



# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

---

Concept Stage | Date Prepared/Updated: 11-May-2017 | Report No: PIDISDSC21462



**BASIC INFORMATION**

**A. Basic Project Data**

Country Cabo Verde	Project ID P163015	Parent Project ID (if any)	Project Name Cabo Verde: Access to Finance for MSMEs (P163015)
Region AFRICA	Estimated Appraisal Date Oct 16, 2017	Estimated Board Date Feb 15, 2018	Practice Area (Lead) Finance & Markets
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Economy and Jobs	

**Proposed Development Objective(s)**

The development objective is to increase access to finance for micro, small and medium sized enterprises.

**Financing (in USD Million)**

Financing Source	Amount
International Development Association (IDA)	15.00
<b>Total Project Cost</b>	<b>15.00</b>

Environmental Assessment Category F-Financial Intermediary Assessment	Concept Review Decision Track II-The review did authorize the preparation to continue
--	--

Other Decision (as needed)

**B. Introduction and Context**

Country Context

Cabo Verde’s economic growth over the past decade has resulted in significant poverty reduction. Between 2002 and 2008, extreme poverty (measured at USD 1.25/day) fell 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. During this period, Cabo Verde attained lower middle income country status with a per capita income of USD 3,280. Its economy is based on services, particularly wholesale and retail trade, as well as tourism, mainly for European markets.

Economic activity in Cabo Verde is mostly conducted by small, mostly informal, firms dispersed across nine inhabited islands. In 2015, the business sector was comprised of 9,403 formal firms providing 53,839 jobs and by an estimated 33,000 informal units providing close to 40,000 jobs. Micro and small-sized enterprises (MSMEs) constitute 98 percent of firms operating in Cabo Verde, providing more than 40 percent of jobs and a significant share of the economy. About two thirds of formal firms in Cabo Verde are located on the islands of Santiago and São Vicente.

The economy has slowed and is hindered by limited productive capabilities and low competitiveness. From 2010–15, real GDP growth fell to 1.8 percent relative to 7.1 percent during 2005–09. Foreign direct investment slowed to 6.1 percent of GDP in 2010-15 from 10.4 percent of GDP in 2005–09. Growth was driven by public expenditure financed with external debt, which grew from 42.8 percent of GDP in 2009 to 96.7 percent in 2015. The economy is vulnerable to external shocks, notably from Europe, the main source of tourism, FDI, and remittances. The economy recovered in 2016 with an estimated real GDP growth of 3–3.5 percent supported by FDI, domestic demand, and tourism.

#### Sectoral and Institutional Context

Access to credit is not widespread. Domestic credit to the private sector has declined from 66 percent of GDP in 2011 to 60 percent of GDP in 2016 as banks increased the share of its assets deposited with the central bank and lent to the Government and State-Owned Enterprises (SOEs). MSMEs, in particular, face significant financing constraints. A 2014 survey showed that only 26.5 percent of total credit to enterprises goes to micro and small enterprises. Banks cite poor business prospects, limited collateral, lack of proper accounting, and the general macroeconomic environment as the main reasons for restricting credit. Treasury bonds paid an average interest rate of 5 percent in 2016 and were perceived as more attractive than private lending. The microfinance sector is very small with less than 1 percent of total assets in the sector and reliant on donor funding to maintain its operations.

The average cost of finance in real terms is high. Lending rates for loans of up to one year are around 10 percent in real terms. In 2015 the average interest rate spread (lending minus deposit rates) was 7.4 percent compared with 6.4 percent in middle income economies or 6.9 percent in low middle income economies. High operating costs, due in part to operating branches on an archipelago and lack of sufficient economies of scale, contribute to high lending costs.

Banks dominate the financial sector with more than 85 percent of assets. Assets and loans are concentrated in the top two banks (out of eight licensed banks). Liquidity is high and liabilities are predominantly deposits from residents, migrants, and Government entities. The downturn in the tourism and real estate caused non-performing loans (NPLs) to increase to 17 percent of total loans at end-2016. As a result, banks' capacity to finance new projects is limited. Profitability is low with average return on assets of 0.3 percent since 2012.

Capital markets are developing, but still limited. Government securities totaled 27.7 percent of GDP with the National Pension Fund holding about 43 percent of this public domestic debt and the rest held by banks. A primary market for corporate bonds exists but has limited depth. Outstanding corporate bonds were only 6.7 percent of GDP. Secondary markets are illiquid. The insurance sector is small with premiums equivalent to 1.4 percent of GDP in 2015. The stock market is tiny with four listed companies a total capitalization of 4 percent of GDP and illiquid.



## Relationship to CPF

The FY15-17 Country Partnership Strategy supports Cabo Verde to enhance its macro-fiscal stability and addressing growth challenges. The proposed project is aligned with the programmatic pillar on improving competitiveness and private sector development. The project will support improvement of the MSME sector and of the overall investment climate. A key objective of the Government is to support private investment by improving the business environment, increasing access to financing for MSMEs, attracting FDI, and connecting the local economy with the most strategic sector—tourism. This project responds to the Government’s objective of increasing access to finance outlined in the 2015 MSME Finance Strategy completed with World Bank support.

### **C. Proposed Development Objective(s)**

The development objective is to increase access to finance for micro, small and medium sized enterprises.

#### Key Results (From PCN)

A stable, competitive, and inclusive financial system capable of providing affordable financial services and products is a precondition for development, reducing poverty, and increasing shared prosperity. The provision of financial services, including credit, at lower cost and in an inclusive manner increases opportunities for smaller enterprises and low-income households, which promote economic growth and employment, thereby reducing poverty.

### **D. Concept Description**

The project will finance the strengthening of the partial credit guarantee (PCG) system, technical assistance to MSME borrowers and their creditors (private commercial banks) to make use of the system – including support for preparation of financial statement business plans, and loan applications – administered by the Government, and enhancements to the existing credit registry to reduce information asymmetries. The project will also assess the demand for alternative financial products (e.g., leasing, factoring, value-chain financing). The project will complement existing World Bank projects under implementation that seek to improve the overall investment climate in Cabo Verde.

## **SAFEGUARDS**

### **A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

The specific location of the individual MSMEs to be financed under the Project are not known at this time. They could be located anywhere in Cabo Verde where the project will be implemented. The type and scale of activities may vary widely across the geographic and environmental landscapes of the archipelago of islands that constitutes Cabo Verde.

### **B. Borrower’s Institutional Capacity for Safeguard Policies**

Cabo Verde has an established regulatory and institutional framework that ensure the integration of environmental and social considerations at the project and program level. The Ministry of Agriculture and Environment is responsible for the enforcement of the environment assessment legislation (law 29/2006) and procedures, through the Directorate General for Environment (DGE) which is fairly familiar with the Bank safeguard policies requirements. However, to ensure that the



safeguard instruments of the proposed project be implemented efficiently, specific capacity support measures will be identified and financed.

**C. Environmental and Social Safeguards Specialists on the Team**

Alexandra C. Bezeredi, Medou Lo

**D. Policies that might apply**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The project triggers Safeguards Policy OP/BP 4.01 (Environmental Assessment) and is classified as category FI project given the potential negative environmental and social impacts associated with the Partial Credit Guarantee (PCG) funds, which is expected to be financed by the project (component 1) and used to guarantee private bank loans to MSMEs. Specific MSME activities and location are not yet defined, but they are expected to be largely related to small and medium scale projects in agriculture, small scale light manufacturing, construction & real estate development, and tourism that will require environmental assessment to ensure that potential adverse effects are mitigated. These could include loss of vegetation due to land clearing, soil degradation due to civil works, nuisance caused by dust and noise from construction activities, risks of injury, increased prevalence of HIV/AIDS and other STDs due to workers potentially coming from other cities/villages, etc. For Component 2 (Technical Assistance to MSMEs), there are no environmental and social risks foreseen. Component 3 (Credit Registry Enhancement) only involves IT equipment and TA, which is not expected to generate negative environmental and social impacts. An ESMF will be developed by the borrower, consulted upon and disclosed both in-country and at the Info Shop before appraisal. The ESMF will include appropriate screening and standard mitigation measures to effectively manage the potential negative impacts.
Natural Habitats OP/BP 4.04	No	The PCG will not guaranty activity that can lead to conversion or degradation of Natural Habitats. The ESMF will include preventive measures for avoiding encroachment or negative leakage on natural habitats.
Forests OP/BP 4.36	No	It is not expected that the guaranteed MSMEs will invest physically in forest ecosystem. However, their



		agricultural activities may induce indirect deforestation. The ESMF will provide guidance to prevent such risks.
Pest Management OP 4.09	Yes	Guaranteed MSMEs could invest in agriculture which might be associated use and purchase of pesticides. A Pest Management Plan (PMP) will be developed by the borrower, consulted upon and publicly disclosed both in-country and at the Info Shop before appraisal.
Physical Cultural Resources OP/BP 4.11	Yes	The policy for Physical Cultural Resources (OP/BP 4.11) has been triggered because of the prevalence of ecotourism-related MSMEs in Cabo Verde, which can negatively affect national heritage sites. The ESMF will provide preventive measures and any ESIA/ESMPs for civil work prepared under the ESMF will include a chance find procedures to be included in the companies' contracts, in case any chance finds occurs during civil works
Indigenous Peoples OP/BP 4.10	No	This policy is not triggered because there are no Indigenous Peoples present in the Project area.
Involuntary Resettlement OP/BP 4.12	No	The World Bank (WB) Policy on Involuntary Resettlement, OP 4.12, will not apply to the Cabo Verde: Access to Finance Project. The financing activities are focused on existing MSMEs. No land take is expected for the project and the PCG will not guarantee investments or activities that result in land acquisition leading to economic or physical displacement. This restriction will be part of the exclusion list in the ESMF and Operations Manual, including a rigorous screening process for potential future investments.
Safety of Dams OP/BP 4.37	No	The ESMF will include an exclusion list for activities involving dams.
Projects on International Waterways OP/BP 7.50	No	Subprojects which could potentially affect international waterways will be excluded in the ESMF.
Projects in Disputed Areas OP/BP 7.60	No	In Cabo Verde there is no disputed area as defined under OP 7.60.

**E. Safeguard Preparation Plan**

Tentative target date for preparing the Appraisal Stage PID/ISDS

Oct 31, 2017



Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The borrower will need to prepare an Environmental and Social Management Framework (ESMF) and a Pest Management Plan (PMP) applicable to the sub-projects and activities financed by private commercial banks accessing the partial credit guarantee fund. These safeguard instruments will be reviewed and approved by the Bank and disclosed prior to the Decision Meeting. They will be launched in July 2017 for about three months. It is expected that by November 2017 all the required safeguard documents should be disclosed.

**CONTACT POINT**

**World Bank**

Julian Casal  
Senior Financial Sector Economist

**Borrower/Client/Recipient**

Ministry of Finance  
Carla Cruz  
Director for National Planning  
Carla.Cruz@mf.gov.cv

**Implementing Agencies**

Ministry of Economy and Jobs  
Leonilda Mendes  
Administradora  
Leonilda.Mendes@adei.cv

**FOR MORE INFORMATION CONTACT**

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: <http://www.worldbank.org/projects>

**APPROVAL**

Task Team Leader(s):

Julian Casal



**Approved By**

Safeguards Advisor:	Maman-Sani Issa	11-May-2017
Practice Manager/Manager:	Alejandro Alvarez de la Campa	12-May-2017
Country Director:	R. Gregory Toulmin	30-May-2017

---