

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA47115

<b>Project Name</b>	Competitiveness for Tourism Development (P146666)
<b>Region</b>	AFRICA
<b>Country</b>	Cabo Verde
<b>Sector(s)</b>	General industry and trade sector (75%), SME Finance (25%)
<b>Theme(s)</b>	Micro, Small and Medium Enterprise support (50%), Regulation and competition policy (50%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P146666
<b>Borrower(s)</b>	REPUBLIC OF CABO VERDE
<b>Implementing Agency</b>	Ministry of Tourism, Investment, and Business Development
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	09-Mar-2016
<b>Date PID Approved/Disclosed</b>	01-May-2015
<b>Estimated Date of Appraisal Completion</b>	09-Mar-2016
<b>Estimated Date of Board Approval</b>	10-May-2016
<b>Appraisal Review Decision (from Decision Note)</b>	The Decision Review Meeting held on December 3, 2015 allowed for i) the upgrade of a Technical Mission, which took place from 23 to 30 of October, 2015 to Appraisal Mission, ii) the completion of the appraisal of the proposed project and iii) authorized the Task Team to proceed with negotiations subject to taking in consideration the decisions reached at the review meeting. On that basis, project negotiations have been scheduled to take place on March 18, 2016.

## I. Project Context

### Country Context

The Republic of Cabo Verde experienced robust economic growth and poverty reduction during the beginning of the new millennium. 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).

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 of approximately 520,000.

### **Sectoral and institutional Context**

The GoCV's third Growth and Poverty Reduction Strategy Program (GPRSP III) 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 till 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.

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 Investimentos (CVI) into a joint tourism and investment promotion agency, 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. The CI-ATIC will play a key role in enabling the country to compete better with tourism and investment destinations that are rapidly recovering, particularly in the Mediterranean.

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 due to 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).

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 with a potential second unit in Praia, the last large hotel to open in Boa Vista was the Riu Touareg in 2011, with 881 rooms. Since then, no other project has broken ground on the island, despite the availability of over 20 km of prime beach location in the southern part of the island. The current investment promotion agencies—Cabo Verde Investments (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.

7. 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 over reliance upon one company. This model also lends itself to high levels of leakage.

8. 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).

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 due to 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.

The scant participation of the domestic private sector in the tourism value chain is largely due to 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 Nonperforming Loans (NPLs) (20 percent as of September 2014), 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.

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.

## **II. Proposed Development Objectives**

The project development objective is to create the conditions to increase investment into and diversification of the tourism sector.

## **III. Project Description**

### **Component Name**

Component 1: Enhancing the governance framework of the tourism sector

**Comments (optional)**

The objective of this component is to prepare the GoCV to better attract, facilitate, retain, and grow investment and to carry out the country's tourism diversification agenda effectively.

**Component Name**

Component 2: Diversify the sector and increase the inclusiveness of tourism-led growth by strengthening the competitiveness of local MSMEs

**Comments (optional)**

The objective of this component is to increase the competitiveness of MSMEs to benefit from tourism growth.

**Component Name**

Component 3: Project implementation

**Comments (optional)**

This 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.

**IV. Financing (in USD Million)**

Total Project Cost:	5.00	Total Bank Financing:	5.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			5.00
Total			5.00

**V. Implementation**

The Ministry of Tourism, Investment, and Business Development (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. UGPE is currently implementing the Recovery and Reform of the Electricity Sector Project under MTIBD.

UGPE will be responsible for implementing the IDA project with full fiduciary responsibility. Its financial management capacity is adequate to meet the minimum requirements of the Bank. Having implemented complex IDA/IBRD-financed projects, UGPE has a very thorough knowledge of Bank procurement rules and procedures, which would allow for a rapid and smooth implementation of the project. Within this framework, UGPE will have responsibility for the day-to-day management of the Project and coordination of project-related activities, including overall responsibility for, inter alia: (i) ensuring timely implementation of the Project in accordance with the PIM; (ii) preparing quarterly progress reports, including updates to the Results Framework, Annual Work Plans and Budgets and annual Procurement Plans; (iii) overseeing Project activities under its direct responsibility and of project-related activities to be carried-out by other entities; (iv) managing Project finances; (v) maintaining consolidated Project accounts; (vi) ensuring all agencies involved in the implementation adhere to the Safeguard Documents of the Project; (vii) developing and

maintaining a system of monitoring the Project key performance indicators; and (viii) ensuring coordination among agencies involved in Project implementation.

To carry out its responsibilities and effectively implement the various components of the project, 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 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.
- (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 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 meet quarterly. It will comprise representatives from the implementing agencies, including the Directorate General for the Environment (DGA) and will be co-chaired by the Project Coordinator.
- (g) Central Bank. The central bank will be the main institutional counterpart for 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.

## VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	<b>x</b>	

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

**Comments (optional)**

**VII. Contact point**

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