Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 22-Mar-2018 | Report No: PIDISDSA23761

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Cabo Verde	P160796	SOE Related Fiscal Management Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	05-Feb-2018	31-May-2018	Governance
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	Unidade de Acompanhanmento do Sector Empresarial do Estado (UASE)	

Proposed Development Objective(s)

The Project Development Objective is to strengthen SOE related fiscal management

Components

Component 1: Results-Based Financing
Component 2: Technical Assistance

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA)	20.00
Total Project Cost	**20.00**

Environmental Assessment Category

C - Not Required

Decision

The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

Cabo Verde has made substantial development progress since independence and is currently the 9th richest country in Sub-Saharan Africa (SSA). In 2016 its gross national income (GNI) per capita was US$ 2970, almost six times what it was in 1982.

The country also witnessed a sustained decline in the number of poor and has high human capital achievements. Using a national poverty line, the incidence of poverty fell from 58 percent in 2001 to 35 percent in 2015 while extreme poverty, defined as those below the national food poverty line, dropped from 30 percent to 10 percent during this period.

However, the country's growth collapsed since 2008 as the economy was hit hard by the global financial and the European sovereign debt crises, and the associated fiscal response has led to a rapid build-up in debt.

Adjusting the country's development model to ensure fiscal sustainability require urgent actions to address public sector balances, as well as resolving multiple public financial management issues which impairs government decision making. A new administration took office in June 2016 and presented a plan which emphasized the gradual deceleration of the budget deficit and a progressive decline in the debt-to-GDP ratio over the medium-term as central to the country's development progress.

Sectoral and Institutional Context

The 2013 Country Economic Memorandum (CEM) concluded that there was an urgent need for the government of Cabo Verde to strengthen fiscal management, which includes the adoption of strong program of fiscal consolidation to curb increasing indebtedness. Significant indebtedness of the SOE sector has also become a significant source of fiscal risks, thereby exacerbating medium-term vulnerabilities. This has been further aggravated by relatively weak macro-fiscal and debt management practices. Accordingly, accelerating and deepening the process of fiscal risk management requires urgent reforms in the SOEs sector supported by institutional strengthening on macroeconomic management and SOE oversight.

The SOEs sector in Cabo Verde has long been a source of high risk contingent liabilities for the government due to their generally weak commercial and financial performance. Some SOEs have 'technically' defaulted on debt obligations requiring government assistance through emergency loans and or recapitalizations. TACV is the most critical in the short term, given that it poses the largest burden on the budget and continues to need financial support from government.

The situation in the SOE portfolio is underpinned by a weak corporate governance environment, and improving SOE monitoring and oversight has become a priority for the country.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective is to strengthen SOE related fiscal management

Key Results

Reduced public financing to SOEs (including budgeted and un-budgeted transfers and subsidies from the budget, capitalization and guarantees

Improved operating margin of TACV

Increased public revenues from SOEs (tax payments, dividends concession payments and proceeds from divestment)

D. Project Description

The project consists of two complementary components: (i) Component 1: Results-Based Financing (US$ 16 million) will provide incentives for achieving results in two distinct areas: staff retrenchment in the national airline (TACV); and reduced public financing for the airline's operations, and (ii) Component 2: Technical assistance (US$4 million) to support the GoCV in several technical areas related to the reforms under Component 1. Component 1 will disburse against agreed eligible expenditure programs (EEPs) upon achievement of Disbursement Linked Indicators (DLIs).

E. Implementation

Institutional and Implementation Arrangements

The unit assigned to the oversight of the SOEs within the Ministry of Finance (UASE) is the lead implementing agency. The UASE will serve as the Project Implementation Unit (PIU), overseeing the day-to-day management of the project. It is responsible for technical inputs, coordination among participating entities and liaising with the World Bank. The UASE will also be responsible for ensuring compliance with the Bank's financial management, procurement regulations and safeguard requirements, and reporting to the Bank on a timely manner. The head of UASE will be the Project Director.

To ensure proper coordination and supervision of the project, a Project Steering Committee (PSC) will be established to provide strategic guidance and oversight, including approval of annual work plans. The Minister of Finance will co-chair the PSC with the Minister of Economy, and including representatives from TACV and others as necessary. The Project Director will serve as secretary to the committee. This committee will meet biannually and will clear the annual progress report.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

G. Environmental and Social Safeguards Specialists on the Team

Daniel P. Owen, Social Safeguards Specialist
Alexandra C. Bezeredi, Social Safeguards Specialist

Mbaye Mbengue Faye, Social Safeguards Specialist
Medou Lo, Environmental Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
The proposed project does not trigger any of the World Bank's environmental safeguards polices

The most significant social issue relates to the workforce reduction in TACV. The target for retrenchment under the Project is 212 workers, equivalent to just under one half of total employees (459). The project will finance eligible severance payments and associated measures to mitigate risks arising from loss of employment. The company has prepared an overall Retrenchment Pan to identify staff categories to be reduced and approximate costs for labor restructuring. Workforce rightsizing is likely to have adverse distributional and social impacts in the short run, though the overall poverty impact is expected to be mitigated since compensation measures will be in place, comprising severance packages for retrenched workers.

The retrenchment process will comply with local labor regulations and respective Collective Agreements and their provisions for redundancy (severance) payments and formulas for calculation, established on the basis of negotiations with the unions. The TACV Retrenchment Plan has been drafted using as a basis of the aforementioned regulations and agreements, as well as good international practice guidance on responsible retrenchment aimed at ensuring a fair and transparent process and satisfactory mitigation measures. The Retrenchment Plan describes the retrenchment process to be followed, including the legal framework, retrenchment methods and procedures, management arrangements and monitoring, grievance redress mechanisms, the basis for calculation of benefits, associated mitigation measures such as training, alternative livelihood support, etc. and communication and M&E frameworks to be adopted. Clear principles for non-discriminatory processes for identifying redundancies and corresponding grievance redress mechanisms are described in the Retrenchment Plan.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
Workforce rightsizing is likely to have adverse distributional and social impacts in the short run, though the overall poverty impact is expected to be mitigated since compensation measures will be in place, comprising severance packages for retrenched workers.

The Retrenchment Plan is a living document that will be updated accordingly as necessary during implementation and identifies aspects of the retrenchment process and program that will be subject to monitoring and reporting for the Bank's due diligence purposes.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
A Poverty and Social Impact Analysis (PSIA) has been prepared, to assess the social, economic and distributional impacts of the TACV restructuring and retrenchment. The analysis has assessed the loss of livelihoods and income-generating opportunities and the channels available to support alternative livelihood for retrenched workers, such as labor market reintegration, job transfer or retraining. It has also explored the indirect non-material losses associated with losing employment and the potential channels available for compensating these and addressing adverse welfare impacts of job shedding. The analysis has captured the characteristics of two categories of workers being made redundant – those assigned under pre-retirement and a second group classified around mutually agreed separation compacts. Potential disproportionate impact or targeting of women for dismissal has been included in the scope of the PSIA. The overall conclusion findings of the PSIA suggest that, with provision of suggested livelihood support interventions, the social and economic impacts of the retrenchment exercise is likely to be positive. .

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
The PSIA methodology has been established around quantitative and qualitative research approaches, including focus group and key informant interviewing and will serve as a platform Citizen Engagement outreach for the Project. It is recommended that an update of the PSIA be carried out at the project mid-term.

B. Disclosure Requirements

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
NA
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
NA

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
NA
Have costs related to safeguard policy measures been included in the project cost?
NA
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
NA
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
NA

CONTACT POINT

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Borrower/Client/Recipient

Ministry of Finance

Implementing Agencies

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APPROVAL

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