by 52 percent, showing that tourism growth - driven until recently by large FDIs - has the potential to lift people out of poverty. Furthermore, the tourism sector has become Cabo Verde's most important economic sector, responsible for around 20 percent of GDP and 14 percent of employment, with the majority of these workers located in resorts. While these resorts have significantly contributed to growth and employment, they have scant linkages with the local private sector, composed mainly of micro, small, and medium enterprises (MSMEs). This is a missed opportunity for Cabo Verde, which can potentially increase these linkages. On one hand, this will allow the resorts and their foreign direct investors to access local inputs and on the other, provide local MSMEs with the opportunity to grow, create jobs, and lift more people out of poverty. The next phase of Cabo Verde's tourism growth must thus be more inclusive if it is to fulfill its vision to alleviate poverty. Therefore, the country's vision is to develop a competitive and sustainable tourism sector with high value added, focusing on the medium/high end of the market, while linking with local enterprises and services that will expand the benefits of this growth to the lower levels of the economic pyramid.

6. **Cabo Verde's tremendous tourism growth over the past decade and a half has involved a minimal level of sector guidance and intervention, but the government is now placing a greater emphasis on the implementation of the tourism vision to promote inclusive growth.** The tourism sector is currently represented by the Ministry of Tourism, Investment, and Business Development (MTIBD), which replaces the previous Ministry of Tourism, Industry, and Energy (MTIE). The MTIBD is pursuing a reform agenda to streamline and reorganize the institutional framework of the tourism sector, which is essential to fulfilling the country's vision of developing a competitive and sustainable tourism sector. In this light, it is planned to support the start-up of operations of the recently restructured Cabo Verde Investments (*Cabo Verde Investimentos*, CVI) into a joint tourism and investment promotion agency, Cabo Verde Investments-Agency of Tourism and Investments of Cabo Verde (*Cabo Verde Investimentos-Agência do Turismo e Investimentos de Cabo Verde*, CI-ATIC). It will provide greater coordination and integration of all the economic agents involved in investment and tourism promotion, increase Cabo Verde's visibility as a tourism destination, and facilitate the development and diversification of new products in this sector.<sup>1</sup> The CI-ATIC will play a key role in enabling the country to compete better with other tourism and investment destinations, particularly in the Mediterranean.

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<sup>1</sup> The Bank through technical assistance supported the government in assessing an adequate institutional framework to support the tourism sector. Findings are summarized in the report titled: *Establishing a Tourism Ministry, Board, or Institute? Selecting an Institutional Arrangement to Promote Tourism Growth in Cabo Verde*.

7. **FDI in resort tourism has contributed substantially to employment and economic growth, thereby helping to alleviate poverty.** Cabo Verde has been very successful in attracting large international operators who have built resort accommodations on the islands with high ‘sun, sea, and sand’ appeal and contributed heavily to economic growth and employment. A recent Bank study finds that large resorts significantly contribute to the national economy in several dimensions: (a) government revenues because of direct and indirect taxation such as value added taxes, import duties, visa fees, airport taxes, tourism taxes, and income taxes on direct and indirect sector workers; (b) direct and indirect jobs associated with the sector, especially as local employment at large resorts is over 87 percent; (c) indirect flows—represented by the construction sector and in local demand for food and beverages; and (d) tourism expenditure in the local economy (low in Cabo Verde compared to international averages).

8. **The development of tourism in Cabo Verde relies heavily on FDI, which has declined since 2008.** The relative homogeneity of the tourism sector, focused on large resorts established by foreign investors, constitutes a vulnerability in the Cabo Verdean economy, as it is exposed to economic conditions in the origin countries, in addition to national ones. FDI has slowed down significantly since 2008 and has remained stagnant in Boa Vista since 2011. While the 1,251 unit Dunas Melia opened in Sal in November 2014 and the construction of a Hilton is underway on the same island (with a potential second unit envisaged for Praia), the last large hotel to have opened in Boa Vista was the Riu Touareg in 2011, with 881 rooms. Since then, no other project has broken ground on that island, despite the availability of over 20 km of prime beach location in its southern part. The current investment promotion agencies—CVI and the Society for the Integrated Touristic Development of the Islands of Boa Vista and Maio—were unable to reverse this trend. This slowdown of FDI is worrying as it implies a slowdown of job creation and government revenue from taxes.

9. **Overall, Cabo Verde’s tourism sector faces several challenges that can impede sustained inclusive growth in coming years.** First, it is poorly diversified in terms of products, operators, and geography. The country is primarily sold as a sun and sea destination, with only two of the nine inhabited islands claiming a 90 percent market share. Four large resorts on these two islands, owned by just one foreign-based company, account for nearly half of the rooms in the country. The result is a poor spread of tourism benefits and a risky overreliance upon one company. This model also lends itself to high levels of leakage.

10. **The Cabo Verdean tourism industry is currently based on the attraction of sun, sea, and sand, provided largely by European operators of large resorts, which are geographically focused on two islands: Boa Vista and Sal.** The GoCV has stated its intention to diversify the sector through developing and improving tourism products and services: the supply of tourism products beyond sun, sea, and sand (for example, to historical and cultural attractions); the quality and supply of various types of accommodations; the geographical concentration of tourism; and the corporate origins of tourism investment. It is expected that diversification in these areas will increase tourism and tourism investment, while spreading the benefits more inclusively to the lower rungs of the economic pyramid (for example, to local MSMEs, small accommodations, and in poorer islands).

11. **The prevalence of the resort model and the limited competitiveness of small establishments have created a one-sided market that, while contributing to overall growth and employment, has not been optimally inclusive.** In 2013, the islands of Sal and Boa Vista had about 75 percent of all the hotel rooms in the country, with most of those located in large resorts. Moreover, while resorts experience healthy room occupancy rates, smaller establishments all around Cabo Verde struggle to attract tourists. This is largely because of the low quality of the construction and amenities, together with the limited capacity of small operators to attract and retain tourists. They also receive minimal support and promotion from the country's tourism institutions, which generally lack the capacity required to increase sector diversification and competitiveness.

12. **The scant participation of the domestic private sector in the tourism value chain is largely because of limited knowledge about what the sector needs, together with low capacity to respond to those needs.** For example, while the country boasts a rich historical and cultural heritage, the private sector lacks the capacity to organize and promote these services in the form of tourism products, such as special events or tourist itineraries. Banks are unwilling to lend without collateral and are not well positioned to take on more credit risk given their high share of nonperforming loans (NPLs) (20 percent as of September 2015), low profitability, and liquidity constraints. MSMEs lack access to affordable finance, particularly loans for working capital and investment, which is a serious constraint to their growth and overall private sector activity. Most of the 8,000 MSMEs that operate in Cabo Verde lack technical skills such as marketing, financial management (FM), compliance with health and regulatory standards, and sector-specific competency. Without such skills and the ability to articulate their business or idea in a viable plan, they have difficulty both entering the tourism supply chains and accessing credit.

13. **The business environment poses additional limitations on the competitiveness of MSMEs.** Opportunities to increase access to finance for MSMEs exist through the potential to scale up existing financial services and introduce new financial products (for example, leasing, factoring, and value chain financing). However, these require complementary business environment reforms such as the creation of a movable collateral registry for secured transactions and the introduction of an insolvency framework to facilitate market exits at the end of the business cycle. The introduction of a modern insolvency framework is a priority for the government as research has shown it to have a measurable impact on access to finance for MSMEs. In the absence of well-established insolvency procedures, losses in the event of bankruptcy are likely to be greater for all parties, causing banks to limit their exposures to higher credit risks, such as MSMEs. Demand-side interventions to build capacity for MSMEs to develop financial statements and accounts as well as general financial literacy are also necessary.

### **C. Higher Level Objectives to which the Project Contributes**

14. **The Competitiveness for Tourism Development (CTD) project will support the efforts of the GoCV to achieve the long-term goals of its GPRSP III,** which identifies tourism as the economy's main engine of growth, with the public sector as a catalyst and facilitator of an investment and business-fostering environment and the private sector as its driver. The project will support the implementation of the country's vision for the tourism sector to be the catalyst of a new phase of inclusive growth.

15. **The proposed CTD project is well anchored within the World Bank Country Partnership Strategy (CPS) for the period of FY2015-2017 (Report No 92248-CV).** The project directly contributes to the objective of the second pillar of the CPS, ‘Improving Competitiveness and Private Sector Development.’

16. **Increasing FDI-driven growth and improving access to finance for local MSMEs in the tourism value chain is critical for long-term growth, and for progress towards the WBG twin goals of poverty elimination, and shared prosperity.** Based on a recent Bank study, tourism in Cabo Verde has the potential to lift people out of poverty through employment, remittances, and linkages with the primary sectors - implying the need to both increase investment and expand the participation by domestic companies in the tourism value chain. Moreover, the economic benefits of the tourism sector in the two main islands of Sal and Boa Vista are transferred to other islands as the labor force sends remittances to their families, including those in islands with the highest poverty incidence, such as Santo Antão (41 percent) and Fogo (40 percent). Beyond remittances and direct jobs, it is also important to create opportunities for Cabo Verdeans to enter the tourism value chain as entrepreneurs and suppliers of services and goods, increasing their upward mobility and extending the benefits of tourism investment beyond resort employment and taxes.

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

17. The project development objective (PDO) is to create the conditions necessary to increase investment into and diversification of the tourism sector.

### Project Beneficiaries

#### Public Sector

18. The project will primarily support the strengthening of CI-ATIC, as well as other agencies involved in the tourism sector (Agency for the Development of Enterprises and Innovation [ADEI] and Central Tourism Authority). At the national level, the project will provide technical assistance and support to the MTIBD on policy development and monitoring and project coordination as well as in starting up the operations of CI-ATIC. The project will also benefit ADEI, in coordination with the Central Bank of Cabo Verde (*Banco de Cabo Verde* [BCV]) to implement business environment reforms, including the setup of an insolvency framework and facilitate the establishment of a movable collateral registry. Given the hypothesis that a complex business environment disproportionately affects women because they are more time-poor than men,<sup>2</sup> such reforms should encourage more women to enter the formal sector (and labor market).

#### Private Sector - With a Focus on Women

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<sup>2</sup> Ellis, Amanda, Claire Manuel, and C. Mark Blackden. 2006. Gender and Economic Growth in Uganda: Unleashing the Power of Women. World Bank Washington, DC.

19. The project will benefit MSMEs that are part of the tourism value chain, including accommodation, services, and others, such as artisans and creative industries. It is important to note that female entrepreneurs are often found in such MSMEs<sup>3</sup> and Component 2 will make a concerted effort to target them (measured by an intermediate results indicator, see Annex 1). Moreover, the project will target a minimum of 100 small accommodation establishments, as part of the quality label activity, in all nine inhabited islands. An indeterminate number of workers in the tourism value chain will also directly or indirectly benefit from the project interventions. As workers, women face a higher rate of economic inactivity than men,<sup>4</sup> accordingly, the project will benefit female employees and provide more job openings in general, some of which will be filled by women.

### **Citizen Engagement**

20. **Project beneficiaries will be engaged in the process of designing activities**, specifically those related to the quality label, through initial orientation sessions and the assessments of their own accommodations, through which the consultants will obtain a baseline of specific needs to be satisfied toward obtaining the quality label. Citizen engagement will be measured through the proxy indicator ‘Beneficiaries of the small accommodation quality label that feel project investments reflected their needs,’ which will be measured by annual surveys and which enquire about the participants’ satisfaction with each key activity of the program.

### **PDO Level Results Indicators**

21. Achievement of the project development objective (PDO) will be measured based upon the following indicators (see Annex 1: Results Framework and Monitoring for more details):

- (a) Increased investment generated
- (b) Increased bed nights at beneficiary small accommodation establishments

22. Annex 1 includes intermediate indicators under each of the proposed project components to track progress more frequently. More details on monitoring and evaluation (M&E) are also provided in Annex 3: Implementation Arrangements.

## **III. PROJECT DESCRIPTION**

### **A. Project Components**

23. The project addresses the goal of the GoCV to promote a new phase of inclusive growth of the economy, catalyzed by a competitive tourism sector. On one hand, this implies the

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<sup>3</sup> According to the World Economic Forum Gender Gap Index 2013, 33 percent of all firms in Cabo Verde include female leadership. See: <http://www3.weforum.org/docs/GGGR13/CaboVerde.pdf>.

<sup>4</sup> The rate of economic inactivity for women is 83.4 percent, while it is 53.8 percent among men. Source: African Development Bank. African Economic Outlook: Cabo Verde. 2014. See: [http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN\\_Long\\_EN/Cabo\\_Verde\\_EN\\_BA T.pdf](http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Cabo_Verde_EN_BA T.pdf).

attraction of medium to large investments that bring employment, taxes, and growth to the economy at large. On the other hand, this must be complemented by efforts to diversify the tourism sector's offerings, helping the lower rungs of the economic pyramid to access the income and opportunities for upward mobility that this growth can bring. Both of these implied actions are currently impeded, however, by the regulatory and institutional environment for the tourism sector, as well as internal constraints to firms in the tourism value chain.

24. The project addresses key constraints that inhibit the competitiveness of the tourism sector: (a) the current low capacity to proactively promote investment; (b) the lack of coordination and a strategic vision for the development of the sector; and (c) the limited ability of local firms to participate in the tourism value chain. In doing so, the project will contribute to raising investment by enhancing the governance framework of the tourism sector (Component 1); diversifying the sector through the development of new tourism products and a quality label for small accommodations; and increasing the inclusiveness of tourism-led growth by strengthening the competitiveness of local MSMEs (Component 2) through capacity building and technical assistance. For detailed project description please refer to Annex 2.

### **Component 1: Enhancing governance framework of the tourism sector (US\$2.27 million)**

25. The objective of this component is to support the start-up of operations of CI-ATIC to effectively carry out the country's tourism diversification agenda and to help the GoCV to better attract, facilitate, retain, and grow investment. This will be accomplished through support to the start-up of operations of CI-ATIC, born out of the restructuring of the CVI. Cabo Verde has suffered a decline in FDI since 2008, when net inflows reached 12 percent of GDP. It decreased sharply to 7 percent in 2009 and 2010, 5 percent in 2011, 4 percent in 2012, and 4.5 percent in 2013. However, it is slowly rising, reaching 6.5 percent in 2014. The government must be proactive in attracting, managing, and retaining both FDI and direct domestic investment (DDI), through both institutional and regulatory reforms. On the other hand, tourism made important contributions to the economy that consequently improved the poverty rate from 37 percent in 2000 to 27 percent in 2010. Tourism investments have been mainly in large resorts, which, while creating jobs and tax revenue, have weak links to the local economy, hence the need for diversification and increased competitiveness of the local supply. This component will finance two categories of activities:

- i.* The carrying out of a program of technical assistance activities to strengthen the Recipient's institutional framework for tourism management and diversification, including through: (a) advice to CI-ATIC to start its operations, including development of a business plan; (b) support for drafting the legal and regulatory reform instruments for the tourism sector; (c) carrying out capacity-building sessions for staff and management of CI-ATIC and other relevant tourism stakeholders; (d) preparing and applying a Strategic Environmental and Social Assessment (SESA) for the tourism sector; (e) design of a tourism strategy for the period 2017–2027 and an associated action plan for the period 2017–2019, including development of a comprehensive supply-demand market intelligence study for tourism; and (f) development of an online communications strategy.
- ii.* The carrying out of a program of technical assistance activities to improve the ability of the Recipient to attract tourism investment, including through: (a) design of a tourism

investor outreach strategic plan, consistent with the tourism strategy under Part 1 (e) of the Project; (b) support for the design of a Tourism Management Plan (Plano de Ordenamento Turístico – POT) for a designated tourism zone; (c) carrying out of capacity building activities to design new or improve existing information packages for tourism development opportunities for hotels/resorts; (d) carrying out marketing and outreach campaigns to attract potential tourism investors; (e) design and implement an investor relationship management system and provision of relevant software for analysis of investment proposals; (f) development of standard operating procedures for investor promotion, facilitation and aftercare; and (g) carrying out workshops on effective investment promotion, including on investor outreach, facilitation, and aftercare.

**Component 2: Diversify tourism sector and increase inclusiveness of tourism-led growth by strengthening the competitiveness of local MSMEs (US\$2.24 million)**

26. The objective of this component is to increase the competitiveness of MSMEs to benefit from tourism growth. The component will support both sides of the value chain through a small accommodation quality label as well as support to private sector organizations and address access to finance constraints for MSMEs. Technical assistance and capacity building will be provided to improve the competitiveness of small accommodations and to obtain the quality label. The activity aims to increase occupancy rates through the design and implementation of a label that will be easily recognizable by tourists, thereby increasing their interest and willingness to stay in small, locally run accommodations. The support to private sector associations and organizations will raise their capacity to attend to the skills needs of member MSMEs and hence support them in entering the overall tourism value chain, especially in implementing tourism products identified in the MTIBD inventory of current and potential products. Finally, support will be provided to put in place key financial infrastructure to address access to credit constraints faced by MSMEs. This component will finance two categories of activities:

- i. (a) The design and implementation of a quality label for small accommodation establishments; and (b) support for private sector organizations and MSMEs through: (i) carrying out capacity building activities for private sector organizations to improve capacity for conducting technical training for MSMEs; and (ii) provision of technical training to MSMEs to enhance capacity to respond to market opportunities in the tourism value chain.
- ii. The carrying out of a program of technical assistance activities to improve the business environment to increase access to finance for MSMEs, including through: (a) support for the review and update of the legal and regulatory framework on insolvency; (b) carrying out an outreach campaign on insolvency procedures; (c) support to *Camara de Comercio de Sotavento* in identifying, training and certifying arbitrators and mediators for its alternative dispute resolution center; (d) creation of a pilot committee with technical experts to lead the public-private dialogue on insolvency procedures; (e) provision of training to relevant stakeholders on insolvency procedures; (f) drafting a legal and regulatory framework for a moveable collateral registry; (g) developing and launching an electronic centralized registry for moveable collateral, including provision of software and equipment for said registry; (h) evaluating and proposing reforms for a secured

lending regime; and (i) carrying out capacity building activities and outreach campaigns on secured lending.

### **Component 3: Project implementation (US\$0.49 million)**

27. The component will provide support to UGPE in managing and coordinating the Project and building its procurement, financial management, safeguards management, monitoring and evaluation capacity, through the provision of technical advisory services, Training, Operating Costs, Goods and audits.

### **B. Project Financing**

#### **Lending Instrument:**

28. The lending instrument is an Investment Project Financing financed by an IDA credit to the Republic of Cabo Verde in the amount of US\$5.0 million equivalent. A Financing Agreement will be signed with the GoCV, which has elected to have retroactive financing of up to 20 percent of the available credit. The retroactive financing will be available for eligible payments made on or after April 1, 2016 but before the Financing Agreement effectiveness date.

#### **Project Cost and Financing**

29. Table 1 presents the total costs and indicative IDA financing for the CTD project.

<b>CTD Components</b>	<b>IDA Financing</b>	<b>Total</b>
<b>Component 1: Enhancing governance framework of the tourism sector</b>	<b>2.27</b>	<b>2.27</b>
Strengthening the institutional framework for tourism management and diversification	0.83	0.83
Improving the ability to attract tourism investment	1.44	1.44
<b>Component 2: Diversify tourism sector and increase inclusiveness of tourism-led growth by strengthening the competitiveness of local MSMEs</b>	<b>2.24</b>	<b>2.24</b>
Designing and implementing a quality label for small accommodation establishments and support to private sector organizations	1.44	1.44
Improving the business environment to increase access to finance for MSMEs	0.80	0.80
<b>Component 3: Project implementation</b>	<b>0.49</b>	<b>0.49</b>
<b>Total Project Costs</b>	<b>5.00</b>	<b>5.00</b>

### **C. Lessons Learned and Reflected in the Project Design**

30. The project design has incorporated lessons learned from the design and implementation of other private sector development projects. Moreover, the project design is informed by studies on tourism carried out by the Trade and Competitiveness Global Practice including Tourism Development in Cabo Verde: Is It Time to Abandon the All-Inclusive Model; Establishing a Tourism Ministry, Board, or Institute? Selecting an Institutional Arrangement to Promote Tourism Growth in Cabo Verde; The World Bank's Value Proposition for an Integrated

Sustainable Tourism Solution; and Global Investment Promotion Best Practices 2012. In addition, project preparation included a study tour focused on tourism institutions funded by the South-South Knowledge Exchange Facility, where a public-private delegation visited the Seychelles to understand how the ministry and the tourism board coordinate and implement the activities in the tourism sector. The key lessons incorporated are as follows:

- (a) **Integrated sustainable tourism solution.** Tourism support should follow an integrated approach that strengthens markets, values cultural heritage and protects the environment, mobilizes investments, and builds communities. As long as the roles are fulfilled, the institutional arrangements are flexible.
- (b) **Investment promotion.** (i) Good investment promotion is vital in a weak economy, but must be accompanied by meaningful business environment reforms; (ii) a focus on one or a few sectors attracts more FDI than an unfocused approach; (iii) investment promotion agencies without regulatory functions do better at facilitating investments; and (iv) effective investment promotion agencies must have the capacity to respond promptly and substantively to all inquiries from investors.
- (c) **Quality label.** (i) Program design should be based upon potential beneficiaries' feedback, gathered through mechanisms such as surveys, interviews, and validation workshops; (ii) eventually requiring payment for participation (even if at a subsidized rate) promotes sustainability and 'buy-in;' (iii) the program should include strong marketing benefits to participants as an incentive to invest in the program; (iv) reevaluation should take place after a relatively short period (that is, two years) to ensure participants maintain standards; and (v) adding a sustainability component can contribute to long-term cost savings for participants and help reduce the footprint of the sector.
- (d) **MSME support.** Targeted support to MSMEs should have an analytical justification, including how it relates to systemic reform, the main forms it will take, and how it will be monitored and evaluated.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

31. The MTIBD will be the responsible ministry for this project. The ministry has a unit for the project implementation, the Unidade de Gestão de Projetos Especiais (UGPE), in operation since 1999, which is entrusted with the responsibility of implementing projects from different donors. The UGPE is currently implementing another World Bank Group supported project - the Recovery and Reform of the Electricity Sector Project under MTIBD.

32. The UGPE will be responsible for implementing the IDA project with full fiduciary responsibility. Its FM capacity is adequate to meet the minimum requirements of the Bank. Having implemented complex IDA/IBRD-financed projects, the UGPE has a very thorough knowledge of Bank procurement rules and procedures, which will allow for a rapid and smooth implementation of the project. Within this framework, the UGPE will have responsibility for the day-to-day management of the project and coordination of project-related activities, including overall responsibility for, among others: (a) ensuring timely implementation of the project in

accordance with the Project Implementation Manual (PIM); (b) preparing quarterly progress reports, including updates to the results framework, annual work plans and budgets, and annual procurement plans; (c) overseeing project activities under its direct responsibility and of project-related activities to be carried-out by other entities; (d) managing project finances; (e) maintaining consolidated Project accounts; (f) ensuring all agencies involved in the implementation take due note of the SESA recommendations; (g) developing and maintaining a system of monitoring the project key performance indicators (KPIs); and (h) ensuring coordination among agencies involved in project implementation.

33. To carry out its responsibilities and effectively implement the various components of the project, the UGPE will collaborate with several stakeholders as follows:

- (a) **CI-ATIC and tourism-related agencies.** The agencies will lead on all investment and tourism promotion activities, managing the technical work, taking responsibility for submitting quarterly reports to the UGPE and summarizing the activities and progress. They will also coordinate closely with the Chamber of Tourism.
- (b) **Chambers of commerce and tourism, other private sector organizations.** The chambers will design targeted capacity-building initiatives for the MSME sector to assist in taking advantage of the opportunities offered by the development of the tourism sector.
- (c) **Central Tourism Authority.** This regulatory body within the MTIBD will be responsible for policy guidance and technical oversight of the tourism sector, benefit from assistance, and collaborate to design the tourism long-term strategy and short-term action framework, taking due account of SESA outcomes and recommendations.
- (d) **ADEI.** This MSME support agency under the MTIBD will benefit from assistance in implementing financial infrastructure enhancement measures, namely the implementation of the insolvency framework and the facilitation of the movable collateral registry. ADEI will also be a stakeholder in collaborating with the chambers for MSME capacity-building activities.
- (e) **IGQPI.** The institute was established in 2010 with the mandate to increase consumer confidence and improve the overall business environment through national quality standards in several sectors, in addition to regulation and protection of intellectual property as a key measure to enable innovation. This institute will be instrumental in implementing and supervising the proposed quality seal for small local accommodation establishments.
- (f) **Project Steering Committee (PSC).** In order to ensure proper coordination and supervision of the project, a PSC will be established to provide policy guidance and oversight, including approval of annual work plans. The minister of MTIBD will chair the PSC, with a deputy chair from the private sector with relevant experience and qualification, in addition to three other representatives from the Finance and Planning Ministry (*Ministério das Finanças e do Planeamento*, MFP), Chamber of Tourism/Commerce and CI-ATIC. The committee can co-opt other representatives as necessary. The project coordinator will serve as secretary to the committee. This

committee will meet every six months and will clear the annual progress report. To assure resolution of technical and implementation challenges on a regular basis, a Project Technical Committee (PTC) will also be established and will meet every other month during the first year of project implementation, with the frequency in subsequent years subject to change to quarterly. It will comprise representatives from the implementing agencies, including the Directorate General for the Environment (*Direcção Geral do Ambiente*, DGA) and will be co-chaired by the project coordinator.

- (g) **Central Bank.** The Central Bank (BCV) will be the main institutional counterpart for the development of the collateral registry.
- (h) **Ministry of Justice.** The Ministry of Justice will be an important institutional partner in the insolvency framework and will be working with ADEI on the reform.
- (i) **Directorate General for the Environment (DGA).** The Directorate General for the Environment will be responsible for the preparation and implementation of the SESA.

## **B. Results Monitoring and Evaluation**

34. The M&E system will be based on the results framework and monitoring arrangements described in Annexes 1 and 3. The UGPE will carry out and coordinate closely with CI-ATIC, the Central Tourism Authority, ADEI, National Institute of Statistics, IGQPI, DGA, and the chambers of commerce for M&E reporting. The project will provide technical assistance, including capacity building and some operating costs to the UGPE and select implementing agencies to perform this function. Monitoring of results and outcomes will be reported in the UGPE's comprehensive progress reports in form and substance acceptable to IDA, 30 days after the calendar quarter ends until mid-term review and thereafter every six months. Furthermore, the Bank will provide and help facilitate implementation support to the project over its lifetime and its results and outcomes on a regular basis to monitor and evaluate the achievement of the PDOs. Corrective actions will be discussed and agreed with the government as necessary. In addition, the monitoring will be ensured by independent auditors (financed under the proposed project) recruited to monitor the government commitment.

## **C. Sustainability**

35. The impact of the project is expected to continue well beyond the life of the project. FDI attracted to Cabo Verde will have a long-lasting impact on the country. CI-ATIC will remain as the main institution providing the vision, attracting investment, and facilitating the diversification of a tourism sector firmly founded on environmental and social sustainability principles. A successful quality label system for small accommodations will generate interest and value for its members. The participation fee paid by the members will help sustain the program. Moreover, the financial infrastructure supported by the project is expected to increase access to finance for MSMEs in the long run.

36. Government institutions to be supported by the project will continue operating after the project closes. These institutions include CI-ATIC, ADEI, the Central Tourism Authority, and IGQPI.

## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

Overall Risk Rating and Explanation of Key Risks

<b>Risk category</b>	<b>Rating</b>
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
<b>OVERALL</b>	Moderate

37. The macroeconomic risk is considered Substantial. Compared to the high growth figures of the time before the global financial crisis, the expected average growth of about 4 percent in the medium term is conservative. However, economic realities have changed as the country switches to a new development model driven by competitiveness. The success of this new model partly hinges on the public investments of the past, eventually yielding the expected growth dividends. Moreover, the private sector has to be able to respond to the associated new economic opportunities, which is difficult in an environment where the financial sector focuses on repairing its balance sheets. Finally, the global economy, including European economies, remains fragile and Cabo Verde's fiscal space to absorb further shocks is exhausted. The World Bank and the International Monetary Fund are actively supporting the government to mitigate the macroeconomic risks.

## VI. APPRAISAL SUMMARY

### A. Economic and Financial Analysis

38. The economic analysis of this type of project presents special difficulties because of the indirect relationship that exists between actions taken under the project and the stream of benefits that result from them. The complexity of measurements is multiplied because the project contains important institution-building activities for which benefits are especially difficult to quantify. In the absence of generally accepted methodologies for the economic analysis of capacity-building projects, most projects of this type are justified based on a qualitative cost-

benefit analysis, once agreement is reached on the objectives to be served by the project (see Annex 5).

## **B. Technical**

39. The project design incorporates lessons from other World Bank Group projects that support tourism and investment promotion agencies and MSMEs, including those contained in the Independent Evaluation Group's Evaluation of the World Bank Group Experience with Targeted Support to MSMEs, 2006–2012. Best practices have been used in preparing the institutional capacity-building aspects of the project. The project also includes a detailed results framework with measurable targets and indicators that can be monitored.

## **C. Financial Management**

40. An FM assessment of the UGPE, which will be responsible for the FM activities of the project, was conducted. The UGPE is currently implementing energy and water sector projects financed by the Japan International Cooperation Agency, African Development Bank, and the World Bank. The UGPE will be in charge of fiduciary activities under the responsibility of the MTIBD.

41. The objective of the FM assessment was to determine whether, (a) the UGPE has adequate FM arrangements in place to ensure the funds will be used for the intended purposes in an efficient and economical manner and will be capable of correctly and completely recording all transactions and balances related to the project; (b) the project's financial reports will be accurate, reliable, and timely; (c) the UGPE's assets will be safeguarded; and (d) the project will be subject to auditing arrangements acceptable to the Association. The assessment complied with the Bank's requirements under OP/BP 10.00 and with the Management Manual for World Bank-Financed Investment Operations that became effective on March 1, 2010.

42. The FM arrangements for the CTD project will be based on the UGPE's existing arrangements in place under the ongoing World Bank energy and water sector projects. The overall performance of the project in FM was satisfactory at the last FM supervision undertaken in January 2015. The accounting system operates satisfactorily and the FM staffing has remained adequate to handle activities. The auditors have issued an unqualified opinion on the 2013 financial statements of the project. The interim unaudited financial reports for the ongoing energy project have been also submitted on time and the quality of the reports was satisfactory. However, to take into account the specific activities related to the CTD project, an updated FM section should be reflected in the manual of administrative and financial procedures.

43. The overall risk is rated Moderate. It is considered that the FM arrangements at the UGPE satisfy the Bank's minimum requirements under OP/BP 10.00 and therefore are adequate to provide, with reasonable assurance, accurate and timely FM information on the status of the project as required by the Bank. Details on the FM arrangements for this project are included under Annex 3.

## **D. Procurement**

44. Based on the assessment of the UGPE's capacity to implement Bank procurement, the overall project risk for procurement is Substantial and is expected to be Moderate once the mitigation measures are implemented.

45. The UGPE, as Project Implementation Unit (PIU) for the project, will be responsible for implementing procurement activities related to the project. This entity has managed several Bank projects; it includes a procurement specialist in its staff. The assessment carried out during project preparation and appraisal showed that the main issues/risks concerning the procurement activities for the project's implementation are: (i) while the UGPE has developed an administrative and financial procedures manual (including for the energy project), which includes procurement procedures (including the Bank's procedures), it does not detail, for each procurement/selection method, each step on the procedure and the responsible staff/department and (ii) the UGPE's staff needs to update his knowledge of World Bank procurement procedures to incorporate the latest changes in the guidelines.

46. To address these risks, the proposed project will sponsor two activities: (a) update the administrative and financial procedures manual and reflect the same in the PIM (for each procurement/selection method, a table should be inserted with each step and responsible person/department). This task will be handled internally without external assistance; and (b) train the UGPE's project team in World Bank basic procurement procedures, particularly on the guidelines dated January 2011 and revised in July 2014 that will apply to the proposed project.

47. The details of the procurement arrangements are given in Annex 3. The recipient has prepared a procurement plan dated January 21, 2016, included therein.

## **E. Social (including Safeguards)**

48. The project aims to promote the development of a tourism sector founded on environmental and social sustainability principles. Its activities comprise technical assistance and capacity building for institutions managing and stakeholders investing in the sector. The project does not entail any land acquisition, nor is it expected to lead to involuntary restriction of access to designated parks and protected areas. Nevertheless, recognizing that a National Tourism Strategy and supporting activities aimed at encouraging investment and diversification of the tourism sector could give rise to negative social impacts in the future, a SESA will be prepared under Component 1 to help inform decision making in the sector, and is to be completed not later than 12 months after the effective date of the project. The SESA will be expected to examine, among others, potential risks posed to natural habitats, physical cultural resources, access to land and related resources, as well as the policy and legal framework and institutional capacity to address these, and provide recommendations to inform the preparation of the overarching National Tourism Strategy and other project activities as appropriate. The SESA recommendations will include environmental and social guidelines to help with the preparation of the POT, as well as identify the key issues for consideration as part of the technical assistance to attract investors. The draft terms of reference (TORs) for the SESA have been prepared by the GoCV, reviewed by the Bank, and disclosed. The SESA, the TORs for the preparation of the POT, and the TOR for the technical assistance/capacity building to help attract investors will all

be subject to review by the Bank (including the safeguard specialists) and will be disclosed during project implementation.

49. Under Component 1, the project seeks to enhance the governance framework for the sector and improve its attractiveness to investors in a way that enhances social inclusiveness and minimizes negative social impacts. Under Component 2, the project seeks to encourage diversification and improve sector inclusiveness by focusing on improving the competitiveness of MSMEs, which is expected to have particular benefit for women. There will be no direct land acquisition and the social impacts of the project are expected to be predominantly positive.

#### **F. Environment (including Safeguards)**

50. Although the project activities do not entail physical interventions, and will not have direct impacts on the environment, the implementation of the strategies, plans, and proposals prepared under the project may result in negative (or positive) environmental impacts. As a precaution, the project has been rated as Category B and the following safeguards have been triggered: OP/BP 4.01 - Environmental Assessment, OP/BP 4.04 - Natural Habitats, and OP/BP 4.11 - Physical Cultural Resources.

51. As mentioned earlier, to address potential environmental and social risks, the project includes the preparation of a SESA under Component 1 in the first year of the project (it will be completed not later than 12 months after the effective date of the project, under TORs satisfactory to the Association). Draft TORs for the SESA have been prepared by the GoCV, reviewed by the Bank, and publicly disclosed by both the World Bank in the InfoShop and the GoCV in country.

#### **G. Grievance Redress**

52. Communities and individuals who believe that they are adversely affected by a Bank-supported project may submit complaints to the Bank's Grievance Redress Service (GRS.) The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project-affected communities and individuals may submit their complaint to the Bank's independent Inspection Panel, which determines whether harm occurred or could occur, as a result of the Bank's noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention and Bank management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate GRS, visit [www.worldbank.org/grs](http://www.worldbank.org/grs). For information on how to submit complaints to the Bank's Inspection Panel, visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## Annex 1: Results Framework and Monitoring

### CABO VERDE: Competitiveness for Tourism Development Project (P146666)

**Proposed Development Objective(s):** The PDO is to create the conditions necessary to increase investment into and diversification of the tourism sector.

Indicators	Core	Unit of Measure	Baseline (2016)	Cumulative Target Values*					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description Indicator Definition, and so on)
				2017	2018	2019	2020	2021				
<b>PDO Indicator One:</b> Increased investment generated	<input type="checkbox"/>	US\$, millions	0	0	0	5	20	35	Annual	CI-ATIC	CI-ATIC/MTIBD	Transactions value, using downstream methodology
<b>PDO Indicator Two:</b> Increased bed nights at beneficiary small accommodation establishments	<input type="checkbox"/>	Percentage	0	0	5	10	15	18	Biannual	Surveys, IGQPI	PIU, IGQPI	Increase in bed nights at establishments participating in the quality label program
<b>Intermediate Results Indicator One:</b> Start-up of operations of the joint tourism and investment promotion agency (CI-ATIC)	<input type="checkbox"/>	Yes/No	No	No	Yes	Yes	Yes	Yes	Annual	CI-ATIC	CI-ATIC/MTIBD	Organizational structure, staffing and positive feedback from users
<b>Intermediate Results Indicator Two:</b> Beneficiaries of the small accommodation quality label that feel project investments reflected their needs	<input type="checkbox"/>	Percentage	0	55	60	65	70	75	Annual	Surveys	IGQPI	Beneficiary surveys administered to participants of the small accommodation quality label
<b>Intermediate Results Indicator Three:</b> Development of a National Tourism Strategy	<input type="checkbox"/>	Yes/No	No	No	Yes	Yes	Yes	Yes	Annual	MTIBD	PIU	A long-term tourism strategy should be validated by the MTIBD
<b>Intermediate Results Indicator Four:</b> Implementation of a	<input type="checkbox"/>	Yes/No	No	No	No	Yes	Yes	Yes	Annual	CI-ATIC	CI-ATIC/PIU	Tourism and investment promotion agency improves its

formal investor outreach program												performance using new Information Technology (IT) and operational techniques to improve investor outreach
<b>Intermediate Results Indicator Five:</b> Implementation of a formal investor facilitation program	<input type="checkbox"/>	Yes/No	No	No	No	Yes	Yes	Yes	Annual	CI-ATIC	CI-ATIC/PIU	Tourism and investment promotion agency improves its performance using new IT and operational techniques to improve investor facilitation
<b>Intermediate Results Indicator Six:</b> Establishment of a movable collateral registry	<input type="checkbox"/>	Yes/No	No	No	No	No	Yes	Yes	Annual	BCV	PIU	The collateral registry is considered established when the first movable collateral is registered there
<b>Intermediate Results Indicator Seven:</b> Number of investor leads receiving improved investment promotion services in the tourism sector	<input type="checkbox"/>	Number	0	0	5	10	15	18	Annual	CI-ATIC	CI-ATIC, PIU	Number of potential investors that use the services of the newly established joint investment and tourism promotion agency
<b>Intermediate Results Indicator Eight:</b> Number of MSME representatives trained by private sector organizations	<input type="checkbox"/>	Number	0	0	40	60	80	100	Annual	Private sector organizations	PIU	Number of MSMEs benefiting from the training offered in Component 2
Of which women	<input type="checkbox"/>	Percentage	0	0	20	25	30	35	Annual	Private sector organizations	PIU	Percentage of women attending the training offered in Component 2

\* Measured as of June 30 of the corresponding year

<b>Project Development Objective Indicators</b>	
<b>Indicator Name</b>	<b>Description (Indicator Definition, and so on)</b>
Increased investment generated	Transaction value, using downstream methodology. This indicator measures the tourism-related investment that can be attributed to the efforts of the project; hence, the baseline value is 0 and there is no expected investment in years 1 and 2. The assumption is that at least one deal will be signed annually, over the course of the project, from year 2 onward. Each deal is conservatively estimated to value US\$20 million. It is assumed that the investor signs in one year and invests US\$5 million in the next year, and the remaining US\$15 million in the third year. Therefore, the targets are set as such: first deal signed in year 2 with no investment generated; US\$5 million of the first deal invested in year 3, second deal signed; remaining US\$15 million of first deal invested in year 4 plus first US\$5 million of second deal; remaining US\$15 million of second deal plus first US\$5 million of third deal deposited in year 5. The cumulative value is therefore US\$45 million, a conservative estimate considering that Cabo Verde has received FDI in every year of the past eight years, including during the years of the financial and economic crisis when its lowest receipt of FDI was US\$19 million.
Increased bed nights at beneficiary small accommodation establishments	An increase in bed nights at establishments participating in the quality label program will demonstrate that the tourism sector is diversifying its supply of accommodations, which is currently dominated by large resorts. The quality guarantee, combined with increased publicity for the participating establishments, is expected to result in an increase in bed nights of at least 20 percent by project end. This will be measured annually by the IGQPI, with data on bed nights required from participating establishments.
<b>Intermediate Results Indicators</b>	
<b>Indicator Name</b>	<b>Description (Indicator Definition, and so on)</b>
Start-up of operations of a joint tourism and investment promotion agency (CI-ATIC)	To demonstrate the implementation of this agency, evidence will be required to attest the following: (a) organizational structure approved; (b) phase 1 of staffing completed per approved organizational structure, including for the three regional investment centers; and (c) potential or existing investors confirm that the new institution has helped them pursue or expand an investment project (surveys or focus groups).
Percentage of beneficiaries of the small accommodation quality label that feel project investments reflected their needs	This is a citizen engagement indicator. The beneficiaries of the small accommodation quality label will be surveyed annually to gauge their satisfaction with the program. The survey will ask participants about their satisfaction with each key activity of the program to create a composite indicator of their overall satisfaction.
Development of a National Tourism Strategy	A long-term tourism strategy should be validated by the MTIBD to be considered achieved.
Implementation of a formal investor outreach program	To demonstrate implementation of a formal investor outreach program, CI-ATIC will need to ensure that the client Investment Promotion Intermediary implemented the following: (a) IRMS; (b) M&E mechanisms with meaningful key performance indicators (KPIs); (c) SOPs for each of the functions; (d) website with relevant information to investors; and (e) online inquiry handling systems.

Implementation of a formal investor facilitation program	To demonstrate implementation of a formal investor facilitation program, CI-ATIC will need to confirm that the client IPI implemented the following: (a) IRMS; (b) M&E mechanisms with meaningful KPIs; and (c) SOPs for each of the functions of investor facilitation.
Establishment of a movable collateral registry	The project supports the legal framework, soft infrastructure and software, training, technical assistance, and outreach to ensure that the collateral registry is operational. The registry is considered fully established once the first movable collateral is registered there.
Number of investor leads receiving improved investment promotion services in the tourism sector	Number of potential investors that use the services of CI-ATIC. Once CI-ATIC is fully operational, its users will further measure its successful operation. This indicator tracks the number of investors that use CI-ATIC services beyond an initial enquiry. The term ‘investor leads’ is defined by the Trade and Competitiveness Global Practice as follows: “A ‘lead’ is defined as a substantial interaction (through e-mail or telephone or in person) about the possibility of investing in the client's location between an investment attraction/promotion agency and an investor or investor's agent with the purpose of facilitating an actual investment into the client's location in due course.”
Number of MSME representatives trained by private sector organizations (of which women)	Number of MSMEs benefiting from the training offered in Component 2 by the private sector organizations. These MSMEs will be trained in business skills, financial skills, and technical abilities to respond to the demands of the national tourism market. It is expected that 100 or more MSME representatives will be trained by the project's end. This estimate is based on the number of MSMEs reached in previous MSME support programs in Cabo Verde and the corresponding budget.

Other indicators will be tracked outside of the results framework to demonstrate the broader impacts of the project's intervention:

<b>Indicators</b>	<b>Unit of Measure</b>	<b>Frequency</b>	<b>Data Source/ Methodology</b>	<b>Responsibility for Data Collection</b>	<b>Description (Indicator Definition, and so on)</b>
Number of site visits by potential investors	Number	Annual	CI-ATIC	CI-ATIC	Investor visits facilitated by CI-ATIC in operation at the time of data collection. Support to improve the capacity to attract tourism investment will begin at implementation; therefore, results are expected starting in year 1 of implementation.
Number of commitments by investors	Number	Annual	CI-ATIC	CI-ATIC	Publicly announced investments by investors
Number of new direct jobs created (of which women)	Number	Annual	CI-ATIC	CI-ATIC	The new jobs created by the new investments generated following this project's intervention
Establishment of formal investor aftercare support program	Yes/No	Annual	CI-ATIC	CI-ATIC	Implementation of effective IT systems, SOPs, and staff training on investor aftercare
Number of business insolvency cases resolved using the new legal framework (liquidation of unviable firms and reorganization of viable firms)	Number	Annual	ADEI, Ministry of Justice	PIU	This indicator measures the efficacy of the new legal framework for insolvency.

## **Annex 2: Detailed Project Description**

### **CABO VERDE: Competitiveness for Tourism Development Project (P146666)**

1. The PDO is to create the conditions necessary to increase investment into and diversification of the tourism sector.
2. The project addresses the goal of the GoCV to promote a new phase of inclusive growth of the economy, catalyzed by a competitive tourism sector. On one hand, this implies the attraction of medium to large investments that bring employment and growth to the economy at large. On the other hand, this must be complemented by efforts to diversify the tourism sector's offerings, helping the lower rungs of the economic pyramid to access the income and opportunities for upward mobility that this growth can bring. Both of these implied actions are currently impeded, however, by the regulatory and institutional environment for the tourism sector, as well as internal constraints to firms in the tourism value chain.
3. The project addresses key constraints that inhibit the competitiveness of the tourism sector: (a) the low capacity to proactively attract, facilitate, retain, and grow investment; (b) the lack of coordination and a strategic vision for the development of the sector; and (c) the limited ability of local firms to participate in the tourism value chain. In doing so, the project will raise true capacity to increase investment by enhancing the governance of the tourism sector (Component 1) and increasing the inclusiveness of tourism growth by strengthening the competitiveness of MSMEs (Component 2).

#### **Component 1: Enhancing governance framework of the tourism sector (US\$2.27 million)**

4. The objective of this component is to support the start-up of operations of CI-ATIC to effectively carry out the country's tourism diversification agenda and to prepare the GoCV to better attract, facilitate, retain, and grow investment. The recently created agency, CI-ATIC, based on a broad restructuring of the previous CVI, faces several challenges in fulfilling its mandate. The agency will be one of the key actors in promoting economic growth through its main driver in Cabo Verde, tourism. On the one hand, it will be responsible for increasing tourism by diversifying its supply and generating demand for its tourism destination product. To fulfill this, it will need to develop a long-term strategy for the sector and oversee its implementation. On the other hand, it will be responsible for promoting investment into the sector.
5. Cabo Verde has suffered a decline in FDI since 2008, when net inflows reached 12 percent of GDP. It decreased sharply to 7 percent in 2009 and 2010, 5 percent in 2011, 4 percent in 2012, and 4.5 percent in 2013, and is slowly rising, reaching 6.5 percent in 2014. The government must be proactive in attracting, managing, and retaining both FDI and DDI, through both institutional and regulatory reforms. As most of Cabo Verde's FDI is received from European investors, the downward trend mirrored that of the global financial and economic crisis and the slow recovery that has characterized FDI flows around the world. However, an indicator of world economic recovery is that FDI in the hotels and tourism sector increased by 36.3

percent in 2013 worldwide.<sup>5</sup> In that time frame, Cabo Verde has bucked this trend, including the regional one in SSA, where FDI inflows have risen from 2012 (US\$39 billion) to 2013 (US\$41 billion) and 2014 (US\$42 billion), or that of the Small Island Development States, including Caribbean nations such as Antigua and Barbuda or Saint Kitts. Being a small open economy without significant natural resources, Cabo Verde cannot afford to sit on the sidelines to be left behind this trend and should continue promoting growth and job creation. To achieve this, it must increase its understanding of the tourism market in which it competes, including perceptions from its current and potential tourists, tour operators, and current and potential investors—as will be conducted by CI-ATIC. Based on this demand knowledge, CI-ATIC can develop a more grounded National Tourism Strategy, including the development and promotion of the destination and of investment opportunities that resonate well with potential investors. To fulfill their role, CI-ATIC and other agencies involved in the tourism sector need to build their capacity to develop, manage, and promote the destination, while at the same time identifying investment opportunities for tourism/hotel projects and a value proposition for tourism investment, building target investor databases, reaching out to them, making the pitch in favor of investing in Cabo Verde, facilitating the decision-making process, evaluating proposals, and negotiating and closing deals.

6. Technical assistance and capacity building will be provided to ensure that CI-ATIC is fitted with an appropriate organizational structure, legal framework, and mandate as do other GoCV agencies involved in regulating, planning, and administering the tourism sector. First, support will be provided to draft the agency's interim business plan. Furthermore, a tourism expert will be provided to the agency to support business plan implementation while building the capacity of agency staff. Tourism policy assistance will also be provided to review current legislation and determine what needs to be amended, replaced, or better implemented. The agency will also need intelligence and marketing support, including the development of an online communication strategy, systems implementation, and capacity building to ensure effective implementation in promoting the destination to both tourists and investors.

*Strengthening the institutional framework for tourism management and diversification (US\$0.83 million)*

### **Institutions: CI-ATIC and Tourism-related Agencies**

7. The newly established joint tourism and investment promotion agency within the MTIBD, CI-ATIC faces challenges in launching its operations. Its broad mandate—to promote both tourism and investment as the drivers of growth of the economy—requires a strategy for the sector, an action plan, and implementation support in the form of capacity building and marketing, among others.

8. The roles and responsibilities of the tourism sector have been split between the line ministry and CI-ATIC, where the line ministry, through a Central Tourism Authority, will be in charge of legislation and regulations of the sector, and CI-ATIC will be responsible for increasing

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<sup>5</sup> According to the FDI Report 2014, Global Greenfield Investment Trends, an indicator of world economic recovery is that FDI in the hotels and tourism sector increased by 36.3 percent in 2013. See: [http://ftbsites.ft.com/forms/fDi/report2014/files/The\\_fDi\\_Report\\_2014.pdf](http://ftbsites.ft.com/forms/fDi/report2014/files/The_fDi_Report_2014.pdf)

investment, promoting and further developing the tourism sector. This part of the project will provide technical assistance and capacity building for the implementation of CI-ATIC's business plan and the consolidation of its governing framework, including the three CI-ATIC regional investment centers that will cover distinct groups of islands. An expert will be available to the agency to support the implementation. Capacity building will also be provided to the line ministry and other government institutions operating in the tourism sector. It will also support the development of a long-term National Tourism Strategy and an action plan, and the development of a Strategic Environmental and Social Assessment (SESA) that will inform the strategy, plans and proposals, to help ensure that environmental and social considerations are taken into account in the project and more generally in the decision making in the tourism sector. Key activities to be supported include the following:

- (a) **Advice to CI-ATIC to start its operations, including development of a business plan**  
A short-term consultancy will help guide the MTIBD through the decision-making processes required during the implementation of the newly established agency. The resulting business plan should detail the operating procedures of the governing structure, its secretariat, and other bodies aimed at promoting a robust public-private dialogue (PPD.) It should also outline the agency's organizational structure with specific roles and responsibilities, including those that relate to environmental protection and risk mitigation. Key performance indicators (KPIs) should be formulated to enhance the agency's performance and accountability. Once CI-ATIC's staff is in place, further technical assistance will be provided to help it execute its tourism action plan and at the same time build staff capacity. This will be delivered by a highly experienced consultant who will be an advisor to the agency for a period of 18 months.
- (b) **Support for drafting the legal and regulatory reform instruments for the tourism sector.** This activity will be primarily geared toward the Central Tourism Authority, which holds the mandate for tourism policy within the MTIBD. Qualified specialists, both in tourism policy and Cabo Verdean law, will help review the current tourism legislation, identify key gaps, and propose solutions to fill those gaps; the findings and recommendations from the SESA will also be considered. This will include recommendations on which current laws need to be updated/expanded, what new legislation needs to be created, and how some current laws can be better implemented.
- (c) **Carrying out capacity-building sessions for staff and management of CI-ATIC, and other relevant tourism stakeholders.** Beyond the day-to-day capacity-building opportunities that will be available through the Advisor, several other targeted support activities will be provided as needed. These can include, for example, ongoing language training (primarily English and French) for staff, as well as a course on environmental and social risk identification and management and M&E techniques, among others. Such activities will be available for not only for CI-ATIC, but also entities such as the Central Tourism Authority and ADEI.
- (d) **Carrying out a SESA for the tourism sector.** To inform the National Tourism Strategy, the government will prepare a SESA for the tourism sector. It will be prepared during the first year of the project and its findings will inform and guide project activities. The SESA will propose measures to optimize potential positive impacts or mitigate potential

negative ones, to inform the development of a sustainable tourism strategy. In line with this, the SESA will directly inform the capacity-building efforts supported under the project, help to identify specific environmental and social management training needs and thus inform the on-the-job and training activities to be delivered under the various project components. Additionally, as part of the SESA, detailed guidelines for assessing and addressing environmental and social implications of the tourism management planning efforts and for the tourism development concepts conducted under Component 1 will be prepared. These guidelines will reflect Bank safeguard standards and international best practice.

- (e) **Design of a tourism strategy for the period 2017–2027 and an associated action plan for the period 2017–2019.** Cabo Verde’s previous strategic plan for tourism expired in 2013. As such, it is currently operating without strategic guidance on how to develop the sector. A new strategy is particularly important in light of the new institutional structures for tourism and the desire to focus on diversification beyond the prevalent resort model of accommodation including long-term environmental and social sustainability. This activity shall start with gathering comprehensive supply-demand market intelligence for tourism to determine how Cabo Verde can leverage current international trends and stand out with a differentiated tourism product. The strategy shall calibrate current tourism supply and demand, and decide on new target markets (tourists, travel aggregators/intermediaries, tour operators, and investors), products and services to be offered, and assets to be developed, hotels and resorts in particular, among other strategic aspects. The National Tourism Strategy will likely cover a period of six to ten years (to be determined by the MTIBD), with a specific action plan covering a period of two to three years and shall be built through intensive consultation with both public and private sectors. The World Tourism Organization has already provided a project document outlining how the National Tourism Strategy could be formulated. The process will likely take at least six months to complete.
- (f) **Online marketing and communications support.** Effectively managed online marketing and communications efforts can produce high returns, even with limited budgets. First, it will be necessary to create an Online Communications Strategy that will guide CI-ATIC’s efforts in this area. Next, it will be important to provide training to relevant CI-ATIC staff on how to engage successfully in online and social media marketing.

*Improving the ability to attract tourism investment (US\$1.44 million)*

9. While the levels and growth of FDI are slowly recovering, a more proactive role by the government, led by CI-ATIC, is critical to proactively attract, facilitate, retain, and expand investments to Cabo Verde, particularly in tourism. Cabo Verde lacks a brand that international investors can recognize and distinguish from other ‘sun, sea, and sand’ destinations. Such a branding and marketing strategy is a key pending task for the country. Moreover, the former agency, CVI, was not able to evaluate effectively the economic and financial benefits of investment proposals and had limited capacity to prepare information packages for tourism development opportunities that could be attractive to foreign investors or to reach out to them. It also lacked sufficient capacity and knowledge to engage in investor aftercare, thereby missing

important opportunities to count on fully satisfied investors to generate positive testimonials and expand their existing investments. These challenges will be inherited by ATIC.

10. This part of the project will provide technical assistance and capacity building mainly to ATIC, but also to the MTIBD and its tourism-related agencies, to develop comprehensive market intelligence and a coherent tourism investor outreach strategic plan, and build their capability to proactively engage in investment outreach, facilitation, and aftercare with the purpose of attracting, retaining, and expanding FDI and DDI, mainly focused on tourism/hotel investments. To increase the effectiveness of these institutions, support will be focused on building capacity to attract investment into undeveloped zones, selected opportunistically. In doing so, the project will provide technical assistance for the POT and build capacity in the creation and refinement of information packages for tourism development opportunities consistent with previous points, while taking into account environmental and social aspects, described in the SESA. Moreover, it will provide training in investment promotion, support the design and implementation of the Investor Relationship Management System (IRMS), and support proactive investment outreach. These activities should contribute to generating higher investment in tourism, while diversifying the source, destination, and types of investment into smaller hotels located in other geographical areas from various origin countries and companies. More specifically, this part of the project will include the following activities:

- (a) **Tourism investor outreach strategic plan, investors' database, and promotion materials.** The project will provide technical assistance in the development of a coherent investment outreach strategic plan for the sector, underpinning the National Tourism Strategy (as discussed above) and the diversification of the sector. Guided consultations shall leverage Cabo Verde's National Tourism Strategy to determine the best investment opportunities to promote proactively among domestic and foreign investors. The strategic plan shall specify target markets (source countries, investor profiles, and specific investors), explain how to prepare project profiles for hotels and resorts that could be developed, and set out the country's renewed value proposition, marketing mix, and outreach plan, among other strategic aspects. Creating a competitive and compelling value proposition (marketing message) for tourism FDI (hotel and resort) is key to be able to talk the language of the investors. It should build on the strengths and opportunities that Cabo Verde has, with particular focus on specific undeveloped tourism development zones. It shall also indicate the specific responsibilities of each of the involved players (that is, CI-ATIC, the Central Tourism Authority, Chamber of Tourism, Ministry of Foreign Affairs, and others) and budgets, and place an emphasis on the most promising marketing channels to acquire target investors. Moreover, support will include a database of qualified target hotel/resort investors for the new product options (to be procured as part of the research for the outreach plan). This list will include those firms or individuals that actually put down money for hotels/resorts—not necessarily the hotel/resort brands or operators—and should screen out any questionable investors (for financial, reputational, social, or environmental issues). The project will also provide assistance to understand how to develop corresponding materials, namely a focused presentation, brochure, and website content, and online communications designed strategically to target investors, to subsequently be implemented as described under point (d) below. The development of these strategic aspects will be framed as an iterative

process among research, consultation, and strategic activities and guided by international marketing and tourism investment experts.

- (b) **Support for the design of a POT for one of the designated tourism zones.** In the first phase, this support will include (i) collection of documentation and identification of problems; (ii) studies on the biophysical characterization; physical, social, economic, and environmental characteristics; urban infrastructures; and equipment; (iii) development of diagnostic reports in biophysical fields, physical, socioeconomic, socio-urban, and environmental aspects, infrastructure and equipment, and tourism development; (iv) development of maps; (v) studies/elaboration of development scenarios; (vi) preparation of the preplan, based on the selected setting, containing the reports and the graphics; (vii) consultation with all stakeholders, including public and private agencies and civil society; and (viii) development of the design proposal of the chosen scenario. The second phase of this activity includes, among others presentation of: (i) the development plan, containing the reports, any necessary safeguards instruments, the planning letter, and all the supporting surveys and legislation; and (ii) inputs from stakeholders including public agencies and tour operators. The Bank safeguards specialists will review and clear the TORs for the consultancies to design the POT to ensure that they are consistent with Bank safeguard policies.
- (c) **Consultancies to build capacity to design new or improve existing information packages for tourism development opportunities.** To attract effectively new investment in tourism, identifying specific investment opportunities is necessary. Otherwise, investors may not perceive the value proposition of Cabo Verde and its destinations. Thus, in parallel to previous activities, the project will finance a firm to provide technical assistance to build CI-ATIC's capacity to prepare and refine concept-level information packages on potential hotel and resort development opportunities in undeveloped zones. This may involve building capacity to take available properties (public or private) or current project concepts and present them to the market, including relevant information (for example, maps, pictures, financial data, graphs, and text) in a brief aiming to persuade investors about the benefits of investing in such locations/projects. Capacity building will also be provided on how to undertake and present in the conceptual information packages that will also include a preliminary screening for potential environmental and social issues, and guidelines as to what the environmental and social issues will mean for a potential investor. These guidelines will be developed and adopted by the GoCV as part of the SESA activity supported under Component 1 described above. TORs for these consultancies will be subject to review and clearance by the Bank safeguards team, prior to the Bank issuance of a non-objection.
- (d) **Direct marketing and outreach campaigns to attract potential tourism investors.** The project will finance direct marketing (mailers, telemarketing, and networking) for several outreach campaigns, using the outreach strategic plan as a guide.
- (e) **Design and implementation of an IRMS and provision of relevant software for analysis of investment proposals.** As a key complement to technical assistance and capacity building, the project will support the design and implementation of a

comprehensive IRMS, including acquisition of its Customer Relationship Management (CRM) software licenses for four years, for CI-ATIC, and for selected commercial diplomats (Ministry of Foreign Affairs) in strategic markets. These systems will help involved entities to professionally contact investors and follow up on their specific needs to make a decision, establish, operate, and expand. This system should become the backbone for CI-ATIC to facilitate teamwork among all the staff dealing with investors and effectively attract investment (either foreign or domestic). This system should link well with that of the one stop shop at CI-ATIC (formerly CVI). Furthermore, software for investor aftercare and project analysis will be provided.

- (f) **Development of Standard Operating Procedures (SOPs) for investor promotion, facilitation and aftercare.** The proposed Project will support the design and implementation of the SOPs to promote, facilitate, support, establish, retain, and expand investment. The SOPs will include detailed description of each activity done by each person in the organization, or elsewhere, in a flow, using tailored templates and seamlessly integrated with the IRMS.
- (g) **Consultancies to design and deliver training/workshops on effective investment promotion, investor outreach, facilitation, and aftercare.** From the early stages, the project will finance technical assistance to build investment promotion abilities at CI-ATIC and other key partners/stakeholders dealing with investment. This will help build a common understanding about investment promotion best practices, while encouraging collaboration. The technical assistance will prepare and implement a broad effective investment promotion workshop, followed by more specific workshops and coaching sessions about proactive outreach to investors, facilitation of investment decisions, due diligence screening (including verification of the investors' environmental and social record), evaluation of investment proposals, drafting, and negotiation of investment contracts. Lessons learned will be applied to attract investment into the existing tourism zones. Lastly, training will be also provided to design and establish an aftercare program. Such training will be held in Cabo Verde and utilize systems such as the IRMS and SOPs.

## **Component 2: Diversify tourism sector and increase the inclusiveness of tourism-led growth by strengthening the competitiveness of local MSMEs (US\$2.24 million)**

11. The objective of this component is to increase the competitiveness of MSMEs to benefit from tourism growth. The majority of firms in Cabo Verde (over 95 percent) are MSMEs. While there is great potential for them to benefit from investment in the tourism sector, they are constrained by internal limitations, as well as those in the institutional and regulatory environment, particularly in terms of access to finance. Internally, they lack technical skills such as marketing, FM, compliance with health, regulatory and environmental standards, and sector-specific competency. As of 2009, only 16.6 percent of firms—about half of the SSA regional average—were offering in-house training to address some of these issues. About one-third of firms (31.3 percent) had their annual finances externally audited and 15.9 percent had an

internationally recognized quality certification.<sup>6</sup> Without such skills and the ability to articulate their business or idea in a viable plan, MSMEs have difficulty competing.

*Designing and implementing a quality label for small accommodation establishments and support to private sector organizations (US\$1.44 million)*

12. While the government wishes to diversify the accommodation supply for tourists, the current quality of small accommodation establishments is uneven. International best practice indicates that quality labels can be an effective means of improving service standards of small accommodations. This should result in increased revenues for business owners. A well-designed quality label program will also help position Cabo Verde as a multifaceted destination; encourage more environmentally sustainable and socially sound practices; promote the inclusion of women in this sector, as they are more likely to own and manage small establishments (compared to resorts); and promote collaboration among small accommodations owners. This will have important economic impacts in Cabo Verde, where a Bank study has demonstrated the relatively strong local supply chain linkages of small-scale accommodations (refer to Annex 6).

13. A well-designed quality label program will bring several other key benefits to Cabo Verde. It will help position Cabo Verde as a multifaceted destination that extends well beyond the resort market. It will also likely encourage unlicensed operators to become official, thus broadening government quality control and expanding its tax base. The initiative can also improve local perceptions of tourism, dispelling the notion that it only benefits large, foreign operators. It will also introduce sustainability practices that help limit the sector's environmental footprint while saving money for businesses. Finally, it can help promote better coordination and collaboration among the country's small accommodations establishments.

14. A strong model for the quality label, which will be voluntary and eventually require matching contributions from participants, comes from the 'Seychelles Secrets' initiative. Cabo Verde public and private sector stakeholders learned about this program through the South-South Knowledge Exchange and felt it would fit well within the context of their country's tourism sector. Other quality label initiatives have been benchmarked from Australia, Egypt, and the Réunion Island. The development and implementation of the quality label in Cabo Verde will be led by the MTIBD's IGQPI in collaboration with the Chamber of Tourism and CI-ATIC, once it becomes operational. The program will target accommodations establishments on all nine inhabited islands, both in urban and rural areas, and will make a concerted effort to include female-run establishments. The process of creating the quality label in Cabo Verde will involve four principal stages, detailed as follows:

- (a) **Development of standards/criteria and operational procedures.** These will be based on a review of international benchmarks and adapted to the Cabo Verde context. An international consultant will facilitate the process, while decisions will be made by a steering committee consisting of the IGQPI, CI-ATIC, Central Tourism Authority, the Chamber of Tourism, the two chambers of commerce, and ADEI. International best practice suggests that the program utilizes two sets of criteria. The first is 'service,' which includes subcategories such as reservations, welcome, checkout, and dining. The second

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<sup>6</sup> World Bank. Enterprise Surveys for Cabo Verde, World Bank 2009.

is ‘physical,’ which includes subcategories such as location and access, general appearance, rooms, restaurant, kitchen, and responsible environmental and social business practices. Once the standards/criteria and operational procedures have been finalized, a program manual will be developed and disseminated.

- (b) **Recruitment, selection, and training of evaluators.** Evaluators will first need to be selected and recruited. Then they will need to be trained. A consultant will be contracted to support both the development of the curriculum and delivery of the training.
- (c) **Training of small accommodations’ owners/managers.** This will be the core component of the project and should significantly expand participants’ capacity to provide high-quality service to clients. First, a short training course will be delivered. It will cover international best practices in customer service as well as provide an orientation on the label’s various criteria. Then personalized technical assistance will be provided to help prepare establishments for evaluations. The process will be led by an international consultant, working in close collaboration with a counterpart from the IGQPI.
- (d) **Development of promotional channels.** First, the visual identity of the label will be created. Establishments that pass the evaluation will get the electronic version of the logo to place on their websites and marketing materials. The logo will also be printed onto stickers that owners can place at their storefront. Another important mechanism to promote accommodations that have earned the label will be the development of a high-quality website. Additionally, brochures will be created for dissemination at trade fairs, visitor information centers, and so on.

15. **Supporting private sector organizations with training and capacity building:** The Chambers of Commerce (Northern and Southern), the Chamber of Tourism, and the Cabo Verdean Community for Cruise Tourism (*Comunidade Cabo-Verdiana de Cruzeiros*, 3C) are tasked with organizing, building capacity, and advocating for the inclusion of the local private sector in the growth agenda, especially as it is driven by the tourism sector. Yet the chambers lack the resources and capacity to carry out these tasks. The project will therefore support technical assistance and capacity building for these entities, with the objective of increasing the competitiveness of local MSMEs to participate in the tourism sector. For example, the project will support the chambers and 3C to organize training modules for MSMEs to provide high-quality goods and services, including adherence to good environmental and social practices for the implementation of a Cruise Tourism Action Plan for 2016–2017 and the development of new tourism products and services based on the inventory of existing tourism assets (for example, development of official tourism itineraries, certification of tourism guides, and natural and cultural heritage features that support the industry). Other training programs can include, among others, marketing, product quality and safety, and technical skills such as tour guiding and event management, in addition to other general business training activities such as workshops on credit applications and business plan drafting.

16. Two of the main capacity-building activities will be as follows:

**(a) Building capacity for MSMEs to implement a Cruise Tourism Action Plan for 2016–2017.** The Cabo Verde cruise ship tourism market is booming, both on the

port of Mindelo and in the capital, Praia. The stakeholders involved have responded by creating a Cabo Verde Cruise Ship Community (dubbed 3C) as a public-private body that has developed an extensive action plan geared toward promoting the country as an attractive cruise tourism destination, as well as advocating for additional measures to boost this market niche. The action plan includes elements related to supporting the development of the cruise ship market in collaboration with the 3C, including undertaking market research on cruise tourism, conducting market outreach and other promotional activities, training MSMEs to develop and package compelling experiences for cruise tourists, and collecting data on cruise tourism visits to the country. Through this activity, technical assistance and capacity building will be provided to help 3C implement elements of the action plan that are deemed to be of the highest priority.

**(b) Building capacity for MSMEs to develop new tourism products.** The Central Tourism Authority, formerly the Directorate General of Tourism, recently conducted an extensive inventory of the country's existing tourism assets. Many of these assets, however, cannot be considered yet as products that can be experienced by tourists. Through this activity, training and technical assistance will be provided to help local stakeholders to convert some of the highest potential assets into true tourism products. The support for the development of new tourism products will be provided through the Chamber of Tourism and the Chambers of Commerce (Northern and Southern). To this end the chambers will receive training (for example, train the trainer initiative). This will raise their capacity to provide training for the MSME sector, including, among others, business skills, finances, and environmental and social risk identification and mitigation, for them to train and support MSMEs with the development and/or improvement of tourism products and businesses. One example is the development of cultural events, such as the Sao Vicente Carnival, which has a strong potential to attract new tourists (particularly during low season), provide economic opportunities for local MSMEs, and enhance the destination's brand.

*Improving the business environment to increase access to finance for MSMEs (US\$0.80 million)*

17. This part of the project will support reforms for an improved and predictably implemented regulatory environment to improve access to finance. Activities under this component are aimed at implementing measures contained in the recently produced *Cabo Verde: Strategy for Increasing Access to Finance for Micro, Small, and Medium Enterprises* facilitated by the Finance and Markets Global Practice. The two key areas of reform identified in the strategy are (a) the implementation of a modern insolvency framework to facilitate firm exits at the end of the business cycle and (b) the establishment of a movable collateral registry for secured transactions.

18. Regarding the first area, the government has identified the new draft Recovery and Insolvency Code, recently approved by the National Assembly in general form in December 2015, and its implementation as a priority. Currently, the lack of clear and well-established insolvency procedures means that losses in the event of bankruptcy are likely to be greater for all parties, as legal challenges to competing claims on assets of insolvent firms can exhaust a

substantial proportion of the firm's remaining resources. Insolvency reforms introduce clarity that reduces risks for secured and unsecured creditors as well as investors in the firm, thereby contributing to greater access to credit. This is especially important for MSMEs, which are often seen as the most risky borrowers because of their relatively higher rate of insolvency.

19. To further underscore the underdevelopment of the insolvency system in Cabo Verde, Doing Business 2016 ranks Cabo Verde at 189 among 189 countries for the Resolving Insolvency indicator. Cabo Verde is listed as a no-practice country for insolvency. In the more detailed Doing Business questionnaire, Cabo Verde received 0 out of 3 points for reorganization provisions and 0 out of 4 for creditor participation in insolvency proceedings, under the existing legislation. The insolvency and liquidation of companies in Cabo Verde is governed by the Civil Procedures Code, which provides for a single bankruptcy procedure (*falência*). Company rescue or reorganization procedures are not available in the country.

20. Reorganization, or rescue of financially distressed businesses, is one of the most important benefits of a modern insolvency system. Instead of automatically liquidating businesses that run into financial difficulty, a modern insolvency framework allows them to reorganize through agreements with creditors that reschedule debt and adjust operations to reach and maintain solvency. Business rescue leads to higher recovery for creditors and saves viable businesses, and in doing so preserves jobs and economic activity. The recent economic slowdown in Cabo Verde provides an opportunity to introduce an insolvency code that can help businesses to recover and thus support ongoing commercial activities by businesses that were affected by the economic slowdown.

21. Currently, insolvency and liquidation are governed by the Civil Procedure Code including priority in payment to creditors when assets are insufficient to satisfy all claims. A new Recovery and Insolvency Code has been drafted under the auspices of ADEI and proposed to the National Assembly in December 2015, and was passed in general form.

22. The project will support the new insolvency legislation that deals with companies' liquidation and reorganization, as well as a modernized, personal bankruptcy regime for individuals and unincorporated businesses. This will allow a coherent, streamlined insolvency framework in line with best practices. The following activities therefore will be financed:

- (a) **Review and update of the legislative framework related to the Recovery and Insolvency Code and related legislation and subsequent drafting of implementing regulations.** To implement the new Code, a review of the law and related legislation needs to be done for conformity, such as those on the organization of the courts, judicial fees, and others. Furthermore, implementing regulations are required to make the law effective.
- (b) **Outreach campaign on the approved insolvency law for all stakeholders.** Because of the lack of practice of insolvency procedures in Cabo Verde, an outreach campaign is needed to educate the public and all stakeholders on its uses and benefits.
- (c) **Support to *Camara de Comercio de Sotavento* in identifying, training and certifying arbitrators and mediators for its Alternative Dispute Resolution (ADR) center.** The draft insolvency law provides for an extra-judicial process of creditor-debtor negotiations in cases of imminent insolvency that will then be approved by the court. It is

contemplated that this process will be conducted through the newly established ADR center at the chambers of commerce. The chambers have recently obtained licenses for the establishment of two ADR centers—one in Barlavento and one in Sotavento. The ADR center in Barlavento has been reported to have already started operations with the launch of rules on arbitration and mediation and the first 20 neutrals being trained. The Sotavento Center, however, does not yet have a roster of arbitrators and mediators. Once arbitrators and mediators have been identified, they will need extensive training and certification, to be able to provide quality services.

- (d) **Creation of a pilot committee with technical experts to lead the PPD on the insolvency implementation (*equipa de acompanhamento*).** It is crucial for all interested stakeholders to have the opportunity to actively participate in the consultation process to ensure that the applicability of the proposed framework to reality in Cabo Verde is well addressed. While some workshops were held to develop the draft code, a PPD platform should be established to monitor implementation and correct any gaps.
- (e) **Training of judges and court staff, lawyers, administrators, auditors and accountants, and chambers of commerce.** There is neither experience with insolvency in Cabo Verde, nor is there any trustee/insolvency profession. Stakeholders have limited knowledge of insolvency and its practice. Implementing a system as complex as insolvency, with multiple parties, and the need to safeguard and distribute assets to parties with different priorities will pose challenges to authorities and the judiciary. Training of the professionals involved will help ensure that all those involved are fully aware of the new system and are inclined to use it appropriately.
- (f) **Drafting the legal and regulatory framework for the recipient's proposed moveable collateral registry.** See below, points 23 (a) and 23 (b) for description.

23. The project will also support the review and diagnosis of the reforms necessary for the introduction of a modern secured transactions system in the country. While land and buildings are widely accepted as collateral, the absence of clear property rights and deficiencies in the legal framework and enforcement limit the ability of businesses—particularly MSMEs—to leverage their assets into capital for investment and growth through secured lending from banks and other lenders. The absence of an electronic and centralized movable collateral registry also makes it impossible to register assets such as inventory, accounts receivables, crops, and equipment as collateral for loans. Research has demonstrated that well-established movable collateral registries increase the availability of credit and reduce the cost of credit. The following activities therefore will be financed:

- (a) **Diagnostic to assess current secured lending regime** in Cabo Verde and provide recommendations on how to implement the reform including a tentative action plan.
- (b) **Legal and regulatory framework.** Advice to the GoCV on the necessary improvements to the legal and regulatory framework through the drafting of a new Secured Transactions Law and collateral registry regulations.
- (c) **Design, development, and launch of an electronic centralized moveable collateral registry** for security interests in movable property.

- (d) **Capacity building.** Provide training and awareness raising on the new system to government officials as well as to financial institutions, the legal community, and businesses.
- (e) **Outreach and publicity campaigns.** Outreach and publicity are necessary to inform the public about the new system and its importance in increasing opportunities to access finance using movable collateral.

**Component 3: Project implementation (US\$0.49 million)**

24. This component will finance project implementation costs of the UGPE. This PIU is housed within the MTIBD and has been selected by the government to implement this CTD project. This component will strengthen the capacity of the UGPE for Project management, coordination, M&E, including fiduciary (that is, financial and procurement management), environmental, and social safeguard compliance, and reporting.

### **Annex 3: Implementation Arrangements**

#### **CABO VERDE: Competitiveness for Tourism Development Project (P146666)**

##### **Project Institutional and Implementation Arrangements**

1. The project will be implemented over five years. The overriding principle guiding the institutional and implementation arrangements is to ensure that the operational functions of each government agency/private institution participating in the project are strengthened as a result of the project. The MTIBD will have the overall responsibility for the project, which will be implemented through its PIU, the UGPE. The UGPE was established in 1999 and has the necessary management credentials to implement Bank projects. The fiduciary capacity of the unit will be strengthened as needed.
2. Within this framework, the UGPE shall have responsibility for the day-to-day management of the project and coordination of project-related activities, including overall responsibility for, among others, (a) ensuring timely implementation of the project in accordance with the PIM; (b) preparing annual work plans and budgets and annual procurement plans; (c) ensuring that fiduciary responsibilities are carried out satisfactorily and in accordance with IDA procedures; (d) overseeing project activities under its direct responsibility and of project-related activities to be carried out by other entities; (e) ensuring adherence to the SESA recommendations of all agencies involved in the implementation of the project; (f) developing and maintaining a system of monitoring the project KPIs; and (g) ensuring coordination among agencies involved in project implementation, as needed.
3. To ensure proper coordination and supervision of the project, a PSC will be established to provide policy guidance and oversight. The PSC will be chaired by the Minister of MTIBD, with a deputy from the private sector, and will meet every six months, and, in addition, will comprise representatives from the MFP, Chambers of Commerce/Tourism, and the Central Bank. The committee can co-opt other representatives as necessary. The project coordinator will serve as secretary to the committee. To assure resolution of technical and implementation challenges on a regular basis, a PTC will also be established and will meet every other month during the first year of project implementation, with the frequency in subsequent years subject to change to quarterly. It will comprise representatives from the implementing agencies, including the Directorate of the Environment (DGA), and will be co-chaired by the project coordinator.
4. Biannual reviews will be conducted. The biannual review will discuss the project report for the preceding semester, which will include a summary of project outcomes, including progress in meeting the outcome indicators. The UGPE will also prepare and send to IDA, for review and concurrence, not later than November 30 of each year, the annual work plan and budget for the project for each subsequent year. The report shall include a procurement plan and all planned activities for the following year.
5. In order to support the GoCV policy of ensuring its ministries, departments, and agencies have adequate capacity to administer and manage projects, the UGPE will ensure technological and capacity transfer to CI-ATIC. The goal is for CI-ATIC to eventually assume management

responsibilities of the CTD project, subject to IDA appraisal of its fiduciary structures and capacity.

6. A mid-term review of the project will be carried out 24 months after credit effectiveness. The purpose of a mid-term review is to assess, among others, (a) the overall progress made during the implementation of the project and (b) the results of the M&E activities. The mid-term review reports are prepared by the UGPE with an advance of three months to the mid-term review schedule.

### **Financial Management, Disbursements, and Procurement**

7. An FM assessment of the UGPE was conducted to evaluate the adequacy of the project arrangements in accordance with OP/BP 10.00 Investment Project Financing and the Financial Management Practices Manual as issued by the Financial Management Sector Board. The assessment covered the UGPE and the structure will be retained for the implementation of the proposed project.

#### *Financial Management*

8. **Budgeting arrangements.** The budgeting process and monitoring will be clearly defined in the administrative and financial procedures manual. Annual draft budgets will be submitted for the Bank's 'no objection' before adoption and implementation no later than November 30 every year.

9. **Accounting arrangements.** The current accounting standards in use in Cabo Verde for ongoing Bank-financed projects will be applicable. The administrative and financial procedures manual will take into account project specificities and will provide all the required details on accounting and financial procedures.

10. **Financial reporting arrangements.** The UGPE will produce interim financial reports (IFRs), which will include sources and uses of funds by project expenditures classification and a comparison of budgeted and actual project expenditures (commitment and disbursement) to date and for the semester. The IFRs are to be produced every quarter and submitted to the Bank within 45 days after the end of each calendar quarter. The format of the IFR will be prepared and agreed with the Bank.

11. **Internal control arrangements.** The administrative financial and accounting procedures manual will be updated to take into account project specificities.

12. **External auditing arrangements.** An external auditor with qualification and experience satisfactory to the Bank will be appointed to conduct an annual audit of the project's financial statements. The auditor will perform his/her audit in compliance with International Standards on Auditing. The audit report on the annual project financial statements and activities will be submitted to IDA within six months after the end of each project fiscal year.

13. **Action plan.** The actions needed to enhance the FM arrangements for the project are listed in table 3.1.

**Table 3.1. Action Plan**

No.	Action	Due Date	Responsible Entity
1.	Prepare and agree with the Bank on the format of the IFR including the budget monitoring report.	Done	UGPE
2.	Update the administration and accounting of procedures.	Done	UGPE
3.	Select an external auditor with competence and experience satisfactory to the Bank.	Four months after effectiveness	UGPE

14. **Financial covenants.** The borrower shall establish and maintain an FM system including records, accounts, and preparation of related financial statements in accordance with accounting standards acceptable to the Bank. The financial statements will be audited in accordance with international auditing standards. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the project fiscal year. The borrower shall prepare and furnish to the Association not later than 45 days after the end of each calendar quarter interim unaudited financial reports for the project, including a budget monitoring report, in form and substance satisfactory to the Association. The borrower will be compliant with all the rules and procedures required for withdrawals from the designated accounts (DAs) of the project.

15. **Conclusion of the assessment.** The conclusion of the assessment of the UGPE is that the FM arrangements meet the Bank’s minimum requirements under OP/BP 10.00. The overall residual risk rating is Moderate.

*Flow of Funds and Disbursement Arrangements*

16. **Disbursement arrangements.** The following disbursement methods may be used under the project: reimbursement, advance, direct payment, and special commitment as specified in the Disbursement Letter and in compliance with the World Bank Disbursement Guidelines for Projects, dated May 1, 2006. Disbursements will be transactions based whereby withdrawal applications will be supported with statements of expenditures. A U.S. dollar denominated DA will be opened at the BCV to facilitate payment for eligible expenditures. The DA will be managed by the UGPE and the treasury department, and according to the PIM, in compliance with the disbursement letter. Upon project effectiveness, an initial advance up to the ceiling amount of the DA (US\$400,000) will be disbursed upon receiving a withdrawal application signed by the authorized signatories. Subsequent advances to the DA will be made upon receiving documentation (statement of expenditures) reporting on the use of the previous advance on a monthly basis. The financing proceeds may also be withdrawn using the direct payment, reimbursement, and special commitment methods. Electronic submission of withdrawal applications is accessible through the Bank’s Client Connection website.<sup>7</sup>

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<sup>7</sup> <https://clientconnection.worldbank.org>

**Flow of funds arrangements:** The project’s flow of funds arrangements is described in figure 3.1:

Figure 3.1. Flow of Funds Arrangements

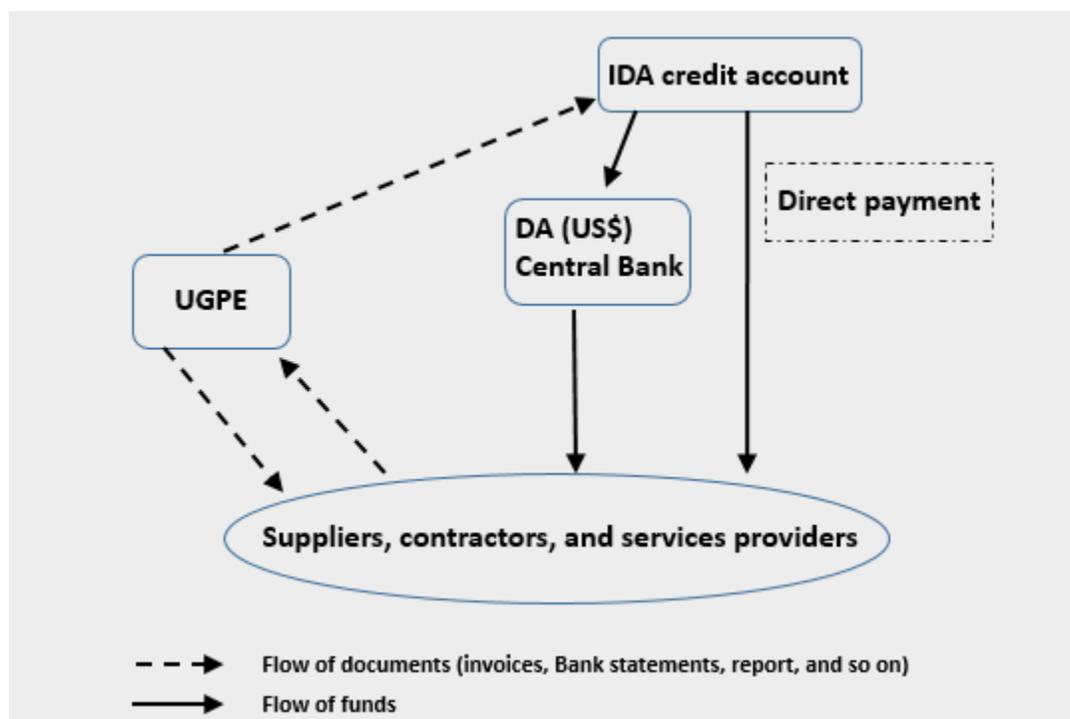


Table 3.2. IDA Financing Table by Disbursement Category (US\$)

Category	Amount of the Financing Allocated (US\$)	Percentage of Expenditures to Be Financed (Inclusive of Taxes)
(1) Goods, non-consulting services, consultants’ services, training and operating costs for the project	5,000,000	100
<b>Total amount</b>	<b>5,000,000</b>	<b>100</b>
<i>Note:</i> Retroactive financing will be allowed for payments made for goods and services procured in line with Bank Procurement Guidelines after April 1, 2016 but before the legal agreement date for eligible expenditures under all categories.		

### Procurement

#### Procurement in the Context of the Country

17. Following the GoCV's approval of the Country Procurement Issues Paper in 2004, the GoCV adopted a procurement law and regulations, respectively in July 2007 and December 2008. These procurement law and regulations, including national standard bidding documents, came into force and have introduced positive changes into the current system. They established a regulatory authority (Public Procurement Authority [*Autoridade Reguladora das Aquisição*])

*Públicas*, ARAP]) responsible for policy, handling complaints, and non-jurisdictional audit of public contracts, as well as procurement units (Procurement Management Units [UGAs]) within all of the contracting authorities to carry out procurement transactions. The parliament of Cabo Verde has approved a new Procurement Code in March 2015, which has been published in the official gazette (*Law n° 88/VIII/2015 of 14 April*). Among new features of the law, it is the role of the Public Assets and Public Procurement Directorate within the MFP (*Direcção Geral do Património e da Contratação Pública*) to ensure internal controls of UGAs' activities. Until entry into force of the new law, internal control is entrusted to the *Tribunal de Contas*. ARAP is carrying out its duties successfully and the UGAs have now been set up. ARAP is tackling the general lack of procurement capacity of ministries through the implementation of a training program. Along with the new Procurement Code, a series of implementing regulations have been adopted, and the standard bidding documents and forms have been updated. The procurement financed under the project will be carried out in compliance with the Bank's procedures, using the Bank's standard bidding documents.

### **Applicable Procurement Policies and Procedures**

18. Procurement for the proposed project will be carried out in accordance with the Bank's 'Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD, Loans and IDA Credits & Grants by World Bank Borrowers' dated January 2011 and revised in July 2014 and 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers' dated January 2011 and revised in July 2014, as well as the national procurement framework for procurement of goods through Shopping, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frames are agreed between the borrower and the Bank in the procurement plan. The procurement plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

### **Procurement Documents**

19. The procurement will be carried out using the Bank's standard bidding documents or standard request for proposal respectively, for all international competitive bidding (ICB) for goods and recruitment of consultants. The Sample Form of Evaluation Reports developed by the Bank will be used.

### **Advertising Procedure**

20. General Procurement Notices, Specific Procurement Notices, Requests for Expression of Interest, results of the evaluation, and contract awards should be published in accordance with advertising provisions of the Bank guidelines. The following are the current guidelines: "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised in July 2014; and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised in July 2014. In

addition, for the purpose of data collection, the borrower will keep a list of received answers from potential bidders interested in the contracts.

## **Procurement Methods**

21. **Procurement of goods and nonconsulting services.** Goods to be procured under the proposed project will include, but will not be limited to (a) computers; (b) furniture; and (c) printers. The procurement will be done using Shopping. Other procurement methods may be used for goods contracts that meet the requirement for such methods, according to the Procurement Guidelines, in particular: Shopping as described in paragraph 3.5 of the Procurement Guidelines; and direct contracting as per paragraphs 3.7 and 3.8 of the procurement Guidelines.

22. **Selection of consultants.** Selection of consultants will be undertaken in accordance with the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Grants & Credits by World Bank Borrowers" dated January 2011 and revised in July 2014 and the provisions stipulated in the Legal Agreement. Except as otherwise stipulated in the procurement plan, all consulting service contracts will be awarded using the Quality- and Cost-Based Selection (QCBS) method. The contracts for services estimated to cost the equivalent of US\$150,000 or less per contract may be procured under contracts based on Selection Based on Consultants' Qualifications (CQS) in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines. The contracts for services of financial audit may be procured under contracts based on Least Cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines. Consultant for services meeting the requirements of section V of the Consultant Guidelines may be selected under the provisions for the Selection of Individual Consultants (IC), that is, in essence through the comparison of the curriculum vitae of at least three qualified individuals.

23. **Consultant services.** The services procured under this project include but are not limited to (a) review of the current legal framework for insolvency; (b) consultancy to conduct market test, international demand survey, and strategy to attract tourism investment; (c) consultancy to prepare a SESA for the tourism sector; (d) consultancy to conduct training on investor outreach, facilitation, and aftercare; (e) market trend studies and research manual for tourism observatory; (f) training and technical assistance to implement a quality label; and (g) financial audit. Short lists of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

24. **Operating costs.** Costs will include equipment/vehicle operating and maintenance costs, office supplies and office furniture, energy and water, telephone, fax, and internet/intranet. They will also include all costs related to the supervision of the project by the borrower's staff during the project implementation. Procedures for the use of operating costs will be defined in the project's procedures manual, which shall be previously approved by the Bank.

25. **Training, workshops, study tours, and conferences.** Training (including training material and support), workshops, conference attendance, and study tours will be carried out based on a plan of approved annual training and similar activities. A detailed training or

workshop plan giving the nature of training/workshop, number of trained participants, duration, staff months, timing, and estimated cost will be submitted to IDA for review and approval before initiating the process. The appropriate methods of selection will be derived from the detailed schedule. After the training, beneficiaries will be requested to submit a brief report indicating what skills have been acquired and how these skills will contribute to enhance their performance and contribute to the attainment of the project objectives.

### **Assessment of the Agency's Capacity to Implement Procurement**

26. The MTIBD will be the responsible ministry for this project. The ministry has a Unit for the Implementation of Special Projects (Unidade de Gestão de Projetos Especiais, UGPE), in operation since 1999, which is entrusted with the responsibility of implementing projects from different donors. The UGPE is currently implementing the Recovery and Reform of the Electricity Sector Project under MTIBD.

27. The UGPE will be responsible for implementing the IDA project with full fiduciary responsibility. Having implemented complex IDA/IBRD-financed projects, the UGPE has a very thorough knowledge of Bank procurement rules and procedures, which will allow for a rapid and smooth implementation of the project. The assessment carried out during project preparation and appraisal showed that the main issues/risks concerning the procurement activities for the project's implementation are: (a) the UGPE has developed an administrative and financial procedures manual for its entire portfolio, including the energy project which includes procurement procedures (including the Bank's procedures). This manual includes the definition of the different procurement and selection methods as defined in the guidelines but does not detail, for each procurement/selection method, each step in the procedure; and (b) the UGPE hired (since December 2015) a new procurement officer who worked in the procurement field with international institutions but not specifically for Bank-funded projects. This new staff will work for the implementation of this new project and will, therefore, need to update his knowledge of Bank procurement procedures.

28. To address these risks, the proposed project will sponsor two activities: (a) update the administrative accounting and financial procedures and reflect them in the PIM (it is recommended that, for each procurement/selection method, a table with each step by sequence and responsible person/department be inserted). This job will be handled internally without external assistance; and (b) train UGPE's project team in Bank basic procurement procedures, particularly on the guidelines dated January 2011 and revised in July 2014 that will apply to the proposed project.

29. Based on the assessment of UGPE's capacity to implement Bank procurement, the overall project risk for procurement is Substantial and is expected to be Moderate once the mitigation measures are implemented.

### **Prior Review Thresholds**

30. **Goods.** ICB contracts for goods estimated to cost the equivalent value of US\$300,000 and above per contract and all direct contracting will be subject to prior review by the Bank, as stated in Appendix 1 to the Procurement Guidelines.

**Table 3.3. Prior Review Thresholds for Goods**

No.	Procurement Method	Prior Review Threshold	Comments
1	ICB (Goods)	≥US\$300,000	ICB for goods will be used for US\$300,000 and above.
2	Shopping	≥US\$50,000 and first two contracts under US\$50,000	Shopping for goods and non-consulting services will be used for less than or equivalent to US\$50,000. If more than US\$50,000, prior clearance is needed from the Bank with relevant justifications. The cost estimate will not exceed US\$100,000.
3	Direct contracting	All, irrespective of the cost estimate	None

31. **Consultants.** Consultancy services (firms) estimated to cost above US\$200,000 per contract and consultants services (individuals) estimated to cost above US\$100,000 and single source selection of consultants will be subject to prior review by the Bank, as stated in Appendix 1 of the Consultant Guidelines.

**Table 3.4. Prior Review Thresholds for Consultants**

No.	Selection Method	Prior Review Threshold	Comments
1	Competitive methods (Firms)	≥US\$200,000. Also, the first contract under QCBS irrespective of its cost estimate	Contract for financial audit is subject to prior review, irrespective of the cost estimate.
2	Individual consultants	≥US\$100,000	First selection of IC below US\$100,000 to be prior reviewed by the bank

32. **Short list comprising entirely of national consultants.** The short list of consultants for services, estimated to cost less than US\$200,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

### **Procurement Plan**

33. The borrower developed a procurement plan for project implementation that provides the basis for the procurement methods. This plan was agreed between the borrower and the project team on January 21, 2016 and will be available at the MTIBD. It will also be available in the project's database and in the Bank's external website. The procurement plan will be updated in agreement with the project team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

## Foreseen Activities for the Project

Table 3.5. Activities Foreseen under Each Component of the Project

Ref. No.	Description of Assignment	Estimated Expenditure (US\$)	Selection Method
<b>Component 1. Enhancing governance framework of the tourism sector (US\$2.27 million)</b>			
<b>Strengthening the institutional framework for tourism management and diversification (US\$0.83 million)</b>			
1	Consultancy for SESA	150,000	QCBS
2	Long-term (18 months) technical assistance to support the implementation of the new agency, CI-ATIC, including support to create an action plan. This includes staff capacity building for management team.	176,400	IC
3	Technical assistance for legal and regulatory reform of the tourism sector (housed within MTIBD's Central Tourism Authority)	98,000	IC
4	Capacity building for staff and management of CI-ATIC and aligned ministries and entities (ADEI, and so on), language training, and M&E	29,400	Training
5	Design of a tourism strategy (2017–2027) and an action plan with horizon 2017–2019	294,000	QCBS
6	Online communications strategy	49,000	CQS
7	Training for online and social media marketing	29,400	CQS
<b>Improving the ability to attract tourism investment (US\$1.44 million)</b>			
1	Tourism investor outreach strategic plan	98,000	CQS
2	Consultancies to create or polish information packages on tourism development opportunities	441,000	QCBS
3	Technical assistance for the POTs (special tourism zones)	392,000	QCBS
4	Direct marketing and outreach campaigns to potential tourism investors (remote)	240,100	QCBS
5	Design and implementation of an IRMS (which includes CRM licenses for four years), SOPs for investor promotion, facilitation and aftercare, and software for project analysis (for example, Comfar III or other)	196,000	QCBS
6	Consultancies to design and deliver series of training/workshops on effective investment promotion, investor outreach, facilitation, and aftercare	68,600	CQS
<b>Component 2. Diversify tourism sector and increase the inclusiveness of tourism-led growth by strengthening the competitiveness of local MSMEs (US\$2.24 million)</b>			
<b>Designing and implementing a quality label for small accommodation establishments and support to private sector organizations (US\$1.44 million)</b>			
1	Technical assistance in defining quality label criteria and operating procedures	29,400	IC
2	Creating and delivering service quality and label orientation session with prospective program participants (three times)	88,200	IC
3	Creating and delivering training session for quality label assessors (three times)	98,000	IC
4	Providing personalized technical assistance for program participants (three years)	117,600	IC
5	Conducting assessments of small accommodations establishments participating in the quality label program (three times)	245,000	QCBS
6	Design of a brand identity	9,800	IC

Ref. No.	Description of Assignment	Estimated Expenditure (US\$)	Selection Method
7	Design and printing (annually) of brochures	24,500	Shopping
8	Creation of a website to promote those that have attained the quality seal	58,800	CQS
9	Training for chambers of commerce and tourism on how to organize and build capacity of the private sector	196,000	IC/QCBS
10	Training and workshops for MSMEs, hosted and organized by the chambers of commerce and tourism, to develop and implement tourism products and services	381,200	IC/QCBS
11	Development of tourism products based on the inventory of existing tourism assets (for example, development of official tourism itineraries and certification of tourism guides)	98,000	CQS
12	Consultancy to implement a cruise tourism action plan for 2016–2017 (provided by the MTIBD)	98,000	Services
<b>Improving the business environment to increase access to finance for MSMEs (US\$0.80 million)</b>			
1	Collateral registry legal and regulatory framework	73,500	QCBS
2	Collateral registry establishment	367,500	
3	Collateral registry training and capacity building	99,960	
4	Collateral registry outreach and communications campaign	47,040	
5	Insolvency legal and regulatory framework	83,300	QCBS
6	Insolvency training of judges and court staff, lawyers, administrators, auditors and accountants, and chambers of commerce	68,600	
7	Insolvency support to <i>Camara de Comercio de Sotavento</i> to establish their arbitration and mediation center	24,500	
8	Insolvency outreach and communications campaign	29,400	
9	Insolvency pilot committee with technical experts to lead the PPD on the insolvency implementation ( <i>equipa de acompanhamento</i> )	9,800	Operating costs
<b>Component 3. Project implementation (US\$0.49 million)</b>			
1	Financial audits	98,000	LCS
2	Operating costs including stakeholder review meetings	98,000	Operating costs
3	Coordinator and other technical staff	235,200	IC
4	Furniture	9,800	Shopping
5	Contingencies	49,000	–

## Procurement Table for 18 Months

Table 3.6. Consultancy Assignments with Selection Methods and Time Schedule

1	2	3	4	5	6
Ref. No.	Description of Assignment	Estimated Expenditure by 18 Months (US\$)	Selection Method	Review by Bank (Prior/Post)	Expected Proposals Submission Date
1.	Consultancy to develop SESA	150,000	QCBS	Prior	July 10, 2016
2.	Review of current legal framework for insolvency; training workshops on insolvency; support to insolvency pilot committee; and support to <i>Camara de Comercio de Sotavento</i> for arbitration/mediation center	186,200	QCBS	Prior	July 29, 2016
3.	Creation of CI-ATIC's institutional framework and business plan	78,400	IC	Post	October 15, 2016
4.	Technical assistance to define criteria and operational procedures of the quality label	29,400	IC	Post	October 1, 2016
5.	Design of a tourism strategy	294,000	QCBS	Prior	November 3, 2016
6.	Consultancy to conduct tourism investor outreach strategic plan and gather supply-demand marketing intelligence for tourism	205,800	QCBS	Prior	December 10, 2016
7.	Training for chambers of commerce and tourism on how to organize and build capacity of the private sector	196,000	IC/QCBS	Prior	January 20, 2017
8.	Implementation of the Cruise Tourism Plan	98,000	IC	Post	February 15, 2017
9.	Technical assistance for legal and regulatory reform of the tourism sector	98,000	IC	Post	February 27, 2017
10.	Consultancy to implement CI-ATIC's business plan	98,000	IC	Post	March 19, 2017
11.	Design of a brand identity and promotional brochures for the quality label	34,300	CQS	Post	March 26, 2017
12.	Delivering service quality and label orientation session	88,200	IC	Post	April 20, 2017
13.	Review of current legal framework for secured transactions and training and capacity building on the new framework	173,460	QCBS	Prior	April 17, 2017
14.	Consultancy to conduct training/coaching on investor outreach, facilitation, and aftercare, as well as on collaboration mechanisms	68,600	IC	Post	July 10, 2017
15.	Delivering training session for quality label assessors	98,000	IC	Post	August 7, 2017
16.	Consultancy for assessment of small accommodations establishments participating in quality label program	245,000	QCBS	Prior	December 5, 2017

**Table 3.7: Goods with Selection Methods and Time Schedule**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>Ref. No.</b>	<b>Description of Assignment</b>	<b>Estimated Cost (US\$)</b>	<b>Selection Method</b>	<b>Review by Bank (Prior / Post)</b>	<b>Expected Proposals Submission Date</b>
1.	Furniture	9,800	Shopping	Prior	July 1, 2016
2.	CRM licenses, including design and implementation of IRMS and SOPs	196,000	Shopping	Prior	August 1, 2017

### **Frequency of Procurement Supervision**

34. In addition to the prior review supervision to be carried out from the Bank offices, the capacity assessment of the implementing agency has recommended one supervision mission every six months and one Post Procurement Review each year to visit the field to carry out post review of procurement actions.

#### *Environmental and Social (including safeguards)*

35. The MTIBD will take the lead in the oversight of the project and be responsible for ensuring appropriate implementation through the PIU in the UGPE. The PIU will draw, as needed, on expertise from qualified environmental and social specialists, who will coordinate with DGA. This will include, in particular, ensuring the linkages between the recommendations and guidelines emerging from the SESA and the (a) development of the National Tourism Strategy, (b) implementation of the POT, (c) preparation of the information packages for tourism development opportunities, and (d) content of the institutional capacity building and training activities to be supported by the project.

#### *Monitoring and Evaluation*

36. The M&E system will be based on the agreed results framework and monitoring arrangements (Annex 1). This framework focuses on the PDO outcomes to be achieved and the related intermediate outcomes, as well as the environmental and social recommendations of the SESA. The project coordinator will be charged with coordinating the M&E functions for the project. The project shall be monitored and evaluated based on the basis of the indicators set forth in the PIM, which includes the accounting and administrative procedures.

37. By project effectiveness, baseline data and target values for all the agreed indicators will be verified and confirmed by the UGPE in collaboration with the designated technical staff in each implementing agency. The technical departments in government and the chambers of commerce will be responsible for the data collection, analysis, and reporting of the agreed project development outcome indicators. The primary monitoring mechanism will be semiannual reports and annual reports prepared by the UGPE. The reports will assess achievements against the baseline values defined in the matrix for arrangements on results monitoring and overall project progress using the indicators defined in the results framework. All reports will be sent to IDA. A mid-term review will be carried out 24 months after credit effectiveness. An Implementation Completion and Results Report will be prepared after completion of the project.

## Annex 4: Economic Analysis

### CABO VERDE: Competitiveness for Tourism Development Project (P146666)

- 1. Relationship of project components to PDO.** Given the economic context and the stated goals of GPRSP III, the main objective of this project is to create the conditions necessary to increase investment into and diversification of the tourism sector in Cabo Verde. Increasing investment into the tourism sector is key to driving the growth of the economy, which depends on the industry for approximately 20 percent of its GDP. Diversifying the sector with regard to the type of tourism and accommodations available, specifically supporting MSMEs to participate in this process, is key to promoting inclusive growth. There are several ingredients to achieving this objective, including enhancements to the institutions responsible for managing and attracting investment, an improved business environment, and direct support to MSMEs in the tourism value chain. These ingredients are embodied in the main project components described in section III of the Project Appraisal Document.
- 2. Rationale for public intervention.** The project activities are expected to generate substantial economic benefits for Cabo Verde; yet, the many positive externalities associated with the activities make it impossible to fully capture the economic benefits in a private investment. Therefore, the project addresses market failures through interventions in which the private sector will not invest, but that are necessary to increase the competitiveness of the tourism sector of Cabo Verde, including regulatory, capacity-building, and institutional reforms and investments in training and knowledge for MSMEs.
- 3. Value added of the World Bank Group.** The World Bank Group is the appropriate partner to support Cabo Verde to increase the competitiveness of the tourism sector because it draws on relevant global expertise in all activities included in the project. These include, for example, investment promotion and management, organization and strategy building for the development of a sustainable tourism sector, direct technical assistance to MSMEs and private sector organizations, and business environment reform. Moreover, the World Bank Group draws on a wealth of experience in project implementation support, including fiduciary and safeguards support, FM, and legal and disbursement support. The team envisioned to support implementation of this project has the language skills and global and regional experience to guide the GoCV toward best practices—adapted to the local context—in the pursuit of increased investment and diversification of the tourism sector.
- 4. Economic analysis.** To be economically acceptable, a Bank-financed project must meet two conditions: (a) the expected net present value (NPV) of the project must be positive and (b) the expected NPV of the project must be higher than or equal to the expected NPV of mutually acceptable project alternatives. Given that the project contains several components, each component should be appraised as if it were a marginal component, and then appraised in combination. However, this standard method is only partly applicable to this project, given that the success of each component is partly dependent on the existence of the other components (for example, increased FDI and successful inclusion of local MSMEs into the tourism value chain is partly dependent on successful reforms to the business environment, and likewise, the benefits to reforms of the business environment may be maximized only through efforts to foster FDI and directly support MSMEs).

5. The activities in this project focus on technical assistance, capacity building, and regulatory reform for the public sector, with limited support to select MSMEs and private sector organizations. These types of support lack rigorous estimation models to calculate a rate of return. Because of the difficulty in rigorously establishing a direct relationship between the project's overall support to institutional and regulatory reforms and their combined economic impact, a qualitative analysis of the expected results of the activities, based on literature reviews and the Bank Group experience, is further elaborated in this Annex. Furthermore, no economic analysis was conducted for project implementation, monitoring, and evaluation because of the absence of generally accepted methodologies for the economic analysis of such capacity-building activities.

#### *Qualitative Analysis of All Components*

#### **Component 1: Enhancing governance framework of the tourism sector (US\$2.27 million)**

6. The objective of this component is to prepare the GoCV to better attract, facilitate, retain, and grow investment, and to support the start-up of operations of CI-ATIC to effectively carry out the country's tourism diversification agenda.

#### *Strengthening the institutional framework for tourism management and diversification (US\$0.83 million)*

7. This part of the project will provide technical assistance and capacity building for the implementation of CI-ATIC's business plan and the consolidation of its governing framework.

#### **Incremental benefits of support to CI-ATIC**

- In the absence of rigorous impact studies on the effects of creating a joint tourism-investment promotion agency, anecdotal evidence appears positive. In the case of Cabo Verde, one of the most important activities of the agency will be to initiate new marketing campaigns. To date, nearly all marketing in the country has been through large operators promoting their own properties. Data from other countries reveal varied, but generally positive, returns on investment (ROIs) from tourism marketing campaigns. For example, Visit Denmark reported an ROI of US\$16 for every dollar spent on marketing to leisure tourists. Australia's 'A Different Light' campaign generated US\$64 for every dollar spent. Canada reported a US\$95 ROI from Mexican markets and a US\$30 ROI from U.S. markets for every dollar spent. Conversely, Colorado's abrupt halt of its marketing activities resulted in a loss of 30 percent of its market share of U.S. tourism and more than US\$1.4 million annually in visitor spending.

#### *Improving the ability to attract tourism investment (US\$1.44 million)*

8. This will provide support to build CI-ATIC's capability to proactively attract, retain, and expand FDI, mainly focused on hotel and resort investments.

### **Incremental Benefits of Investment Promotion Capacity Building**

- With the caveat that investment promotion requires business environment reform to be successful, as seen in the literature,<sup>8</sup> it is expected that investment promotion activities bring expansive direct and indirect benefits (cost: US\$1.44 million). It is assumed that three new deals will be signed over the five-year lifetime of the project, averaging US\$20 million each. It is expected that the benefits will accrue gradually during the course of the project, with no new deals signed in years 1 and 2 and one deal signed each in years 3, 4, and 5. With such expansive benefits of the US\$1.44 million support proposed by this project, it may seem more prudent to cede the opportunity for this investment to the private sector. However, the impossibility of capturing the positive externalities of this investment, which accrue to the economy at large and no single investor in the investment promotion agencies, will dissuade the private sector from making this investment, thereby providing rationale for public intervention.

### **Component 2: Diversify tourism sector and increase the inclusiveness of tourism-led growth by strengthening the competitiveness of local MSMEs (US\$2.24 million)**

9. The objective of this component is to increase the competitiveness of MSMEs to benefit from tourism growth. The component will support both sides of the value chain through a small accommodation quality label as well as support private sector organizations, and address access to finance constraints to MSMEs.

*Designing and implementing a quality label for small accommodation establishments and support to private sector organizations (US\$1.44 million)*

10. This will support the design and implementation of a quality label for small accommodation establishments. Such a program will help diversify the tourism sector and position Cabo Verde as a multifaceted destination; encourage more environmentally sustainable practices; promote the inclusion of women in this sector, as they are more likely to own and manage small establishments (compared to resorts); and promote collaboration among small accommodation owners. Secondly, to support private sector organizations such as the North and South Chambers of Commerce, as well as the Chamber of Tourism, among others, technical assistance and capacity building will be provided with the objective of increasing the competitiveness of local MSMEs to participate in the tourism sector.

### **Incremental Benefits of Support to a Small Accommodation Quality Label and Support to Private Sector Organizations**

- Specific economic impact studies do not appear in the literature; however, similar quality labels have yielded positive results. In general, the correction of information asymmetries between buyer and seller on the quality of the good or service has led to

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<sup>8</sup> Morisset, Jacques. World Bank Policy Research Working Paper 2038. “Does a country need a promotion agency to attract foreign direct investment? A small analytical model applied to 58 countries.” See: [http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2003/05/23/000094946\\_03051404103335/Rendered/PDF/multi0page.pdf](http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2003/05/23/000094946_03051404103335/Rendered/PDF/multi0page.pdf)

positive results for both parties. For example, restaurant hygiene labels in Los Angeles, United States of America and Norwich, United Kingdom resulted in an overall rise in quality of all participating restaurants. Furthermore, a few studies have measured impacts of environmental certification labels. A study in Costa Rica found that its implementation of the Blue Flag beach certification program spurred the construction of 12–19 additional hotels per year. A previous study on impacts of Costa Rica’s Sustainable Tourism Certification program revealed price benefits for participating hotels with strong environmental performance.

- Capacity-building support to private sector organizations is expected to have positive sustainable impacts with regard to the ability of the sector to respond to the tourism market. The organization and MSMEs to be trained through this support are expected to benefit from enhanced skills to respond to market needs, particularly with regard to general business skills and technical skills to implement specific tourism products identified in Component 1. Enhanced capacity is expected to improve these MSMEs’ potential for growth and increase the tourism sector’s overall inclusiveness.

*Improving the business environment to increase access to finance for MSMEs (US\$0.80 million)*

11. Activities are aimed at (a) implementing financial infrastructure to facilitate the extension of credit to MSMEs in Cabo Verde, (b) establishing a movable collateral registry for secured transactions, and (c) implementing a modern insolvency framework.

**Incremental Benefits of Business Environment Reform**

12. Substantial gains can be achieved through regulatory reform. To guide the Bank’s estimations of the potential impact of selected business environment reforms, the Bank turns to studies from other countries with the usual caveats that are attached to cross-country comparisons. Still, the direction of the impact is consistent. For example, reforms to the insolvency and secured transactions frameworks, including the improvement of the legal framework and its implementation, are expected to lower the cost of and expand credit to MSMEs. This expectation is based on results seen in other countries that reformed their insolvency and debt resolution systems, such as Brazil (22 percent decrease in cost of debt, 39 percent increase on aggregate credit);<sup>9</sup> India (1.36 percentage point lower increase on interest rates);<sup>10</sup> and Thailand (decrease in NPLs and expected costs of financial distress).<sup>11</sup> Specifically regarding collateral registries, a cross-country study of 73 economies found that the establishment of such registries increased access to finance for firms, with slightly larger effects for small firms. In countries that established such registries—including Guatemala and Rwanda—firms saw a rise in access to finance by 8 percentage points, an increase of 10 percentage points in working capital financed by banks, and a decrease of 3 percentage points in the average interest rate.

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<sup>9</sup> Funchal, Bruno. 2008. “The Effects of the 2005 Bankruptcy Reform in Brazil.” *Economics Letters* 101 (1): 84–86.

<sup>10</sup> Visaria, Surata. 2009. “Legal Reform and Loan Repayment: The Microeconomic Impact of Debt Recovery Tribunals in India.” *American Economic Journal: Applied Economics* 1 (3): 59–81.

<sup>11</sup> Foley, C. Fritz. 1999. *Going Bust in Bangkok: Lessons from Bankruptcy Law Reform in Thailand*. Cambridge, MA: Harvard Business School.

## **Annex 5: Summary of Active and Relevant Projects in Cabo Verde**

### **CABO VERDE: Competitiveness for Tourism Development Project (P146666)**

#### **Transport Sector Reform Project (P126516, IDA, US\$31 million)**

The objective of the project is to support the recipient's efforts to improve efficiency and management of its national road assets and lay the groundwork for transport sector State Owned Enterprise reform.

#### **Recovery and Reform of the Electricity Sector Project (P115464, IBRD, US\$58.50 million)**

The proposed main development objectives of the Recovery and Reform of the Electricity Sector Project are to increase electricity generation in the islands of Sao Vicente and Santiago and to assist the state water and electricity company, Electra (*Empresa de Electricidade e Agua*) to reduce electricity losses in Santiago Island.

#### **Support to the Setting up of the National Investment System (P143962, Institutional Development Fund Grant, US\$0.69 million)**

The objective of this grant is to support the government's efforts to strengthen its public investment management system in Cabo Verde. This strengthening will enable the government to maximize the impact of public infrastructure investment projects on economic growth and poverty reduction.

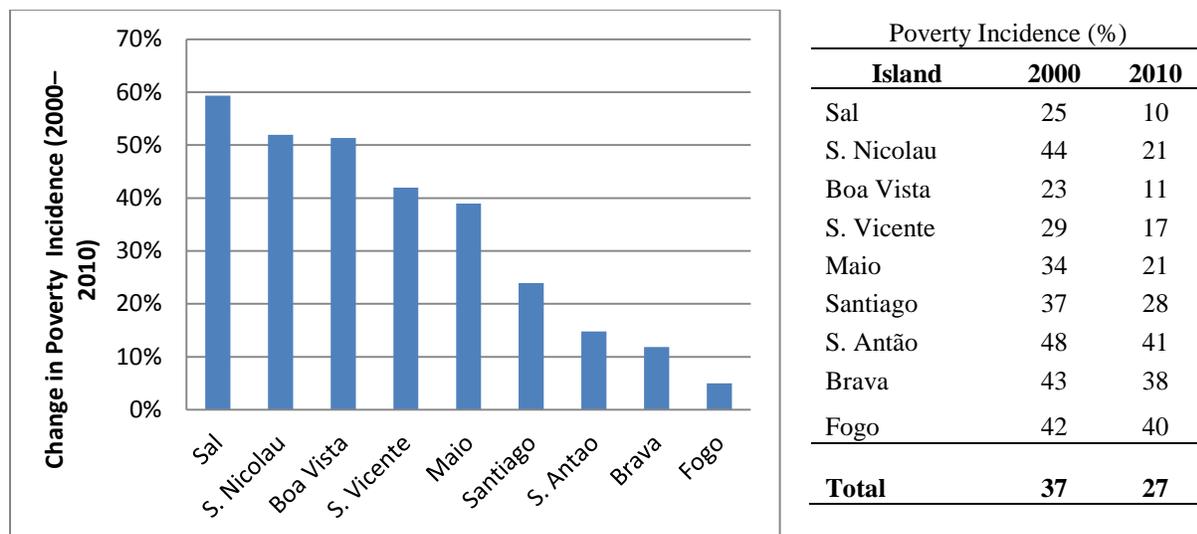
## Annex 6: Executive Summary of Background Analytical Work

### Tourism FDI as a Driver of Growth and Jobs, with Local Linkages to Increase Inclusiveness

#### *Tourism Development in Cabo Verde - Is It Time to Abandon the All-inclusive Model?*

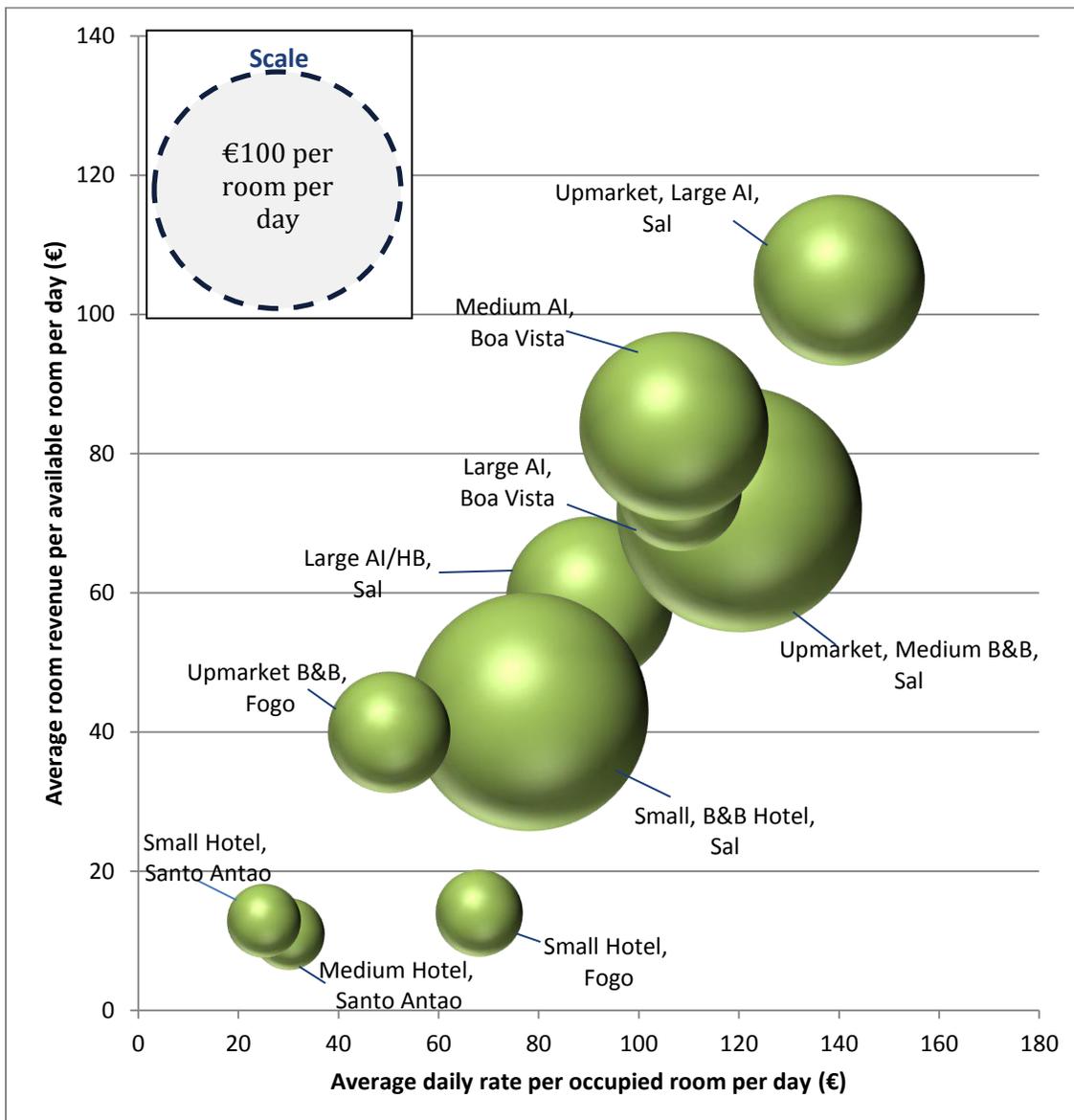
1. The economy of Cabo Verde recorded remarkable growth during the last two decades, with tourism playing a central role. GDP has doubled in nominal terms since the end of the 90s and per capita income has grown at an annual rate of 4.6 percent during the same period. The transformation did not occur only in terms of economic growth but also in its configuration—from a primary sector-based economy dominated by agriculture and fisheries to an economy based on services with a special focus on tourism. The rise of tourism is reflected in the volume of international arrivals—from 67,000 in 1999 to 482,000 in 2012—and in the economic importance of the sector—from 5 percent of GDP in 2000 to around 20 percent in 2012.
2. The development of tourism in Cabo Verde, facilitated by government incentives, took place on the basis of FDI by large international operators who built large all-inclusive accommodations on the islands with high ‘sun, sea, and sand’ potential. As a result, in 2011, the islands of Sal and Boa Vista had about 75 percent of all hotel rooms in the country and recorded a 90 percent market share in terms of tourist-bed nights spent in the country.
3. Poverty has dropped significantly since 2000, especially in islands where tourism is the major economic activity. Cabo Verde’s poverty rate in 2000 was 37 percent, dropping to 27 percent in 2010. Islands with the most tourism FDI have the lowest poverty incidence in Cabo Verde: Sal’s poverty rate is 10 percent and Boa Vista’s is 11 percent. As these two islands are almost totally dependent on all-inclusive hotels, this suggests that the tourism sector—including the all-inclusive tourism development model—has the potential to lift people out of poverty.

**Figure 6.1. Changes in Poverty Incidence from 2000 to 2010**



4. The all-inclusive model has raised several questions with respect to its perceived limited linkages with the national economy. A careful analysis based on empirical data gathered and processed in the study shows that the all-inclusive development model has made important contributions to the national economy in several dimensions: (a) government revenues due to direct and indirect taxation—VAT, import duties, visa fees, airport taxes, and tax on the income of direct and indirect sector workers; (b) direct and indirect jobs associated with the sector—about 8,204 estimated in the sector in 2011 (which can go up to 14,628, if complementary jobs of the travel sector are included); (c) indirect flows—represented for example by the construction sector and in the local demand for food and beverages; and (d) tourism expenditure in the local economy—which is low in Cabo Verde when compared to international averages.

**Figure 6.2. Hotel Performance and Local Content**



Note: Bubble area represents local benefit per room per day in Euros.

5. In spite of the positive impacts of the all-inclusive development model in Cabo Verde, it is important to take into account its ‘leakages’. This mainly manifests through high imports of food and beverages and, in a less significant manner, hiring of foreign workers. By segmenting the different types of accommodations in the touristic islands, the study concludes that high-end resorts have the highest local benefit in absolute terms and the small and medium local high-end bed and breakfast type hotels have the biggest local benefit in relative terms. Moreover, the study also finds that the little hotels in less touristic islands do not have a significant local impact mainly due to their low rates of occupancy and relatively low prices.

6. To increase the positive contribution of the sector to the economy, the study makes the following recommendations: (a) create a National Tourism Organization inspired by best practices in other countries, to be in charge of implementing the strategy for the sector, develop the marketing of the destination, manage public relations and the PPD, monitor quality standards, and develop new products and markets; (b) improve the collection of statistics about the sector through the implementation of the tourism satellite accounts so as to better inform policy decisions; (c) reinforce the connection of the sector to the fisheries supply chain through the implementation of a certified fish handling and treatment process to comply with international quality and hygiene standards; (d) improve the supply of vocational training for the tourism sector; and (e) improve the living and housing conditions of tourism workers in the island of Boa Vista.

#### Strategy for Increasing Access to Finance for MSMEs

7. Despite rapid progress, a relatively high credit to GDP (58 percent relative to the average in SSA of 20 percent), and near universal access to basic financial services, the growth of credit to the private sector in Cabo Verde has stalled and almost all MSMEs lack access to affordable finance. Financial inclusion is almost universal with 98 percent of adults in Cabo Verde able to access basic financial services for depositing savings and transacting payments, which is facilitated by a wide branch network across all islands and low transaction costs. Housing finance is readily available, as are loans for large enterprises at interest rates comparable to the Eurozone. Nevertheless, a significant majority of firms operating in Cabo Verde (more than 95 percent) are MSMEs that report that the lack of affordable financial services, particularly loans for working capital and investment, is a serious constraint to their growth.

8. Cabo Verde experienced high levels of credit growth before the global financial crisis of 2007–2008. The majority of this credit was channeled to investment in local real estate, particularly in the tourism sector, and was financed primarily by domestic banks. Investment in tourism real estate (*imobiliário-turístico*) contributed to the greater use and acceptability of this type of asset as collateral. A fall in investment partially caused by difficulties in servicing loans, particularly for investors exposed to the downturn in Europe, led to an across the board revaluation of this collateral type and asset quality concerns of the existing loan portfolio, which made banks reluctant to continue to lend.

9. Credit growth to the private sector declined sharply and became negative in the first and third quarter of 2013 although it returned to growth by the end of the year. The government engaged in counter-cyclical policies to sustain public investment, which was financed primarily with external debt, but the majority of the fiscal space has since been exhausted. To support the

economy and to encourage private-sector-led growth, the BCV has undertaken a program of monetary easing since May 2013. In February 2015, the BCV reduced its benchmark interest rate from 3.75 to 3.50 percent and lowered the reserve requirement for banks from 18 to 15 percent. However, this has yet to translate into lower bank lending rates, which remain above 10 percent, in part due to the absence of a sufficiently developed interbank market and a secondary market for trading of short-term debt instruments, which significantly reduces the effectiveness of monetary policy interventions in stimulating credit to the private sector or promoting growth.

10. The cost of finance is high, on average, both in nominal and real terms, as well as measured by spreads (lending minus deposit rates). Average interest rate spreads in 2014 were 8.5 percent relative to 4.4 percent in advanced economies (albeit lower than the SSA average of 11.5 percent or comparable small island states). High operating costs, due in part to the nature of operating a series of bank branches on an archipelago of islands, and lack of sufficient economies of scale contribute to high lending costs. Anecdotal evidence suggests that the high cost of credit reduces the effective demand from MSMEs that will normally qualify as low credit risks. Lower central bank policy rates can generate additional demand and credit growth if market rates for loans decline and economic growth resumes, which will be promoted by more affordable finance in a virtuous cycle.

11. Increasing private-sector-led growth and job creation is a key priority for the GoCV. Increasing access to finance, particularly for MSMEs, is critical for long-term growth, but the small size of the economy constitutes an important challenge to financial development. According to enterprise surveys, access to finance is the second most significant constraint facing business in Cabo Verde. Most firms finance investments and working capital from earnings or informal sources such as in-kind lending.<sup>12</sup> New enterprises and established MSMEs operating in high-risk sectors, including agriculture and fisheries, are particularly disadvantaged. Banks are unwilling to lend to almost all enterprises without strong collateral and do not engage in inventory or cash-flow-based lending.

12. Banks view inadequate demand from MSMEs and the absence of reliable, audited accounting statements as a key constraint to lending. Banks also cite the lack of an adequate judicial infrastructure for executing collateral guarantees and lack of depth in the market, particularly for real estate. In February 2015, the BCV extended the period during which banks can seek to dispose of real estate assets before writing off their balance sheets from two to five years, in the expectation that additional time will allow the banks the opportunity to dispose of the asset without incurring a capital charge.

13. Given that the financial system in Cabo Verde is heavily bank-centric (eight banks comprise the system and account for 80 percent of financial sector assets), their role in promoting financial intermediation is critical. Nevertheless, commercial banks are not well positioned to take on additional credit risk given their need to address existing portfolio quality issues, primarily in the tourism, real estate, and construction sectors. NPLs have been in the double digits since 2010 and are high at over 20 percent as of September 2014. Bank profitability

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<sup>12</sup> Only 42 percent of enterprises in Cabo Verde reported having access to formal financing. Although in line with other developing countries (43 percent) and better than the SSA average (22 percent), it nevertheless implies that the majority of firms lack access to finance.

has been low or negative for most of the past half-decade. Liquidity is high but concentrated in new entrants while larger, more established banks rely on volatile emigrant deposits and exhibit lower levels of liquidity. Market competition may also be an issue in a system where three banks account for 75 percent of total assets in the system. This high degree of concentration may reduce competition for new clients and encourage a dynamic of only servicing the top end of the market.

14. The enactment in April 2014 of the new financial sector laws represents an important step in closing gaps in the regulatory framework and enhancing the BCV's supervisory role.<sup>13</sup> As the report outlines, many of the gaps identified by a World Bank-International Monetary Fund Financial Sector Assessment conducted in 2009 have been addressed by the passage of the new Financial Institutions Law. However, important challenges remain including the effective planning and prioritization of the regulatory guidelines associated with the new laws and the recruitment and training of supervisory staff. Proper valuation of banks' exposure, as well as efforts to accelerate repossession of collateral, will be necessary to reduce the stock of nonperforming assets and reactivate lending.

15. Much of the financial infrastructure that will facilitate the extension of credit to MSMEs in Cabo Verde is absent. There is no movable collateral registry, functioning credit information bureau, small claims court specialized in commercial cases, or mechanism for enforcing accounting and auditing standards. Audited financial statements for enterprises are scarce and contract enforcement is perceived to be weak and time consuming. Nonbank financing is almost nonexistent. A venture capital fund exists but is not active and did not make any investments in 2014. Capital markets for equity and debt are shallow, thinly traded, and accessible only to a few large companies and the government.

16. The government's current approach to increasing the amount of financing available to MSMEs is uncoordinated and ineffective. A partial credit guarantee has been established but is not yet operational (*CVGarante*). A state-owned bank (*Novo Banco*) established to focus solely on MSMEs, lacks proper risk management or commercial experience to carry out its function. A series of small credit lines scattered in multiple ministries does not achieve economies of scale. An MSME support agency (ADEI), with a range of instruments designed to help overcome demand-side constraints, has yet to achieve an impact in a largely informal and geographically dispersed market. Private sector initiatives, such as a US\$1 million MSME credit line announced by the largest bank in the country in September 2014, have seen little take up. Lastly, the microfinance sector lacks sufficient capital to support the sector is focused on social, rather than commercial, ventures and lacks the relevant management expertise. It is also unsupervised.

17. Opportunities to increase access to finance for MSMEs exist through the potential to scale up existing financial services and introduce new financial products (for example, leasing, factoring, and value chain financing). However, these require complementary business environment reforms such as the creation of a movable-asset collateral registry, reduction in

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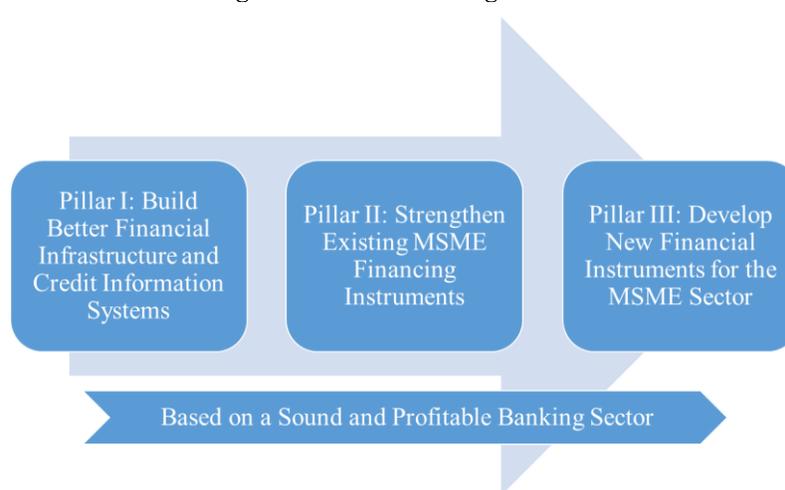
<sup>13</sup>See:

<http://www.bcv.cv/vPT/Legislacao/Sectores/Documents/Lei%20de%20Bases%20do%20Sistema%20Financeiro.pdf>

notarization costs, establishment of a fully functioning credit information system, and introduction of an insolvency framework to facilitate market exits at the end of the business cycle. Demand-side interventions to build capacity for MSMEs to develop financial statements and accounts as well as general financial literacy will also be necessary. Efforts to increase financial access to MSMEs will also involve reducing impediments to bank lending and reinforcement of bank's balance sheets.

18. Improving access to finance for MSMEs will require coordinated action to increase the availability and quality of credit risk information and link capital with productive investments. Specifically, this will involve efforts along three strategic pillars (building better financial infrastructure, strengthening existing financial instruments, and developing new financial instruments) based on a sound and profitable banking sector.

**Figure 6.3. Three Strategic Pillars**



19. Banking sector soundness is paramount to a long-term sustained increase in MSME lending. Efforts related to the three strategic pillars should be successful as they pair up with necessary initiatives to improve banks' soundness and profitability to enhance banks' lending capabilities. An overall assessment of the banking system should be considered, further exploring the underlying issues related to the low profitability levels, low asset quality, and high NPLs to complete a full financial sector development strategy.

**Table 6.1. Key Recommendations for Each Strategic Pillar**

<b>Pillar</b>	<b>Key recommendations</b>
I. Build Better Financial Infrastructure	<ul style="list-style-type: none"> <li>• Create a movable asset collateral registry.</li> <li>• Strengthen complementarity of credit information systems (public and private).</li> <li>• Establish specialized commercial unit within courts focused on commercial and credit cases.</li> <li>• Enhance leasing and factoring opportunities by streamlining legal and regulatory requirements.</li> </ul>
II. Strengthen Existing MSME Finance Instruments	<ul style="list-style-type: none"> <li>• Strengthen <i>Novo Banco</i> through a strategic partner or shareholder and capacity building technical assistance.</li> <li>• Improve coordination between <i>Novo Banco</i>, ADEI, and <i>CVGarante</i>, potentially through a task force established in the prime minister's office.</li> <li>• Make the partial credit guarantee scheme operational by providing the public</li> </ul>

	counter guarantee to facilitate risk sharing between banks and <i>CVGarante</i> .
III. Develop New Financial Instruments for MSMEs	<ul style="list-style-type: none"> <li>• Introduce cash flow and working capital-based lending.</li> <li>• Engage in value-chain financing.</li> <li>• Build microfinance sector with greater focus on sustainability.</li> </ul>

20. To orient the financial system to the needs of the majority of the private sector, it is important to coordinate the various elements of the MSME promotion efforts that Cabo Verde already possesses. Concerted action will be required to address the constraints to MSME financing identified in Cabo Verde. Specific policy recommendations are contained in the *Strategy for Increasing Access to Finance for Micro, Small, and Medium Enterprises*.