

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC15168

Project Name	Competitiveness for Tourism Development (P146666)
Region	AFRICA
Country	Cabo Verde
Sector(s)	General industry and trade sector (50%), SME Finance (30%), General agriculture, fishing and forestry sector (20%)
Theme(s)	Micro, Small and Medium Enterprise support (70%), Regulation and competition policy (30%)
Lending Instrument	Investment Project Financing
Project ID	P146666
Borrower(s)	GOVERNMENT OF CABO VERDE
Implementing Agency	Ministry of Tourism, Investment, and Business Development
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	23-Oct-2014
Date PID Approved/ Disclosed	27-Apr-2015
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	05-Jun-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. Cabo Verde experienced robust economic growth and poverty reduction during the beginning of the new millennia. Real GDP growth rate averaged over 6 percent from 2000 to 2007, above the averages for the Sub-Saharan region and comparable small island states. The growth was possible due to robust FDI inflows associated with the construction and tourism sectors, remittances from the vast diaspora, and substantial official development aid from international partners. The rapid growth has changed the configuration of the economy, leading to a transition from an economy dominated by agriculture and light industry to the overwhelmingly service-based economy of today. The economic dynamic, in conjunction with investments in social programs, also led to significant gains in poverty reduction, as poverty dropped from 37 percent in 2000 to around 27 percent in 2010. Moreover, investments in health, education, and sanitation have placed Cabo Verde within reach of achieving the majority of the Millennium Development Goals by 2015.

2. The onset of the international crisis in 2008 brought with it a significant external shock through a sharp decrease in FDI inflows. As a result, the economy suffered and contracted in 2009. The Government of Cabo Verde (GoCV) quickly responded through an ambitious public investment stimulus – peaking at about 18 percent of GDP in 2010 – that sought to restore growth and alleviate infrastructure bottlenecks to increase competitiveness in the long run. Although growth was reestablished, it has nonetheless decelerated towards near stagnation. The real GDP growth rate is estimated at 0.5 percent in 2013, down from 1.2 percent in 2012. Furthermore, FDI is precipitously declining every year from its peak of over €143 million in 2008 to €20 million in 2013.

3. The main goal of Cabo Verde’s third Growth and Poverty Reduction Program (GPRSP III) is to promote inclusive economic growth, with opportunities for all, as the driver of poverty and inequality reduction. In this framework, job creation is paramount and the private sector must be the economy’s main engine, while the public sector should play the part of a catalyst and facilitator of an investment and business-fostering environment.

Sectoral and Institutional Context

4. The GoCV’s strategy introduces a private sector driven approach to renew growth around three key main economic development clusters – tourism, maritime economy and agribusiness. In the case of tourism, the sector has become Cabo Verde’s most important economic sector, responsible for around 20 percent of GDP and 14 percent of employment. The country’s vision for the sector is to develop a competitive and sustainable tourism sector with high value added, focusing on the medium/high end of the market, and anchored in local enterprises and services that will increase the number of jobs.

5. The development of tourism in Cabo Verde 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 the hotel rooms in the country and recorded a 90 percent share of tourist-bed nights spent in the country. This has created a significant degree of dependency and potential vulnerability. As such, the GPRSP III stresses the need to diversify the industry in terms of its supply and origin. This diversification can limit risk while helping develop niche products associated with higher supply chain participation.

6. In the ten-year period between 2003 and 2012, the country’s tourism sector experienced phenomenal growth, but the pace of growth has slowed since. International arrivals more than tripled from 150,000 in 2003 to 482,000 in 2012. However, in 2013, the country received 503,000 international tourism arrivals, which represented an increase of 4.3 percent from 2012. Data from the first half of 2014 shows year-on-year growth of only 2.5 percent for arrivals and a worryingly drop of 3.7 percent in receipts. Moreover, since 2008 FDI keeps declining year after year with both investment promotion agencies (IPAs, Cabo Verde Investments and the Society for the Touristic Development of the Islands of Boa Vista and Maio - SDTIBM) unable to reverse this trend.

7. The country’s tourism value chain is also characterized by weak linkages with the domestic economy, especially with both agribusiness and fisheries. In Cabo Verde, most of the larger accommodations establishments are foreign-owned and therefore most of the profits are sent abroad. Labor-related leakages are limited given the high level of local employment at 87 percent. As for fish and fresh fruits & vegetables (FFV), leakages are quite high. A recent World Bank study

estimates that 80 percent of fish is imported by hotels at prices greater than those in the domestic market. Most large all-inclusive resorts import all the fish consumed in the hotel, in contrast with smaller hotels that source all their fish locally. Further, an estimated 7,600 tons of FFV are imported every year, with large all-inclusive resorts importing all FFV.

8. 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 supporting the implementation of the tourism vision. The tourism sector is now represented by the Ministry of Tourism, Investment, and Business Development (MTIBD), which replaces the previous Ministry of Tourism, Industry, and Energy. The ministry is currently 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 sense, and according to the tourism cluster governance diagnosis and action plan set out in the Government's GRPSP III, the MTIBD is currently planning to establish a National Tourism Organization (NTO) to provide greater coordination and integration of all the economic agents involved in the tourism sector, increase Cabo Verde's visibility as a tourism destination, facilitate the diversification of products, and increase employment. Moreover, it is expected that the NTO will address the absence of a genuine and constructive dialogue with private sector operators, which impede the early detection and solution of certain challenges. The NTO will be financed through the government budget and the tourism tax.

9. Besides tourism as the anchor sector for the economy, the GPRSP III identifies the maritime economy and agribusiness as the other two sectors with perceived competitive and comparative advantages for economic growth and job creation. The maritime economy cluster is closely intertwined with the large size of Cabo Verde's maritime economic exclusivity zone (estimated at about 734,265 km² versus the land mass of 4,033km²) as well as its strategic location. Nonetheless, the cluster faces some challenges, including lack of a cold chain in the fisheries sector which limits the ability of fishers to sell their products to large international hotels. The agribusiness cluster can leverage recent investments in dams to develop a competitive sector in order to substitute imports and satisfy the increasing tourism demand for quality and reliable food produce. Challenges in linking the agribusiness cluster with the tourism activity in Sal and Boa Vista are the limited production and aggregation capacity of the private sector and poor inter-island connectivity.

10. It is estimated that 192,000 Cabo Verdeans emigrants live abroad, more than one-third of the country's resident population, although some believe that the immediate descendants of emigrants now exceed the country's resident population. In 2013, emigrants sent US\$173 million in remittances, which is equivalent of 8.8 percent of GDP (World Bank, 2014). Moreover, emigrant deposits in the Cabo Verdean financial sector account for more than one-third of total deposits. However, despite the high inflow of emigrant funds to the country, there is limited investment in activities outside of the real estate sector.

11. A key challenge that Cabo Verde, compared to its competitors, faces is the high cost of doing business, which impacts private sector investment. The Doing Business Report (World Bank, 2014) ranks Cabo Verde 121st out of 189 economies. There has been significant progress in some areas. For example, the One-Stop-Shop reduced the business registration process from 52 to 10 days, and the number of procedures from 12 to 7, between 2008 and 2013. However, from an international perspective, although the country performs better than immediate neighbors such as Senegal or the Gambia, it ranks well below other tourism destinations such as Mauritius (20),

Seychelles (80), Tunisia (51), and Morocco (87). Cabo Verde still lags behind in many areas, including (a) lengthy procedures to get construction permits, (b) difficulty in obtaining credit, (c) complexity of trade procedures, (d) the lack of an insolvency law, (e) an ineffective commercial court system, and (f) the high cost of electricity.

12. In addition to the investment climate challenges, innovation and entrepreneurship in the private sector are limited, especially along the tourism value chain. Since the public sector has been the major employer for many years, the notion of business development and entrepreneurship has not taken off in Cabo Verde. The limited access to financing for start-ups accentuates this challenge.

Relationship to CAS

13. The proposed Competitiveness for Investment Project is well-anchored within the Country Partnership Strategy (CPS FY15-17). The CPS builds on the two successful pillars under the previous CPS, with some adjustments to respond to the country's needs as articulated in the GPRSP III. In this sense, the CPS framework includes two pillars: (1) Enhancing Macro-Fiscal Stability and (2) Improving Competitiveness and Private Sector Development. The proposed project has been identified in the CPS as one of the lending activities under the second pillar.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

14. The development objective of the proposed project is to increase private investment and the competitiveness of the private sector. This will be achieved by (i) strengthening the institutional capacity and regulatory framework to increase private investment; (ii) supporting the establishment of a National Tourism Organization to diversify and improve the quality of the tourism product; and (iii) strengthen the capacity of entrepreneurs to implement business ideas and generate employment.

Key Results (From PCN)

15. The success in achieving the PDO will be measured by the following outcome indicators: (i) increased FDI, (ii) increased number of tourist nights, and (iii) private capital mobilized by the investment marketplace.

III. Preliminary Description

Concept Description

16. The Competitiveness for Investment and Innovation Project concept has been informed by the findings of the "Addressing the Challenges of a Middle-Income Small State" Country Economic Memorandum (World Bank, 2013); the "Tourism Development in Cabo Verde: Is it Time to Abandon the All-Inclusive Model?" study (World Bank, 2013); the "Establishing a Tourism Ministry, Board, or Institute? Selecting an Institutional Arrangement to Promote Tourism Growth in Cabo Verde" Technical Assistance (World Bank, 2014); the ongoing "Financial Sector Development Strategy" Technical Assistance (World Bank, 2014); and lessons from the SME & Economic Governance Project. As part of the preparation of the Project, the Bank facilitated a South-South-Knowledge Learning Exchange between the governments of Cabo Verde and the Seychelles focusing on the reforms needed to properly support the tourism sector and diversify the tourism product.

17. The project's focus on facilitating increased foreign direct investment and improving the

competitiveness of Cabo Verde is well aligned with the government's agenda of fostering the private sector, investment and productivity growth. The sectoral focus on tourism, agribusiness, and maritime economy is also aligned with the prioritization of clusters in the GPRSP III, which promotes a private sector-driven approach to implement the clusters.

18. The project intends to support selective, targeted, and integrated interventions to improve the business environment, strengthen the capacity of both public sector institutions and the domestic private sector, and create a culture of entrepreneurship. The proposed project will include the following four components with preliminary estimates of allocations: (1) Strengthening the Institutional and Enabling Environment to Invest and Compete (US\$ 3m); (2) Improving the Competitiveness of the Tourism Sector (US\$ 5m); (3) Investment Marketplace for Innovation and Entrepreneurship (US\$10m); and (4) Project Coordination, Monitoring and Evaluation (US\$2m).

COMPONENT 1. Strengthening the Institutional and Enabling Environment to Invest and Compete

19. The objectives of this component are to (i) implement investment climate reforms that can reduce bottlenecks, protect property rights, and facilitate investment; and (ii) improve the capacity of the investment promotion agencies to bring a new surge of FDI. This will include: (i) the implementation of targeted reforms that will reduce the time, steps, and cost of doing business; (ii) the provision of technical assistance to strengthen the institutional capacity of the investment promotion agencies (Cabo Verde Investments and the Society for the Integrated Development of Boa Vista and Maio) to attract, manage, and deliver FDI transactions; and (iii) the provision of technical assistance to strengthen the institutional capacity of selected embassies for the formation of trade and investment promotion sections. Given the plethora of regulatory reforms required, the project support for business environment reforms will need to be selective, pragmatic, readily implementable, sequenced and based on a business environment assessment that will be carried out during project preparation in close coordination with UCRE (State Reform Coordination Unit).

COMPONENT 2. Improving the Competitiveness of the Tourism Sector

20. The objective of this component is to support the creation of a National Tourism Organization (NTO) and support the diversification of the tourism product. This will include: (i) technical assistance to facilitate the creation of the NTO, including the preparation and implementation of a new Tourism Strategy, and the creation of an advisory council comprised of international tourism experts that can provide ongoing guidance to the NTO; (ii) the creation of a quality label program for small accommodations establishments to help Cabo Verde position itself beyond the all-inclusive market, building on the similar "Seychelles Secret" program; (iii) technical assistance for the preparation and implementation of a destination marketing plan, including revamping the country's website, development of mobile apps, and the sponsoring of marketing/PR representation in two to three strategic source markets so as to build awareness of the destination; and (iv) institutionalization of public-private dialogue focused on issues related to the tourism sector. A detailed assessment of the criteria, cost, and benefits of the quality label program will be carried out during project preparation.

COMPONENT 3. Investment Marketplace for Innovation and Entrepreneurship

21. The objective of this component is to improve the capacity of the private sector to implement business ideas and generate employment. This will include: (i) technical assistance for entrepreneurs to refine business plans for start-ups and expansion of promising ongoing businesses; (ii) the creation of an online marketplace where entrepreneurs can post their refined ideas and be found by potential business partners (i.e. diaspora); (iii) competitive financing of innovative

business plans (including events) in the tourism sector and activities in its value chain related to the primary economy (agribusiness and maritime economy); and (iv) a reality television show to promote business ideas found in the online marketplace and create a demonstration effect that showcases that entrepreneurship as a viable option in Cabo Verde.

22. The component will be implemented through annual Business Plan Competitions (BPCs) during which entrepreneurs will receive technical assistance to refine their business plans, and compete for grant financing to implement innovative ideas. The business ideas will be posted on the online marketplace and promoted through road shows in countries with large diaspora populations and potential foreign investors. Winners of the BPCs will receive ongoing support, and gazelle enterprises will be recognized in the online marketplace and become eligible for further funding support. The additional funding support will match any external investor's funds (up to a certain limit). In order to promote transactions and create a demonstration effect, the project will support the production of a reality television show (such as "Shark Thank", "Dragon's Den", and "The Apprentice") where owners of gazelle enterprises would pass through challenges and compete for financing in front of a panel of local and foreign investors.

23. The eligibility criteria, size of financing, eligible expenditures to be financed, procurement and disbursement procedures will be determined prior to project approval based on a demand-supply assessment and drawing lessons from similar initiatives such as the Dell Challenge, Startup Chile, Chile Global, Philippines' Business Advisory Circle, Colombia's Pro Micro, Lebanese Business Network, and other Bank competitions. This component will not finance works or the acquisition of new land.

COMPONENT 4. Project Coordination, Monitoring, and Evaluation

24. A small project coordination unit will be established in MTIBD to coordinate the implementation of project activities, fiduciary management, monitoring and evaluation and reporting. Monitoring and evaluation will include proper tracking and aftercare of foreign investors by the IPAs and the implementation of annual visitor expenditure surveys through the National Institute of Statistics (INE). These surveys, conducted with tourists upon departure from the country's various international airports, capture invaluable information in terms of average spend (broken down by types of expenditures), average length of stay, reason for visit, source of information about the country, activities undertaken, level of satisfaction, etc.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	
---------------------------------------	--	----------	--

V. Financing (in USD Million)

Total Project Cost:	14.10	Total Bank Financing:	10.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			4.10
International Development Association (IDA)			10.00
Total			14.10

VI. Contact point

World Bank

Contact: Andres F. Garcia
 Title: Senior Economist
 Tel: 473-0570
 Email: andres@worldbank.org

Contact: Julian Casal
 Title: Economist
 Tel: 473-6055
 Email: jcasal@worldbank.org

Contact: Penelope Demetra Fidas
 Title: Senior Private Sector Developm
 Tel: 473-1549
 Email: pfidas@worldbank.org

Borrower/Client/Recipient

Name: GOVERNMENT OF CABO VERDE
 Contact:
 Title:
 Tel:
 Email:

Implementing Agencies

Name: Ministry of Tourism, Investment, and Business Development
 Contact: Dalia Gomes
 Title: Advisor
 Tel: 2382604832
 Email: dalia.gomes@mtie.gov.cv

VII. For more information contact:

The InfoShop
 The World Bank
 1818 H Street, NW
 Washington, D.C. 20433

Public Disclosure Copy

Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>

Public Disclosure Copy