

Cape Verde's Insertion in the Global Economy



*Diagnostic Trade Integration Study
for the Integrated Framework for Trade-related
Technical Assistance
to the Least Developed Countries*

February, 2009

PREFACE

This Diagnostic Trade Integration Study (DTIS) has been prepared under the Integrated Framework (IF) for Trade Related Technical Assistance to the Least Developed Countries (LDCs)¹. Cape Verde has requested to participate in the IF before it left the LDC category, in December 2007. This has been accepted. The United Nations Development Programme (UNDP) has been designated as lead agency. Following a preliminary mission in September 2007, a Concept Note defining the objectives, scope and main thrust of the DTIS, was prepared and agreed with the authorities, with the approval of the core IF agencies.

The objectives of the DTIS in Cape Verde are to: (i) understand better the macroeconomic environment and the challenges to the country's integration in the international economy; (ii) analyze the performance of trade in goods and services, as well as the formulation and implementation of policies for trade and international economic relations; (iii) evaluate the investment climate, the cost of factors and the competitiveness of the economy; (iv) identify opportunities for trade in key sectors; (v) assess the institutional capacity, the need for reinforcing it and for reforms. After validation, the DTIS will serve as a basis for putting forward priority operational activities.

The main DTIS field mission went to Cape Verde in April 2008, and visited Santiago (Praia), as well four other islands (Fogo, Boavista, Sal and São Vicente)..

The members of the team involved in the preparing the first draft of the DTIS and their areas of responsibility, were as follows: Philippe Hein (Team leader), Jorgen Carling (Diaspora and mobility), Georges Chapelier (Institutions), Vincenzo Comito (Gateways and hubs-reviewer), Pierre Encontre (Offshore financial and legal services-UNCTAD staff member), Bertrand Laporte (Trade policy), Michel Lesourd (BPO and IT), Avelino Bonifacio Lopes (Trade and Investment - National consultant), Jonathan Mitchell (Tourism), Mario Moniz (Research and coordination - National consultant), Philippe Queyrane (Investment climate, business environment), and Gert van Santen (Fisheries-reviewer). Dr. Joao Resende-Santos acted as Resident Consultant for the review and finalization phases. Duly Figueredo undertook the translation of the draft study into Portuguese.

The initial draft report was first reviewed by UNDP staff including Luca Monge-Roffarello and Dogan Bozdogan . A preliminary draft of the DTIS report was then considered by Government and national stakeholders (including through 8 thematic working groups) in September/October 2008, and subsequently by the core IF agencies, and appropriate changes were made .The report and its Action Matrix were next discussed and validated during a workshop in Praia on 12 December 2008. A final set of revisions were made as a result of comments received during the workshop, and after a final review by Government, in January 2009.

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¹ The IF is a multi-agency programme established to promote the integration of the LDCs in the global economy. The core participating agencies are the IMF, the ITC, UNCTAD, UNDP, the World Bank, and the WTO. For further information see www.integratedframework.org.

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ACRONYMS

ACBF	Africa Capacity Building Facility
ACIAB	<i>Associação Comercial, Industrial e Agrícola de Barlavento</i>
ACP	African, Caribbean and Pacific States (Cotonou Agreement)
ACS	<i>Associação Comercial de Sotavento de Cabo Verde</i>
ACVPI	<i>Agência Cabo-verdiana de Promoção do Investimento (also called CI)</i>
ADA	<i>Regulation of telecom</i>
ADEA	<i>Agency to be merged with ADEI</i>
ADEI	Agency for Enterprise Development and Innovation
AfDB	African Development Bank
AGOA	American Growth and Opportunity Act
ANSA	<i>Food Security Agency</i>
ARE	<i>Regulatory Agency for Electricity and Water, Communications and Transport</i>
ARFA	<i>Regulatory Agency for Food and Pharmaceutical products</i>
ASA	<i>Empresa Nacional de Aeroportos e Segurança Aérea S.A.</i>
ASYCUDA	Automated System for Customs Data
AU	African Union
BCV	Banco de Cabo Verde (Central Bank)
BPO	Business Process Outsourcing
BSG	Budget Support Group
CET	Common External Tariff
CI	Cape Verde Investment (Agência Cabo-verdiana de Promoção do Investimento)
CIF	Cost, Insurance and Freight
CILSS	Permanent Interstate Committee for Drought Control in the Sahel
CP	Concept Paper for GPRS II
CPE	Centro de Políticas Estrategicas
CPI	Corruption Perception Index
CPLP	<i>Comunidade dos Países de Língua Portuguesa</i>
CT	Community Tax (ECOWAS tax on non-ECOWAS trade)
CU	Customs Union
CVE	Cape Verdean Escudo
CVT	Cabo Verde Telecom
DB	Doing Business (or Cost of Doing Business) (World Bank report)
DECRP II	Portuguese Acronym for GPRS II
DGP	General Directorate of Planning
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms
ECOWAS	Economic Community of West African States
ECOWAS CET	ECOWAS Common External Tariff
EDF	European Development Fund
EEZ	Economic Exclusive Zone
EPA	Economic Partnership Agreement
EPR	Effective Protection Rate
EPZ	Export Processing Zone
ERDF	European Regional Development Fund
ETS	Economic Transformation Strategy
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service (World bank group)
FTZ	Free Trade Zone

GAT	Groupe d'Appui à la Transition. (<i>Forum between donors and the Government to accompany a smooth transition out of LDC status</i>)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GPRS	Growth and Poverty Reduction Strategy
GSM	Global System for Mobile Communication
GSP	Generalized System of Preferences
GTBRAL	<i>Grupo de Trabalho para a Redução das Barreiras Administrativas ao Investimento</i>
HIPIC	Highly Indebted Poor Countries
IC	<i>Instituto das Comunidades</i>
ICA	Investment Climate Assessment (by IFC)
ICCAT	International Commission for the Conservation of Atlantic Tunas
ICT	Information and Communication Technologies
ID	Import Duty
IEFP	Instituto de Emprego e Formação Profissional
IF	Integrated Framework
IFC	International Finance Corporation (World Bank group)
IMF	International Monetary Fund
INE	Instituto Nacional de Estatística
ISDN	Integrated Services Digital Network
ISECMAR	<i>Higher Institute for Marine Studies</i>
IT	Information Technology
ITC	International Trade Centre
ITES	Information Technology Enabled Services
ITU	International Telecommunications Union (UN Agency)
LDCs	Least Developed Countries
MAAP	Ministry of Environment, Agriculture and Fisheries
MCA	Millennium Challenge Account (US program)
MCC	Millennium Challenge Corporation (US program)
MCS	Monitoring, Control and Surveillance
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Reduction Initiative
MEEC	Ministry of Economy, Growth and Competitiveness
MNECC	<i>Ministry of Foreign Affairs, Cooperation and the Communities</i>
NIU	National Implementation Unit (of the IF)
NOSI	<i>Núcleo Operacional da Sociedade de Informação</i>
NPR	Nominal Protection Rates
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OIF	Organisation Internationale de la Francophonie
OR	Outermost Regions (of the EU)
PALOP	<i>Paises Africanos de Língua Oficial Portuguesa</i> (Portuguese Speaking African Countries)
PM	Prime Minister
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
PTI	Portugal Telecom Internacional
REER	Real Effective Exchange Rate
SEK	Swedish Krona
SIDS	Small Island Developing States
SIGOF	Sistema Integrado de Gestão Orçamental e Financeira

SME	Small and Medium Enterprises
SPA	Special Partnership Agreement (between Cape Verde and the EU)
SPS	Sanitary and Phyto-Sanitary Measures
STAD	Technical Secretariat for Development (supporting GPRS)
TACV	Cape Verde Airlines
TBT	Technical Barriers to Trade
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TVET	Technical, Vocational Education and Training
UCRE	Unit for Coordination and Reform of the State
UN SG	United Nations Secretary General
UNDP	United Nations Development Program
UNICEF	United Nations Children Fund
UNOTUR	União Nacional dos Operadores Turísticos de Cabo Verde
USD	United States Dollar
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union (<i>UEMAO in French</i>)
WTO	World Trade Organization

EXECUTIVE SUMMARY

A. CONTEXT AND CROSS CUTTING ISSUES

Cape Verde consists of a geographically fragmented group of islands with a total population estimated at 497,419 (2007), located off the west coast of Senegal. Following its independence from Portugal in 1975, Cape Verde has been a parliamentary democracy since the 1990's and an open market economy. In spite of the numerous vulnerability features of the country, the evolution of Cape Verde in terms of income per capita and human assets have been very positive over the past several decades. Void of natural resources, limited and unreliable agricultural base, and geographically dispersed across 10 small islands, Cape Verde is entirely dependent on the outside world and structural obstacles confront its development. A combination of good governance, investment in human capital, and support from its development partners has resulted in positive social and economic performance. This positive performance, despite perennial vulnerabilities, has led to the graduation of the country from the list of Least Developed Countries in December 2007. Yet the food and energy crisis beginning the same year, together with the subsequent shocks of the global financial crisis, are acute reminders of the underlying fragility of this tiny country with big aspirations and great vulnerabilities it neither created nor is able to control. In general, Cape Verde, with strong support from its development partners, has been consistently a stellar performer across all political, social, and economic indicators. Cape Verde is a case where this development partnership has worked. This track record of positive performance, together with the country's enduring vulnerabilities, is compelling reasons why the international community should continue to support the country's development.

Opportunities and Constraints

Cape Verde is a services-based open economy, historically oriented toward the world economy and deeply enmeshed in global commerce since the slave trade. Cape Verde's export-oriented primary sector productions of the past have long lost their importance, or disappeared. Domestic production of food has been structurally far below the national needs; manufacturing has never been a significant sector. With the emergence of tourism as the leading sector, Cape Verde is more than ever a service based economy.

This diagnostic study assessing the country's prospects for its improved insertion in the global economy contains a SWOT analysis, reflecting the Strengths, Weaknesses, Opportunities and Threats faced by Cape Verde. The main **strengths** are in the area of governance, social stability and good international networks, including its vast and active diaspora. Climatic conditions, although not favourable to agriculture, are an asset for tourism. The good general level of health and education of the population-and its rich culture- are positive points. Cape Verde's geographic location is also favourable, in certain respects. Among the **weaknesses** are the lack of natural resources, conditions not suitable to agriculture and territorial fragmentation. This leads indirectly to high costs of energy, water and transport, and thus a stunted internal market. Among Government and the business community, administrative and negotiating capacities are not always in line with the requirements of a competitive globalizing world economy.

The successful development of tourism provides Cape Verde with many **opportunities** –directly and indirectly-including for diversification. Other opportunities are in the area of offshore services and Business Process Outsourcing, but these will require the build up of necessary human capacities and telecommunications infrastructure. The skills and creativity of its people are Cape Verde's only natural resource, and the basis for the country's ability to build a high growth economy able to provide high quality services in the world economy. Utilizing the geographical situation of Cape Verde to make an increasing use of the country as a platform for international movement of goods and persons has long been regarded as a desirable opportunity, although recent developments point to limited prospects in this area. The vibrancy of Cape Verdean culture may also be developed to yield economic benefits. Among the new opportunities that

have been opened in 2007 are those offered by the **Special Partnership Agreement (SPA)** and the **Mobility Partnership** with several individual members of the European Union, which, if properly managed, could have a transformational impact on the future of the country. Cape Verde is faced with several potential **threats**. One of them is the danger of the country being increasingly used as a centre for illegal drug and human trafficking. There is also the risk that two important resources on which Cape Verde depends (ODA and monetary remittances from the diaspora) may dwindle. One often expressed fear is that donors may diminish their support, using the argument that Cape Verde is no more an LDC, and may suffer from “donor fatigue.” As regards the diaspora, unless continued mobility takes place, there is a real danger that the links with the descendents of former migrants will loosen, leading to lower remittances and fewer possibilities of contributing to the country’s development.

Macroeconomic context and policies

The **service sector accounts for almost ¾ of GDP** in 2006. **Tourism** is by far the leading growth sector, which drives the economy, and is expanding fast. The agricultural sector (including fisheries) accounts for less than 10 per cent of GDP, but remains the primary source of employment for most the active population. Manufacturing is very limited and its share of GDP has declined over the past decade.

Cape Verde is a middle-income country, and its growth continues to be very satisfactory, particularly for a country with high vulnerability and with very limited natural resources. **GDP growth** has averaged 5.7 per cent between 2000 and 2005, 10.8 per cent in 2006, and an average yearly figure well above 6 per cent is expected to be achieved over 2007-2009. Global turbulence in financial markets and the worldwide economic slowdown in 2008 will likely reverberate negatively in the economy’s performance in 2009 and 2010. Good governance, fiscal discipline, and strong measures adopted by the Government to minimize the effects of these external shocks will help, but the economy is likely suffering some measure of contraction.

Cape Verde has improved its tax effort; **tax revenue** increased from about 17 per cent of GDP in 1999 to about 23 per cent in 2006 and 2007. **Grants and external loans** together finance about 80 per cent of the Public Investment Program.

Since 1998, the **Cape Verdean escudo has been convertible at a fixed rate**, initially into the Portuguese escudo, replaced by the euro in 2000. This arrangement is regarded as a stability factor. In 2006, **inflation** as measured by the consumer price index accelerated to 6 per cent due to rises in food and fuel prices, after having averaged only 1 per cent from 2001 to 2005. In 2007, consumer price inflation fell back to 4.5 percent, and over the medium term, the inflation rate is expected to return to levels equal to or below those in the euro area.

Cape Verde has prudently managed its external **debt**, which is declining as a percentage of GDP. Government has undertaken to reach and then maintain a central government public debt ratio of no more than 70 per cent of GDP (72.4 percent in 2006), while the domestic debt/GDP ratio should be stabilized at around 12 per cent of GDP by end-2008 (from over 33 per cent at end-2005).

Cape Verde has improved under the UNDP **human development** index from 0.59 in 1990 to 0.72 in 2006 (world ranking of 106). The country is on track to achieve the MDGs. It is categorized as a “fast achiever,” having already reached four of the 8 MDGs and on track to achieve others before 2015, according to the MDG Monitor of the UN. Nevertheless, poverty remains a problem for significant segments of the population, especially in rural areas where an estimated 44% of the population was living below the national poverty line in 2007. Unemployment remains high –at 18.3 per cent in 2006. **Gender, health and education** indicators are improving, and MDGs in this area are already achieved or expected to be achieved by 2015. Access to Internet – nowadays an important indicator of human development is expanding extremely fast.

The current **vision for the development of Cape Verde** is based on the *Economic Transformation Strategy (ETS)* which was widely discussed nationally, and validated in 2003. The *Growth and Poverty Reduction*

Strategy (GPRS) (2004-2007) has been succeeded by the second GPRS (GPRS II), covering the period 2008-2011. GPRS II was finalized in May 2008; it refers prominently to the “Transformation Agenda” and reiterates that “it is imperative to create an environment favoring the integration of Cape Verde in the world economy so as to reap the benefits of globalization, ensure the sustainability of social and economic development and improve the quality of life of the populations.”

The current **national objectives** for the short and medium term are:

- Maintain growth rates at 2 digits
- Reduce the unemployment rate to single digits
- Reduce poverty at least to the level of the MDG objectives.

The **main sectors (or pillars) of the ETS** are

- tourism
- regional fisheries centre
- Transport hubs for cargo and passengers
- Offshore services, including IT and financial services.

A fifth potential sector (or pillar) -that related to the cultural (or creative) industries- is increasingly mentioned. Cape Verde has a rich and vibrant cultural tradition, and its music draws an international audience. This represents a major business opportunity, but the sector remains unorganized and undeveloped.

It would be desirable for Cape Verde to be **more specific as regards the contents of the proposed transformation agenda and to quantify the expected outcome** with a time frame. In the strategies and frameworks presented in various documents and fora, **coordination and cross-referencing** between the various initiatives should be improved in order to facilitate planning and make implementation more effective. On-going state reform initiatives to improve policy and institutional coordination, including creating new coordination and monitoring mechanisms, will be a key contribution to achieving the transformation agenda.

ODA will continue to play a significant role in Cape Verde for some time; it is recommended that formal **meetings with donors** (under the GAT, or otherwise) be more focused and organized in such a way as **to lead to concrete conclusions**, including on financing of agreed programs.

The diaspora is an important resource for development of Cape Verde. It would be desirable that the **contribution of the diaspora** and of mobility policies (and circular migration) should be **mainstreamed** in all economic and social policies, and not solely treated as a separate issue to be dealt with by dedicated agencies. Mobilizing and incorporating the Diaspora as a source of investment and technical capacity will require concrete projects, specific mechanisms for identification and recruitment, among others.

The Balance of Payments, Trade and Trade Policies (Cps 3, 4)

Domestic **merchandise exports are very limited** and are stagnating. The merchandize trade deficit is partly offset by exports of services, particularly from tourism. Because of increased FDI, of the continuation of ODA flows and migrant remittances, the overall **balance of payments** shows a **surplus**.

Priority Action 1: Support work to define external trade strategy, including policy towards ECOWAS, the EPA with the EU, the SPA, as part of general work to elaborate a National Trade Policy framework document, including trade facilitation, internal trade, and consumer protection. (see Recommendation 4.1)

The main domestic exports are fisheries products, shoes or parts of shoes and clothing.

Re-exports, consisting mostly of supply of bunkers to ships and aircrafts, generate much higher gross revenue than domestic exports.

The European Union (Particularly Portugal and Spain) is by far the **main trading partner** (more than 75% of imports and exports). On the other hand, trade with ECOWAS countries is not significant.

Exports of services are much more important than exports of goods. Prominent among them are receipts from **tourism**, which have been increasing very rapidly. Other significant service exports are those related to air transport (TACV-the national airline) and air traffic control over the Sal cone.

Major contributors to the equilibrium of the balance of payments are made by FDI, migrant remittances and ODA (All three currently representing around 10% of GDP-as compared to domestic exports 1.3%). **FDI**, which was almost inexistent in the 1990's, has increased significantly since 2003. Approved amounts of FDI to be undertaken in the future are very high.

The levels of both **ODA** and **remittances** have been maintained in recent years in nominal terms, although they have diminished as a percentage of GDP.

In spite of being a service economy (where trade policy issues such as tariffs and para-tariff measures, market access conditions, etc...that apply to merchandize trade have relatively less relevance), merchandize trade policy, particularly on the import side, has significant importance for the pattern of domestic production, as and as a source of government revenue. Tariffs, the main trade policy instrument, are mostly used in Cape Verde for revenue raising purposes, rather than to protect domestic industry and agriculture-which are limited. Some care will be needed in phasing out or modifying tariff structures as Cape Verde attempts to develop new sectors identified in the Agenda for Transformation, in addition to contemplating other major trade policy challenges. In the context of the country's accession to WTO (Negotiations completed in 2007; accession ratified in 2008), industrial tariffs have been bound at rates ranging for 0% to 55%, while in agriculture bound tariffs average 19%. Reductions may be phased out until 2018.

Cape Verde is faced at this time with a number of **major trade policy challenges**. It has to comply with the numerous commitments it made to accede to WTO. Concerning its regional integration policy, it is at **the crossroads**. The country has to take a position as regards the West African EPA with the EU, towards ECOWAS-of which it is a member- and with regard to the ECOWAS CET, at the same time as to work out the implications of the Special Partnership Agreement (SPA) with the EU. The DTIS report discusses the **foreign trade policy options** available, and the main expected impact of the EPA and the CET on economic activities, prices and fiscal revenue (Simulations in this regard are presented in Annex A). With the signing of the SPA and the strengthening of the links with the outermost regions of the EU (Canaries, Azores, Madeira), one possible option is for Cape Verde to avail itself of the provisions of **Article 68 of the ECOWAS treaty** and negotiate a Free Trade Agreement with ECOWAS (rather than achieving full membership of the CET).

Cape Verde has not had the negotiating capacity to participate simultaneously in the negotiations of these various frameworks relating to its external economic relations. Accession to WTO has been given priority. Now than these negotiations have been completed, it is not in Cape Verde's interest to continue what could be perceived as a wait and see attitude. It is highly recommended that the authorities should **clearly define** what **foreign trade** and tariff **policy** and type of "regional integration" they intend to pursue. This would send a clear message to local and foreign stakeholders and partners, and facilitate the implementation of development

actions. For instance, the review of tax investment incentives currently in progress need to take into account the commitments made (or expected to be made) under various agreements and partnerships. Even with the considerable re-enforcement of institutions and technical support envisaged in this report, it is not realistic to expect a small country like Cape Verde to have the required negotiating and implementation capacity to engage simultaneously and effectively in the various complex processes outlined above and implement their outcome. Dispersion of efforts might lead to sub-optimum results. A related trade policy issue is the need for Cape Verde to define a list of **sensitive products**, a process which has already started in December 2008. At the same time, the MECC would need support to prepare a trade policy paper setting out Government's overall trade policy, including internal trade, trade facilitation, consumer protection and competition policy.

In the particular case of Cape Verde (Assuming it did not chose to apply the ECOWAS CET), one option would be to consider undertaking an ambitious tax reform. This might include studying the possibility of gradually replacing all (or almost all) customs duties by other types of internal taxes (while also reviewing the tax incentives for investment). This approach, which would need to carefully assessed, could lead eventually in **turning the country into a free-zone**-comforting the country's status as an international service platform.

Trade and Investment Institutions (Cp. 5)

A central theme in this diagnostic study is the need for sustained effort and resources directed at institutional and human resources capacity building in Cape Verde, especially among the strategic agencies involved in external trade and foreign relations. For a country so dependent on the outside, with a fast-growing tourism sector and increasingly enmeshed in global economic arrangements, Cape Verde must build up its institutional and technical capacity to extract the maximum benefits from its increasing integration into the world economy.

Priority Action 2: Build up the institutional and human resources capacity of the Ministry of the Economy. There is urgent need to build up institutional and technical capacity in all trade related agencies, especially technical and English language training for personnel in key agencies such as Ministry of Economy, Ministry of Foreign Affairs, and Customs Administration. (see Recommendation 5.1)

One of the weaknesses of Cape Verde is that many institutions related to trade and investments, including the MECC, have rarely been able to effectively fulfill their mandates. This has been recognized and a number of reforms and improvements are in progress. The capacity of MECC is being built up, but much remains to be done, including with the support of external assistance. At the same time its work program would gain by being more focused and prioritized. A comprehensive program to support the implementation of the WTO agreed accession package is recommended (including for SPS and TRIPS).

Priority Action 3. Strengthen and raise the profile of the Tourism Department. (see Recommendation 5.3)

The Department of Tourism is particularly under-staffed. It should be strengthened and its profile raised, in line with the central role of tourism in the economy. Cape Verde Investment (CI)'s activities are being refocused. It should play a more comprehensive role as the "one stop window" to promote Cape Verde to the world. The newly created ADEI (entrepreneurship and innovation) needs support. Capacity building of the Chambers of Commerce is desirable. Customs Administration should continue to be assisted in acquiring additional equipment, including computers and scanners, as well as to be supported to implement risk management techniques and ASYCUDA World. The Ministry of Foreign Affairs (MNECC) has a good record in conducting international relations with a particularly wide network of partners, but might need to be re-enforced to enable it to provide more effective leadership in the challenging and complex negotiations associated with the two new strategic initiatives with the EU (SPA and Mobility partnership). Specialized training in trade negotiations and economic diplomacy is needed.

Business environment, Investment Climate and cost of factors (Cp. 6)

Given its unique geo-economic features it is not easy to benchmark Cape Verde against other countries. Depending on the variables considered, it may be useful to **benchmark** Cape Verde against its regional competitors (e.g. Dakar for hubs), but in general, given the objective of “convergence” with Europe, benchmarking with South European and Mediterranean countries is appropriate. Tools such as the **IFC’s Investment Climate Assessment** (2006) and the yearly **Cost of Doing Business** Reports may be used for this purpose.

Priority Action 4: Enhance vocational training programs (particularly tourism, construction, IT, sea training, personal care); including in language skills, particularly English. Urgent need to accelerate training in tourism. A national program for acquiring English language skills is critically important. English language skills and IT training are essential preconditions for developing a BPO and offshore services sector.(see Recommendation 6.2)

The cost and quality of human resources is one of the keys to the development of Cape Verde. It is recommended to enhance **vocational training** efforts, particularly in the field of tourism, IT, construction, sea careers and personal care. A national plan to develop language skills, particularly **English**, should be implemented. Certain aspects of labour legislation should be reviewed.

The cost and availability of **electricity and water** are major constraints in Cape Verde. The electricity and water distribution systems should be re-assessed, but the primary source of problems in the sector appears to be management. Because of the important investments made in the past, Cape Verde has an efficient **telecommunications network**. The upgrading to VHS optic fiber is being pursued. Transport, particularly, the availability of **inter-island transport** (and to a lesser extent the road system, including bridges) remains a challenge. Inter-island air transport has been liberalized. Inter-island sea transport regulations should be reviewed and landing facilities and procedures upgraded.

The **legal framework for investment** is governed by an accumulation of laws introduced over the years. It is felt that the incentives involved are costly in terms of customs duties and taxes waived, and may not always benefit the most strategic or employment generating sectors. A review of the tax incentives is under way with the assistance of IMF and it is recommended that this should be completed as soon as possible. A number of improvements of the regulatory framework, including in the **land registration** system are necessary. The removal of **export and import licenses** should be considered. Finally, there is widespread agreement that Cape Verdean actors need to **adjust** their **mind-sets** to meet the new challenges of competing in the global economy. Many recommendations in the DTIS, such as regular benchmarking, improving foreign language skills (particularly English), promoting BPO, or further opening up to the diaspora, would make positive contributions in this respect. The possibility of organizing workshops for senior Government and business leaders on topics such as “change management” showcasing other successful service economies could be envisaged.

Priority Action 5: Promote and guarantee energy sustainability for the country through: (a) creation of a Strategic Reserve of Fuels; (b) Reform of the Fuels sector – rationalization of the sector, creation of an additional point of off-loading, improvement and relocation of stock capacities; (c) Reduction of the country’s dependence on imported petroleum products; (d) Increase in the penetration rate of renewable energy.(see Recommendation 6.5)

B. SECTORS AND OPPORTUNITIES

Tourism (Cp. 7)

The story of tourism in Cape Verde is one of almost unparalleled success. It has become the backbone of the economy. One significant characteristic of tourism in Cape Verde has been its **concentration in two islands**

(Sal and Boa Vista), which have relatively small populations and little agriculture. With additional international airports in Santiago and S. Vicente, these islands will attract more tourists, enabling the development of cultural tourism and the possibility of increased supply of local products. However the five remaining inhabited islands are in danger of being completely by-passed by tourism and its benefits unless inter-island transport arrangements are improved. A very positive feature of Cape Verde tourism is the highly **diversified source markets**, which enables the negotiation of high contracted room rates with tour operators and leads to low seasonality.

Priority Action 6: A key part of building up the Tourism Department is to continue to improve tourism statistics, including tourist expenditure survey, and preparation of a Tourism Observatory, an annual publication. (see Recommendation 7.1)

The report-in chapter 7- supported by Annex C- contains an assessment of the contribution of tourism to the economy, using **Tourism Satellite Accounts** methodology, as well as its impact on the poor. These are found to be significant, but there is a lingering perception that the tourism sector is separate and closed-off, and leaving behind few benefits for the mass of the population.

Collection of statistics should continue to be improved, including a **tourist expenditure survey**. This should help to improve the master plan, going beyond tourist arrival numbers and supply infrastructure, to include the impact of tourism on the economy, on the poor and on the environment. The **residential time share resorts** policy should be re-assessed, in the light of their contribution to the economy, as compared to hotels.

Stricter food inspection and better quality control in hotels and restaurants would enhance food safety and improve the quality of services to tourists (as well as the local population)

Tourism in Cape Verde is changing from being only a sun and sea destination. The new **face of tourism should be promoted** including cultural tourism, community based tourism, business-related tourism, and wellness and health tourism, with a view to bringing more value added.

Acceleration of training in the various tourism-related professions, including at the management level, is recommended. Better identification of the possibility of increasing **inputs from the agricultural sector** to the tourist sector is desirable. (also addressed in Chapter 11)

Gateways and Hubs (Cp. 8)

There is a strong political will to develop Cape Verde as a hub or platform for cargo and passengers, building on its location and on the role it has played in this respect in the past. One specialized activity is to build up further fish transshipment, marketing and processing (the “regional fisheries hub”). This last activity-as distinct from the development of national fisheries-is often presented as a separate “sector” or pillar of the ETS; however, since it concerns the infrastructure (Port, ship repair, supply of bunkers) at Porto Grande, it can conveniently be covered under “The Mindelo platform”.

Priority Action 7: Improve port management (see Recommendation 8.1)

In spite of sustained efforts to make Porto Grande a significant **maritime platform**, cargo transshipment remains limited (Less than 1000 tons in 2007). Fish transshipment is more significant (More than 8000 tons in 2007). Plans for a major expansion of the harbour infrastructure costing 300 m euros have been prepared, but a partner has not yet been identified for this project. Cape Verde suffers from competition from Dakar which has a much larger cargo base, and is under management by DP World of Dubai, as well as from the Canaries. Although feasibility reports on the prospects of Mindelo becoming a major international platform have not been positive, even a modest hub would generate more revenue (From re-exports, and other services) than domestic exports. The current efforts aiming at finding suitable partners for the operational side of the port company (ENAPOR),

for the shipyard (CABNAVE) and the cold storage company (INTERBASE-whose stores have suffered substantial destruction by fire in September 2008) should be pursued. A modern maritime code, as well as improvements in the radar systems, would enhance the attractiveness of Cape Verde as a maritime hub. Fish transshipment has increased in recent years and, in spite of the destruction of INTERBASE, cold stores, should continue to be promoted, in cooperation with suitable international partners

For **air transport**, with the departure of South African Airways, both cargo and passengers in transit have fallen, but prospects **of recovery are good.??** US-based Delta Airlines added fifteen new flight routes between the United States and Africa,, **and one of the** connections will take place through a stopover at Amilcar Cabral International Airport on Sal Island, which is expected to begin operating in June 2009. However, improvement in management (including through association with private partners, as appropriate) of the airport and of the airport and air safety company (ASA), as well as the reviewing of air transportation related services may make Cape Verde more attractive. The possibility of using Cape Verde as an air platform for emergency operations or humanitarian supplies should be explored.

Overall, as regards the development of hubs/gateways, this is an area where Cape Verde has more competitors than partners. The evolution of technology and logistics has not been favourable to the geographical location of Cape Verde. Efforts should be pursued to attract suitable partners, and even a modest hub would provide benefits. However, Cape Verde should **not over-stress the importance of the gateway concept** as a major axis of its development. This might pre-empt scarce management resources away from other promising avenues and even lead to the neglect of the vital inter-island (and intra-island) links in favour of promoting the international transport platforms.

Offshore services (Cp. 9)

The only offshore services interface for which Cape Verde has made known its offer of services is in the **financial/banking area**. Since enabling legislation was passed several years ago, the economic benefits from this sector (Employment of some 30 persons, and payment of license fees) remain very limited. A priority is for Cape Verde to further improve its capacity to ensure strict compliance with FATF/GAFI recommendations in this area, so as to minimize the risk of becoming a platform for illicit activities, and damaging its international image. It is suggested that Cape Verde should consider diversifying into **offshore company formation services** (“International Business Company” concept), which involves less risk than dealing with financial flows.

Priority Action 8: Undertake feasibility study to offer services for offshore company formation (offshore business legal services).(see Recommendation 9.2)

A small call centre (About 200 jobs) has started operating from Cape Verde in 2007. However, no official concerted efforts have been made so far to attract offshore BPO activities to Cape Verde. It is recommended that Cape Verde be actively promoted as a **location for BPO/ITES**, starting with the simpler tasks of call centers, data entry and payroll services and the administration of personnel benefits.. Improvements in the BPO legal environment would be desirable. The availability of appropriate skills is crucial, but there are a number of support institutions and companies, as well as training institutions which could form a good basis for helping to develop the BPO/ITES sector. (These are mentioned in Annex B).

Priority Action 9: Based on feasibility studies and introduction of appropriate legislation, start promotion of selected BPO activities, under the designated lead institution. These should include call centers, data entry and the simpler forms of HR BPO (payroll services).(see Recommendation 9.6)

Cultural Industries (Cp. 10)

Cape Verde’s culture is particularly rich and unique, with music being its most important affirmation. Although a beginning of recognition of the economic potential of this sector has started recently, up to now there have

been no systematic or concrete efforts to make Cape Verde derive benefits from the opportunities offered by cultural industries. It is recommended that identification of cultural and creative industries be officially confirmed as an axis of development in Cape Verde and that a business oriented **focal point** be appointed and staffed to promote this sector. There is much synergy between cultural industries and tourism, which can provide a springboard for the cultural industries. An action-oriented strategic plan should be prepared to develop cultural industries, particularly **music**. Other niches (E.g using Cape Verde as a filming destination) should also be explored. The Nairobi Plan of Action for Cultural Industries in Africa (Adopted in December 2005) could provide the inspiration and framework for this exercise. To support this sector it is necessary to effectively implement a modern copyright legislation and set up a mechanism for **collecting and distributing royalties** to the stakeholders. There is good potential to develop further the festival sector. The building of a performing arts complex and music conservatory should be considered. Overseas tours by artists (concerts, performing live in resorts and festivals, painters attending biennales) could also be promoted.

Priority Action 10: Prepare an action-oriented /strategic plan for cultural industries.(see Recommendation 10.1)

The diaspora and mobility offering significant development opportunities (Cp. 11)

The important role of the diaspora in the development of Cape Verde, although well recognized in a number of instances, is not sufficiently mainstreamed in the development process. There are many migration/development links, **remittances** being just one of these links. It is recommended to study the possibility of establishing a better **link between remittances and micro-finance and rural credit** in order to make remittances more readily available in the remote areas. The provision of training to **migrant entrepreneurs**, including for the development of business plans. Attracting skilled returnees back is highly desirable. This could be enhanced by creating a single online recruitment centre for migrants and permanent residents alike.

Continued migration is taking place, primarily through family re-unification provisions.

The designation of Cape Verde as a pilot country under the **Mobility partnership with the EU** represents a **decisive opportunity** for Cape Verde, including for mutually beneficial circular migration and temporary work abroad. The **expansion of vocational training** in such areas as tourism, construction, IT, and sea-related careers needed for the development of internationally competitive activities in Cape Verde, will at the same time facilitate circular migration. **Training in personal services and professional care workers**, for which there is a great demand in Europe would be particularly cost effective and pave the way for Cape Verde to become a recognized destination for health tourism directed at retirees –including those from the diaspora.

The elaboration of a coherent policy as regards migration-development interaction is constrained by the **lack of information about migration and the diaspora**. The projected **Migration Observatory** should be put in place and a national migration research fund established to enable the conducting and a national survey on migration should be conducted.

Maintaining **communications with the diaspora** is crucial. This is undertaken, in particular by the MNECC and the IC, but should be enhanced through better interactive internet sites, complemented by a renewed handbook for emigrants, professionally developed. Practical information on investment in Cape Verde and on remittances transfer mechanisms should be included in the information package.

It is also recommended that the Department of the MNECC dealing with diaspora issues, as well the *Instituto das Comunidades*(IC), should be strengthened in line with the need to fully mainstream diaspora policies in the development process and the implementation of the Mobility partnership with the EU, and to support the functioning of the observatory.

Fisheries, niche agro-products and export-oriented light industry (Cp. 12)

Some sectors touched upon in this Chapter, although not among the main focus of the ETS, provide the main domestic merchandise exports, however limited. They also provide employment and resources to the poor.

Fisheries resources have traditionally been considered as one of the few modest national resources available to Cape Verde and in most years have provided the main domestic exports. Although there is considerable uncertainty regarding the fishing potential in or around Cape Verde, it is generally considered that most resources appear fully or over-exploited. Fisheries are however relatively important in terms of employment and impact on poverty. Research and management of the marine resources need to be improved. MCS system should also be re-enforced. **Filleting** would provide more value added than canning. The effectiveness of artisanal and semi-industrial fisheries should be improved with a view to reaching the quality conscious domestic and tourist market. An evaluation of the options for industrial fishing and canning would also be desirable. Sea weed farming feasibility should be explored.

Some **agro-based niche products** can be internationally competitive. This includes wine, coffee and *Aguardente* (Grogue). Promotion of these types of niche products should continue to be undertaken by providing **support all along the value chain**. **Certification and quality control** arrangements should be improved to provide more value added, and branding.

Promotion of **export-oriented light industry** should also be continued, particularly under **the sub-contracting** mode, for assembly activities that are not energy or water intensive.

Priority Action 11: Support for standardization and certification of niche agro-products (coffee, grogue, wine, etc.). Support capacity building for commercialization and export promotion.(see Recommendation 12.6)

CONCLUSION

Cape Verde's development path is at the cross roads. In spite of its continued vulnerability, it has been graduated from the LDC category, in view of its satisfactory indicators concerning income per head and human assets. The country has a record of good governance and democratic institutions. It recently became a member of the WTO, and is in the process of implementing a number of reforms in its trade policies. Cape Verde is a member of ECOWAS, but at the same time has entered in 2007 into a one-to-one Special Partnership (as well as in a Mobility Agreement) with the European Union. The rapid development of a competitive tourism sector is almost the first time in its history that something has happened *in* Cape Verde, rather than *to* Cape Verde. The Diagnostic Study makes an assessment of the strengths and weaknesses of Cape Verde in the light of the development vision decided by the authorities, as expressed in their Economic Transformation Strategy and the Growth and Poverty Reduction Strategy. The study contains recommendations of areas where these strengths could be built upon, and opportunities grasped, while taking steps to reduce certain weaknesses and protect against possible threats. These recommendations, including suggested policy adjustments and capacity building measures, are summarized in a Priority Action Matrix. The Priority Action Matrix has been reviewed and adjusted by the IF National Steering Committee and some further amendments were made at the validation workshop on 12 December 2008. It is intended that this study and its Action Matrix will contribute to designing a program in line with the objective of the Integrated Framework: to facilitate the country's insertion in the global economy. Issues on the impact of trade on poverty reduction are not treated separately but mainstreamed throughout the report; they are particularly addressed in the chapter on tourism, as well as in Annex C.

CAPE VERDE'S INSERTION IN THE GLOBAL ECONOMY

PRIORITY ACTION MATRIX

Action no.	Action Recommended	Priority	Agencies Involved	Time Frame	Remarks; assistance under implementation, and required; partners or potential partners involved
CROSS-CUTTING ISSUES					
3. Improving policy frameworks and mainstreaming					
3.1	Specify the contents and quantify the proposed economic transformation agenda by main sector, with time frame	High	DGP, CPE, MF	2009	
3.2	Improve coordination of trade, economic and social policies (Linking ETS with GPRS II, IF, presentation at donor meetings). This should extend to design, implementation and monitoring.	Very High	CPE, DGP, MNECC, MECC, UCRE	2009 - 2011	ACBF and GOV are partly funding CPE. Finance gap is USD 2.3 m. UNDP, ACBF
3.3.	Focus formal meetings with donors on the contents and funding of action- oriented programs (e.g. implementing WTO package, ETS, GPRS II , IF)	High	MNECC, MECC, DGP	2009 - 2011	UNDP to continue to support. WB, IMF
3.4	Mainstream diaspora and mobility issues into all economic and social programs	High	CPE, DGP, MNECC, IC	2009 - 2011.	<i>Mobility partnership</i> funds, Portugal, Luxemburg, Netherlands, Spain, France
4. Addressing key areas of trade policy					
4.1	Support to the definition of an external trade strategy, including towards ECOWAS, the EPA with the EU, the SPA.	Very High	CPE, MECC, MNECC	2009-2010	Preparation of a strategic position paper under leadership of CPE. Outside assistance could be requested, preferably from multilateral and independent sources (e.g. World Bank, UNCTAD). Definition of external trade strategy should be in conformity with sectoral policies.
4.2	Elaborate a Trade Policy paper including trade facilitation, internal trade and consumer protection	Very High	MECC, DGP,	2009-2010	Possible support from Spain

			customs, CPE		
4.3	Finalize a list of sensitive products and train nationals on methodology	High	MECC, Customs	2009	UNCTAD has started work in this area in December 2008, under the one-UN Program
5. Strengthening trade and investment institutions					
5.1	Build up the capacity of MECC	Very high	MECC	2009 and continuous	EU, World bank (Competitiveness project) are already involved. Additional assistance required. Potential agencies: WTO, UNCTAD, ITC, UNIDO, UNDP. (under one-UN Program). The restructuring of MECC must be aligned with the agenda and administrative reform plan of the Government.
5.2	Review the responsibilities and work program of MECC and establish priorities	High	MECC, Prime Minister's office	2009	2009 international expertise may be required.
5.3	Strengthen and raise the profile of the Tourism Department. Including support to the NTC	Very high	MECC,	2009	
5.4	Refocus CI as the one stop window to promote Cape Verde to the world.	Very high	MECC, CI	2009	MCC is promoting the restructuring of CI
5.5	Support to ADEI	High	ADEI, MECC	2009	
5.6	Implement the Action Plans agreed in the WTO accession package. (Customs, SPS, TRIPS, and Commerce). Reviewing legal codes, drafting regulations. Institutional support for implementation. Capacity building.	Very High	MECC, Customs, MDRRM	2009-2011	EU technical assistance approved under EDF TradeCom Facility starting in 2008. EU assistance under SPA "convergence" programme. Under the one-UN program, UNCTAD has been designated as lead agency; WIPO, WTO; UNIDO is already executing a project of TBT, financed by EU; Despite this TA, further support is needed.
5.7	Strengthen the Chambers of Commerce	High	Chambers of Commerce	2009-2011	EU technical assistance approved under EDF TradeCom Facility starting in 2008. Could be covered under the one-UN program.
5.8	Provide support to Customs Administration	Very High	Ministry of Finance,	Short term	SPA, WCO, UNCTAD (ASYCUDA)

			Customs		
6. Improving the business environment and investment climate					
6.1	Benchmark Cape Verde against meaningful comparator countries.	High	MECC, CPE, BCV, INE	Continuous	WB/IFC assistance could be sought in the context of ICA and Cost of Doing Business processes
6.2	Enhance vocational training programs (Particularly tourism, construction, IT, sea training, personal care); including in language skills, particularly English. In particular, accelerate training in tourism.	Very High	Ministry of Education, MTEFP,IEFP	Continuous	SPA and Mobility Partnership funds could be used
6.3	Develop national program for acquiring language skills, particularly English. Particular need to popularize the teaching of English, inside and outside the formal education system.	Very High	Ministry of Education, IEFP, other institutions	Continuous	SPA. Numerous institutions should be involved in task of English language training, utilizing various models, including immersion courses, short courses, and specialized programs directed at specific professions.
6.4	Support to the implementation of the Labor Code and development of subsidiary legislation.	High	Ministry of Labor (MTEFP)	2009	The authorities are aware of the importance of the Labor Code in Cape Verde's ranking in the <i>Doing Business</i> reports, and the strategy to promote new areas and priority sectors such as offshore services and BPO.
6.5	Promote and guarantee energy sustainability for the country through: (a) Creation of a Strategic Reserve of Fuels; (b) Reform of the fuels sector – rationalization of the sector, creation of an additional point of off-loading, improvement and relocation of stock capacities; (c) Reduction of the country's dependence on imported petroleum products; (d) Increase in the penetration rate of renewable energy.	Very High	MECC-DGIE, MIT,	2009-2011	
6.6	Review inter-island shipping regulations and upgrade landing facilities and procedures.	Very High	Ministry of Infrastructure, Ship owners Ass.	2009	
6.7	Complete the review of incentives to ensure support to priority sectors, giving special attention to the strategy of the country.	High	MF, DGP, MECC, CPE	2009-2010	IMF is already providing assistance
6.8	Re-enforce the modernization of the land registration system	High	Ministry of Justice, MECC,	2009	A financing proposal to include property registration, under the same system used for the Business in a Day program has been

			UCRE, DGOT, NOSI		prepared by MECC.
6.9	Review export and import licenses	Medium	MECC, Customs, Chambers of commerce	2009-2010	
SECTORS AND OPPORTUNITIES					
7. Increasing the contribution of tourism to the economy and to poverty reduction					
7.1	Continue to improve tourism statistics, including tourist expenditure survey, and preparation of a Tourism Observatory, an annual publication.	Very High	INE, DG Tourism, border police, IC	2009- 2010,conti nuous	Technical assistance
7.2	Review residential resorts policy	High	DG Tourism, NTC, CI	2009-2010	Take into account experience of the Spanish second-home market
7.3	Develop and implement a marketing strategy to promote the changing face of Capeverdean tourism	Very High	DG Tourism, UNOTUR,CI, Tour operators	2009	International expertise on tourism (and country) branding should be called upon
7.4	Improve SPS standards and food security in hotels and restaurants	Medium	MDRRM, ARFA, IGAE, Ministry of Health	2009, continuous	
8. Promoting the gateway concept					
8.1	Improve port management	Very High	ENAPOR, MIT, MECC	2009-2010	MCC is financing the renovation of the harbour in Praia
8.2	Prepare a modern maritime code	High	Ministry of Infrastructure, ENAPOR	2009	IMO
8.3	Undertake a study on re-exports and entrepot trade	High	CI,MECC	2009	2 wm international consultant

8.4	Promote fish transshipment	High	MECC, Dept of Fisheries, CI, ENAPOR, INDP	continuous	Coordinate with other activities and projects in this sector, including the certification laboratory.
8.5	Undertake a study on of air transportation related services	High	AAC, Ministry of Transport	2009	
8.6	Undertake a market study of Cape Verde as an international distribution point for high value goods and humanitarian and emergency assistance in West Africa	Medium	MECC, CI, Ministry of Transport, ASA	Short	WFP, UN OCHA should be consulted

9. Developing offshore services

9.1	Promote the development and provision of quality financial services for non-residents	High	BCV, CNDSF, NOSF	Continuous	Comissão Nacional para o Desenvolvimento do Sistema Financeiro (CNDSF) and Núcleo Operativo para o Desenvolvimento do Sistema Financeiro (NOSF); coordinate all activities related to financial sector development in Cape Verde.
9.2	Undertake feasibility study to offer services for offshore company formation (offshore business legal services)	Very High	CI, ADEI, <i>Ordem dos Advogados</i>	2009-2010	UNCTAD made a staff member available for DTIS on this subject and is prepared to follow-up
9.3	Officially and specifically declare BPO/ITES as a strategic sub-sector. Establish a focal point, preferably in CI.	Very high	CPE, DGP, MECC, Prime Minister, CI	Immediate	Technical assistance to support the focal point may be required.

9.4	Undertake a study to develop a strategy for promoting and supporting BPO	Very High	CI, MECC, CPE	Short	
9.5	Set up an appropriate legal environment for BPO	Very High	Ministry of Justice, MIT, ANAC, CI	2009	
9.6	Start promotion of selected BPO activities, under the designated lead institution. These should include call centers, data entry and the simpler forms of HR BPO (payroll services)	Very High	CI, MECC, NOSI, Chambers of Commerce, MIT, ANAC	continuous	Technical support to the lead agency should be provided
10. Promoting cultural industries					
10.1	Prepare an action-oriented /strategic plan for cultural industries	Very High	MECC, CPE, Ministry of Culture, CI	2009	UNESCO under the Nairobi Plan of Action
10.2	Support to the Institute of Culture and the Institute for Intellectual Property, national regulatory body, including in the collection and distribution of royalties, commercialization of cultural products, and definition of quality standards. Sensitization of stakeholders in copyright implementation	High	SOCA, Institute of Culture, Ministry of Culture, Police	2009	Assistance from CISAC, or national collection societies in Europe may be requested. Government has already made decision to create Institute of Intellectual Property.
10.3	Consider building a performing arts complex, including music conservatory	Medium	Ministry of culture, Municipality of Praia UNICV	2009	
11. Mobilizing the diaspora and making use of mobility opportunities					

11.1	Study models and best practices to link microfinance and remittances	High	BCV, IC, ADEI	2009	
11.2	Provide training and advice to migrant entrepreneurs	Medium	ADEI, CI	continuous	
11.3	Set up a recruitment centre that can recruit residents and emigrants.	Medium	IEFP, IC	2009	IC is already working in this area, with a limited project, Project Dias.
11.4	Organize professional training for care workers	Medium	Ministry of Education, IEFP, ADEI		Could be organized under the <i>Mobility Partnership</i>
11.5	Establish a national migration research fund and undertake a national survey on migration. Support elaboration of an Observatory on Migrations.	Medium	IC, INE, UNICV	2009	Could be organized under the <i>Mobility Partnership</i>
11.6	Prepare a renewed handbook for emigrants, with special emphasis on investment promotion. Need to devise strategy to mobilize emigrants as investors.	High	CI	2009	2009 consultancy (communication, graphic design)
11.7	Reinforce the department of MNECC dealing with diaspora and mobility, as well as the IC	Medium	MNECC, IC, IEFP	continuous	Could be funded under the <i>Mobility Partnership</i>
12. Fisheries, niche products and export oriented light industry					
12.1	Improve Research and Management of fisheries and marine environment	Medium	INDP	2011	EU, Spain, Germany (oceanographic studies) are already assisting
12.2	Reinforce Monitoring Control and Surveillance (MCS)	High	<i>Direccao de Control de Qualidade e de Fiscalizacao</i> in the Dept.of Fisheries;	2011	ICCAT, EU, Portugal and Spain are already involved World Bank funding for fisheries MCS under the regional fisheries project in West Africa. Should form part of SPA plan of Action

			<i>Guarda Costeira</i>		
12.3	Evaluate options for industrial fishing, canning	Medium	Depart of Fisheries, MECC	2009-2010	
12.4	Undertake feasibility of seaweeds culture	Medium	Dept of Fisheries, MDRRM	2009	Consultancy 2 w/m. Japan and China are among countries with experience in this area
12.5	Support the development of selected agro-based products throughout the entire value chain. Special attention to supplies to the tourist sector, and to sanitation questions.	High	MDRRM, ADEI, ARFA	Continuous	Build on existing projects. E.g EU/Italian project in Fogo (deals with wine as well as links with tourism). Centro Agro-alimentar in Porto Novo, etc
12.6	Support for standardization and certification of niche agro-products (coffee, grogue, wine, etc.). Support capacity building for commercialization and export promotion.	High	ARFA ADEI	2009	Build on existing projects as for 12.6. UNIDO has started implementing a quality control programme under the one-UN programme
12.7	Promote light industry sub-contracting and assembly for exports	High	CI, ADEI, MECC	Continuous	

**CAPE VERDE'S INSERTION IN
THE GLOBAL ECONOMY**

INTRODUCTION: CAPE VERDE, A SERVICE ECONOMY

Cape Verde's export-oriented primary sector productions of the past (bananas, sugar cane, coffee) have long lost their importance, or disappeared (salt). Domestic production of food has been structurally far below the national needs; manufacturing has never been a significant sector. With the emergence of tourism as the leading sector, Cape Verde is now more than ever a service based economy. The main focus of Government's "transformation strategy" and poverty alleviation strategy is on trade in services -rather than goods; this is essentially how Cape Verde will be able to consolidate its "insertion in the global economy".

OPPORTUNITIES AND CONSTRAINTS

Cape Verde has many remarkable achievements, which are recognized internationally, including by the fact of its graduation from the LDC category in December 2007. However, this is not a cause for complacency, and, as for any country, it is useful to have an assessment of the Strengths, Weaknesses, Opportunities and Threats faced by Cape Verde in pursuing its economic and social development. Such a SWOT analysis is proposed in Table 1.

The main strengths are in the area of governance and good international networks, including the diaspora. Climatic conditions, although not favorable to agriculture, are an asset for tourism. The good general level of health and education of the population-and its rich culture- are positive points. Cape Verde's geographic location is also favorable in some respects, although this has often tended to be overstated.

The weaknesses are derived partly from geography (no significant natural resources, territorial fragmentation, leading indirectly to high costs of energy and water) and partly from history (mindsets, administrative and negotiating capacities not in line with the competitive globalizing world economy). For instance Cape Verde has hardly been exposed to the corporate culture of multinational enterprises, since there are very few operating in the country.

The successful development of tourism provides Cape Verde with many opportunities for diversification. Other opportunities are in the area of offshore services and BPO. Utilizing the geographical situation of Cape Verde to make of the country a platform for international movement of goods and people goods has long been regarded as a desirable opportunity, although recent developments do not give cause for optimism in this area. The vibrancy of Cape Verdian culture may also be developed to yield economic benefits. Among the new opportunities that have been opened in 2007 are those offered by the Special Partnership Agreement (SPA) and the *Mobility Partnership* with the European Union, which, if properly managed, could have a major impact on the future of Cape Verde.

Cape Verde is also faced with several potential threats. One of them is the danger of the country being increasingly used as a centre for illegal drug and human trafficking. The experience of neighboring countries, shows that this could have tragic consequences. There is also the threat that two important resources on which Cape Verde depends (ODA and resources from the diaspora) may dwindle. Donors may diminish their support using the argument that Cape Verde is no more an LDC, and may suffer from "donor fatigue". As regards the diaspora, if new mobility does not take place, there is a real danger that the links with the descendants of former migrants will loosen. Finally, there is a risk that Cape Verdeans and their leadership would become complacent-lose a clear national purpose, go along with externally driven arrangements that are not in their national interest, be content with the fact that Cape Verde is more advanced than its West African neighbors and that having "succeeded" to have a Special Relationship with the EU will solve all problems.

Table 1 SWOT analysis of Cape Verde's development prospects

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Political stability; democratic institutions • Relatively corruption free • Good location • Good climate, dry , moderately warm • Good health indicators (AIDS free, no malaria) • Active diaspora • Rich culture, including music • Good relations with partners • Fairly good level of general education 	<ul style="list-style-type: none"> • No natural resources • Territorial fragmentation (archipelagic character) • High cost of energy and water • National decision making, mindsets and implementation processes not well coordinated and adapted to the transformation agenda • Low negotiating and analytical capacity, (leading to decisions taken not taking into account Cape Verde's interests)
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Sustainable tourism with maximum spread effects • Some possible opportunities in international platforms and hubs. • BPO and offshore activities. • Cultural industries potential. • The Special Partnership Agreement • The <i>Mobility Partnership</i> • Continued donor support for a smooth transition from LDC status for the ETS and the IF. 	<ul style="list-style-type: none"> • Increase in drug, money laundering, human trafficking • Weakened links with the diaspora • Possible donor fatigue in the future • Passive acceptance without proper consideration of conditions in ECOWAS which may be against the interests of Cape Verde.

FROM THE GRAND OPTIONS OF THE PLAN TO THE ECONOMIC TRANSFORMATION STRATEGY AND GPRS II

The current vision of the authorities for the development of Cape Verde reflects these opportunities and constraints. It has its origin in the series of strategic reflections to develop a national agenda for economic transformation and poverty reduction carried out by the new Government elected in 2001. The 'Grand Options of the Plan' Document was approved by the parliament in early 2002. This was followed by the *Economic Transformation Strategy* (ETS) which was widely discussed nationally, and validated in 2003 at a "Forum for the construction of a national consensus for the Transformation of Cape Verde". In parallel, Government also prepared an interim Poverty Reduction Strategy Paper, 2002-2004, followed by the *Growth and Poverty Reduction Strategy* (GPRS) covering the period 2004-2007. The GPRS document placed emphasis on enhancing the capability of the poor to increase their incomes, and aimed at promoting sustainable economic growth that would end poverty in the near future. As documented in Chapter 2, Cape

Verde's economic and social indicators have continued to improve consistently since 2000. However, in an assessment of GPRS, it was considered that "the nation could have made more progress especially with respect to employment generation and reduction in poverty if the GPRS had been better aligned with the ETS (...)"².

Following the preparation of a Concept Paper (CP), the second GPRS (GPRS II), covering the period 2008-2011, was finalized in May 2008 and approved by the Council of Ministers. GPRS II refers prominently to the "Transformation Agenda" (GPRS II, chapter 3) and reiterates that "a robust growth and the competitiveness of the Cape-Verdean economy are the principal strategic directions ("*Eixos*") of action of the public authorities". It goes on to state that "it is imperative to create an environment favoring the integration of Cape Verde in the world economy so as to reap the benefits of globalization, ensure the sustainability of social and economic development and improve the quality of life of the populations" (3.3.4). As in many other developing countries, the GPRS (I and II) may be regarded as the main overall frameworks of Government's social and economic policy.

Since the ETS was formulated in 2003, there have been a number of closely related statements of its vision, objectives and main sectoral thrust. The presentation below draws on that made by the Minister of Economy at the launching of the CPE on 25 April 2008. (Similar formulations may be found in the GPRS II document).

The vision of the transformation of Cape Verde is expressed as follows:

*"Queremos um país aberto ao mundo, com um sistema produtivo forte e dinâmico, assente na valorização do seu capital humano, capacitação tecnológica e na sua cultura.
Queremos uma sociedade solidária de paz e justiça social, democrática, aberta e tolerante."*

The objectives (ambition) for the short and medium term are:

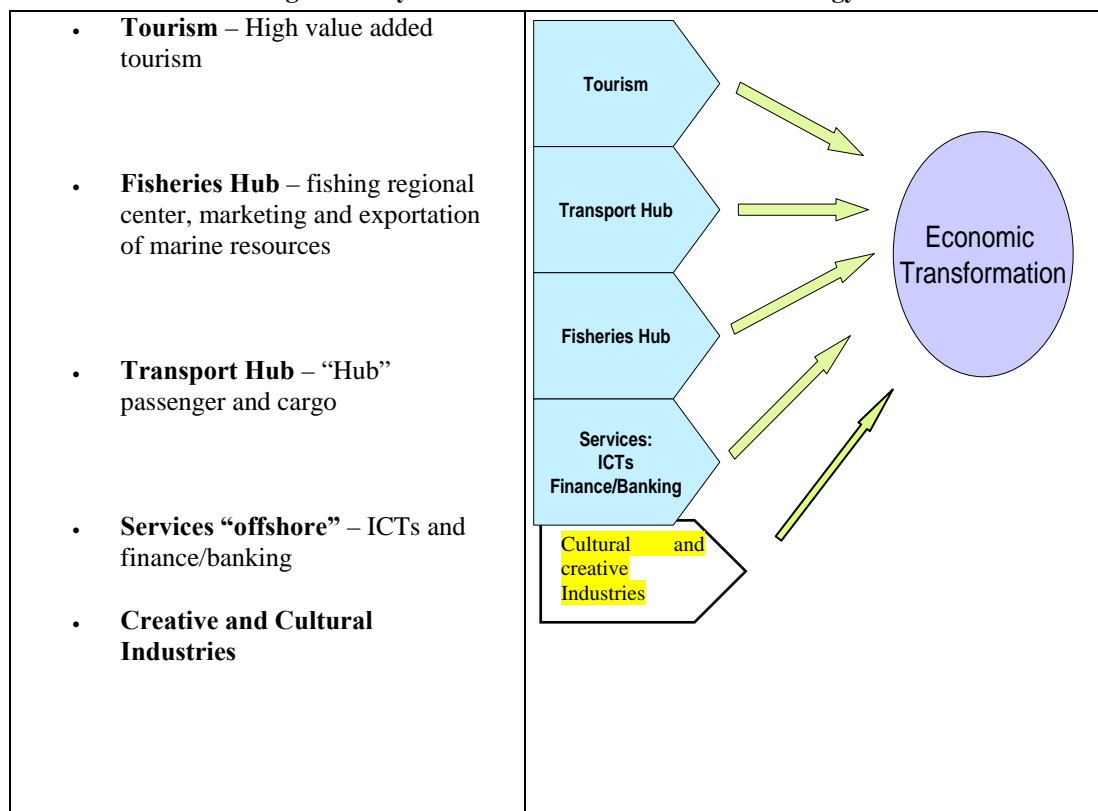
- Maintain growth rates at 2 digits
- Reduce the unemployment rate to single digits
- Reduce poverty at least to the level of the MDG objectives.

The key sectors of the Transformation Strategy are illustrated in Figure 1. They include the fifth sector (or pillar)-that related to the cultural (or creative) industries, notably music-which has been added at the end of 2008.

The facts that these sectors or pillars are all export oriented (rather than relying on the domestic market) and consist overwhelmingly of activities where Cape Verde would aim to compete internationally in exporting services have significant implications for the DTIS and the design of the IF program.

² Towards the Preparation of Cape Verde's GPRS II, A Concept Paper, 16 April 2007.

Figure 1 Key sectors of the Transformation Strategy



Source: Adapted from power point presentation of Minister José Brito at the inauguration of the CPE, 25 April 2008

IMPLICATIONS OF TRADE IN SERVICES

Services are increasingly becoming the engine of growth of the global economy. More than 65% of the total \$43 trillion of global wealth generated in 2007 came from services, and it has been estimated that a good quarter of this \$28 trillion was in tradable services i.e. \$7 trillion. However, in many cases, the implications of this fact have not yet been fully realized by many, including traditional trade economists³. The concept of ‘services’, being intangible, is by definition difficult to grasp. It is particularly wide (‘anything sold in trade that could not be dropped on your foot’, according to The Economist). ‘Trade in services’ is an area of great complexity, and evolving fast, and services related data are notoriously difficult to obtain and interpret.

Trade in services has only been codified in the international trading system in 1995 (Uruguay Round), under the four ‘Modes’ of GATS. These 4 Modes are described in Table 2 and applied to Cape Verde.

³ Quesnay and the Physiocrats regarded the service sector (commerce) as part of the «*classe stérile*». Under the socialist system of national accounting, the Net Material Product was measured-a concept which did not take into account most services.

Table 2 Modes of international trade in services applied to Cape Verde

Mode according to GATS	Definition	Examples
<i>Mode 1: Cross-border</i>	Service products move across borders. No movement of persons	BPO, call centers, offshore financial entities, operating from Cape Verde serving clients overseas. Royalties to Cape Verdean artists when their song is played on a foreign radio.
<i>Mode 2: Consumption abroad</i>	Movement of consumers to the country of importation	Tourists visiting Cape Verde; Foreign fishing or cargo vessels using services at Porto Grande; Airlines using services at Sal
<i>Mode 3: Commercial presence</i>	Establishment of commercial presence in the country where the service is to be provided	Cape Verdean construction company operating in Angola, but with local workers. (Foreign commercial banks established in Cape Verde and serving the domestic market operate under Mode 3)
<i>Mode 4: Movement of natural persons</i>	Temporary movement of “natural persons” to another country, in order to provide the service there.	Cape Verdean musical groups, construction workers, care workers, working temporarily overseas. (e.g. under the <i>Mobility Partnership</i> with the EU)

Designing and implementing strategies for trade in services thus requires a different type of mind set than for trade in merchandize. Classical trade policy concepts such as tariffs, effective protection rates, etc., have no relevance to trade in services, which is not subject to tariffs. The notion that “movements of natural persons” - under two of the four modes (Modes 2 and 4) of the GATS –are part of “trade” is not apparent to many. Similarly, a seemingly commonsense affirmation, sometimes heard in Cape Verde, that “we must produce before we export”, does not apply to most categories of trade in services, where consumption is simultaneous with “production”⁴.

The Cape Verde DTIS, being concerned to a great extent on trade in services, thus follows in some respects a somewhat different approach and format than in the majority of LDCs, whose economy is often dependent on merchandize and commodity trade. In particular there is relatively less emphasis on the usual aspects of “trade policy”, which concern merchandize trade.

SCOPE AND STRUCTURE OF THE DTIS

The IF Diagnostic Trade Integration Study in Cape Verde aims at supporting the ETS /GPRS II process without constituting a separate or parallel exercise. For this purpose, this report addresses the Transformation Agenda objectives highlighted in GPRS II and the various components of the ETS, and makes suggestions on what might be done to implement them.

This report is divided in three parts.

- Part I (chapters 1 and 2) summarizes the political, economic and social context of the country, with special reference to the performance of the external sector.
- Part II deals with issues of a cross-sectoral nature. Chapter 3 addresses the need for improving and operationalizing the main policy frameworks. Chapter 4 is concerned with trade policies-

⁴ Even for assembly types of production, it is often a better approach to aim at producing under sub-contracting arrangements than to undertake the marketing of already produced goods.

an area where Cape Verde is at the cross-roads at this time. Chapter 5 discusses the main institutions related to trade and investment and the need to strengthen them. Chapter 6 deals with the business environment and the investment climate, including the cost of factors.

- Part III (Sectors and Opportunities) starts with a discussion on tourism (chapter 7), which is clearly the backbone of the economy and an area where Cape Verde has already shown remarkable success. It is the first significant economic activity that has taken place in Cape Verde that is both globally competitive and reflects something that happens *in* Cape Verde rather than just *to* Cape Verde. Its contribution to the economy and to poverty reduction and the many possibilities of developing economic activities and services around this sector are discussed in this chapter (which is supported by Annex C which outlines the Tourism Satellite Accounts). The second pillar of the ETS (the gateway idea, i.e. passenger and cargo hubs in Mindelo, for the maritime hub, and Sal, for airlines) is addressed in chapter 8. The gateway concept may be more difficult to develop on a significant scale, since new advances in technology and logistics may have led to Cape Verde losing some of its locational advantages. Chapter 8 also discusses the third “key sector” of the ETS (A fisheries hub-consisting of a fisheries regional centre), since this centre is also based in Mindelo, and there is much commonality between the fisheries hub and the maritime cargo hub (e.g. ship repair, ships supplies and bunkering Offshore services (the fourth pillar of the ETS), are covered in Chapter 9, which makes special reference to BPO/ITES. Cultural industries, increasingly mentioned as a potential fifth pillar of the ETS, are discussed in Chapter 10. Chapter 11 explores the significant opportunities for development and insertion in the global economy which are provided by the diaspora and mobility. Finally, chapter 12 deals with a few sectors (In particular the national fisheries sector proper, as well as possibilities of agro-based and light industrial exports), which although not part of the main thrust of the ETS or of GPRS II, could continue to make a dynamic-though limited- complementary contribution to the economy and to the reduction of poverty.

Recommendations are made in each of the chapters of Parts II and III, and summed up in a Priority Action Matrix.

TRADE AND POVERTY

It is acknowledged that the development of trade and insertion in the global economy are not objectives in themselves. The ultimate objective is to reduce poverty and promote sustainable human development. The DTIS does not contain a special chapter on “the impact of trade on poverty”. However, every effort is made to mainstream poverty reduction issues, as well as those related to gender, throughout the DTIS, to the extent that information is available. A special focus on the impact of the country’s main industry-tourism-on poverty is contained in chapter 7, and in more detail, in Annex C.

PART I

CONTEXT

CHAPTER 1

POLITICAL AND ECONOMIC CONTEXT⁵

1.1. SPECIFICITY OF EACH ISLAND

While Cape Verde is a country which is culturally homogeneous and politically well integrated, one of its most salient characteristics is the geographical fragmentation of islands with small populations over a relatively wide area. The distance between the capital -Praia in Sao Tiago- and the second most important town -Mindelo in Sao Vicente is about 200 km. The same distance separates Praia from the main airport at Sal.⁶ Taking into account this fact, and the specificity of each island, is essential in any discussion on economic and social issues. Whereas this report is about the insertion of Cape Verde as a country in the global economy, it is always necessary to bear in mind that, for geographical and logistical reasons, Cape Verde's economy itself is not well integrated.

As an example, in order to supply the main tourist island, Sal - which has almost no agriculture or industry- it is often easier and cheaper to do so from the Canaries or Lisbon (by air) than from other islands, which may have an agricultural or fish surplus. Similarly, whereas 90% of the population of Fogo has relatives in the United States, who frequently come to visit, Fogo residents may have little contact with those of Sao Antão or Maio. Such economic and spatial differences also account for the fact that there are two Chambers of Commerce (for Barlavento and Sotavento group of islands, respectively).

Some of the basic characteristics of each island, within the two main groups, as summarized in Table 1.1, illustrate the diversity of island situations.

⁵ This draws in part on African Development Bank/OECD (2008). "*African Economic Outlook, 2008*"; IMF (2008) "*Country Report 08/37*"

⁶ The Canaries, for instance, are much more "compact". Tenerife and Gran Canarias each have populations almost twice that of Cape Verde, while the distance between the airports of Tenerife North and Las Palmas is 54 km.

Table 1.1 Main characteristics of the Cape Verde islands

Islands	Area (km ²)	Population number, and % total	Poverty incidence %	No.of tourist beds, 2007	Registered family farms	Cattle	Activities/Remarks
Barlavento							
Santo Antão :	779	48,8 (10 %)	54	432	6,789	832	Agriculture, livestock; little tourism.
São Vicente :	227	78,2 (15,60 %)	26	809	2,060	236	Industrial zone, fisheries centre. Main deep water port. Airport expected to have international accreditation in 2008.
São Nicolau	388	12,9 (2,60 %)	40	80	2,009	1,255	Agriculture, livestock, fishing, no tourism.
Sal	216	19,4 (3,88 %)	13	5,862	410	60	Tourism (3/4 of total). Main international Airport, airline services.
Boa Vista	620	5,4 (1,10 %)	15	1,157	489	260	Tourism, New international airport
Sotavento							
Santiago	991	282,7 (57 %)	38	1,028	24,625	15,206	Largest area and population; political capital; international airport since 2005; agriculture, livestock, some tourism.
Maio	269	8,0 (1,60 %)	37	147	1,098	760	Agriculture, livestock, fishing; no tourism.
Fogo	476	37,8 (7,60 %)	42	205	5,276	3,064	Agriculture (wine, coffee, fruit trees), livestock; limited tourism; volcano.
Brava	64	6,2 (1,20 %)	43	47	1,244	653	Agriculture, livestock, fishing; no tourism.

Source: INE; World Bank (2007) "Cape Verde Rural Development Assessment;

Cape Verde: The Country – Facts"

1.2. NATIONAL POLITICAL CONTEXT

After independence from Portugal (1975), an attempt was made to unite Cape Verde and Guinea-Bissau into one nation, but this was abandoned in 1980. Initially a single-party system, combined with direct state control of the economy, was in place. However, since the early 1990's, Cape Verde has been a parliamentary democracy, with two main parties competing for power at general elections, and much of the economy has been privatized. The latest national elections were held in 2006. Municipal elections were held in 2008.

Cape Verde is generally recognized as one of Africa's most stable democratic systems, with a free press and a good record of human rights. Although lack of transparency is still perceived as a challenge, the level of corruption is not high. (e.g. The 2007 Corruption Perception Index (CPI) of Transparency International ranks Cape Verde as the third least corrupt African country, after Botswana and South Africa.)

1.3. GEOPOLITICAL STANCE

Cape Verde has a particularly wide international network. Its geopolitical positioning is complex and rapidly evolving. Traditionally, Cape Verde has always been a gateway to the Americas, Africa, and Europe, with most of its diaspora members living in these continents⁷. There are longstanding and close links with the United States where a significant number of Cape Verdians have emigrated; Cape Verde was one of the first countries chosen under the Millennium Challenge Account. More recently, there have been special efforts, including through the visit of several high-level delegations, to develop cooperation with China, in order to further diversify strategic networks. There is a fishing agreement with Japan.

Cape Verde is a member of the African Union (AU), the Economic Community of West African States (ECOWAS), and the Permanent Interstate Committee for Drought Control in the Sahel (CILSS). Relations with and cultural links with the Lusophone countries, are strong, both bilaterally and through organizations, such as: *Paises Africanos de Lingua Oficial Portuguesa* (PALOP) and *Comunidade dos Paises de Lingua Portuguesa* (CPLP). Cape Verde is also a member of the *Organisation Internationale de la Francophonie* (OIF).

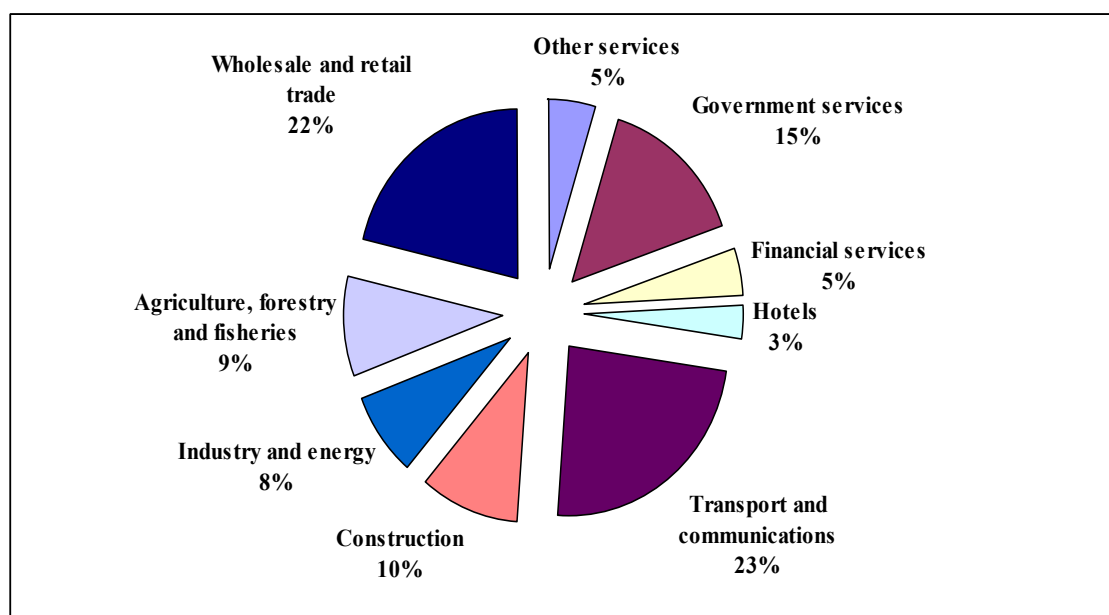
Cape Verde has particularly strong relations with several European countries. Portugal, the former colonial power, is the main trading and cultural partner, but relations with Spain, Luxemburg, the Netherlands and France have always been very close. Government has, for a number of years, been cooperating with the Canary Islands (part of Spain), Madeira Islands and Azores (part of Portugal), the four archipelagos together forming Macaronesia. Cape Verde has been informally considered by many as an ultra peripheral region of Europe. In late 2007, Cape Verde's geopolitical stance has known a major evolution when it entered into two important and innovative partnerships with the European Union: the **Special Partnership Agreement** (SPA) and the *Mobility Partnership*. It is believed that this is the first time the European Union enters into a Special Partnership Agreement of this particular nature, whereas, for the *Mobility Partnership*, the other pilot country chosen has been Moldova.

⁷ For an evaluation of the diaspora and of countries of residence, see Figure 11.1 of this Report.

1.4. STRUCTURE OF THE ECONOMY

The structure of the economy is presented in Figure 2.1.

Figure 1.1 GDP by sector, 2006, Percentage



Source: AfDB/OECD, African Economic Outlook, 2008, based on IMF

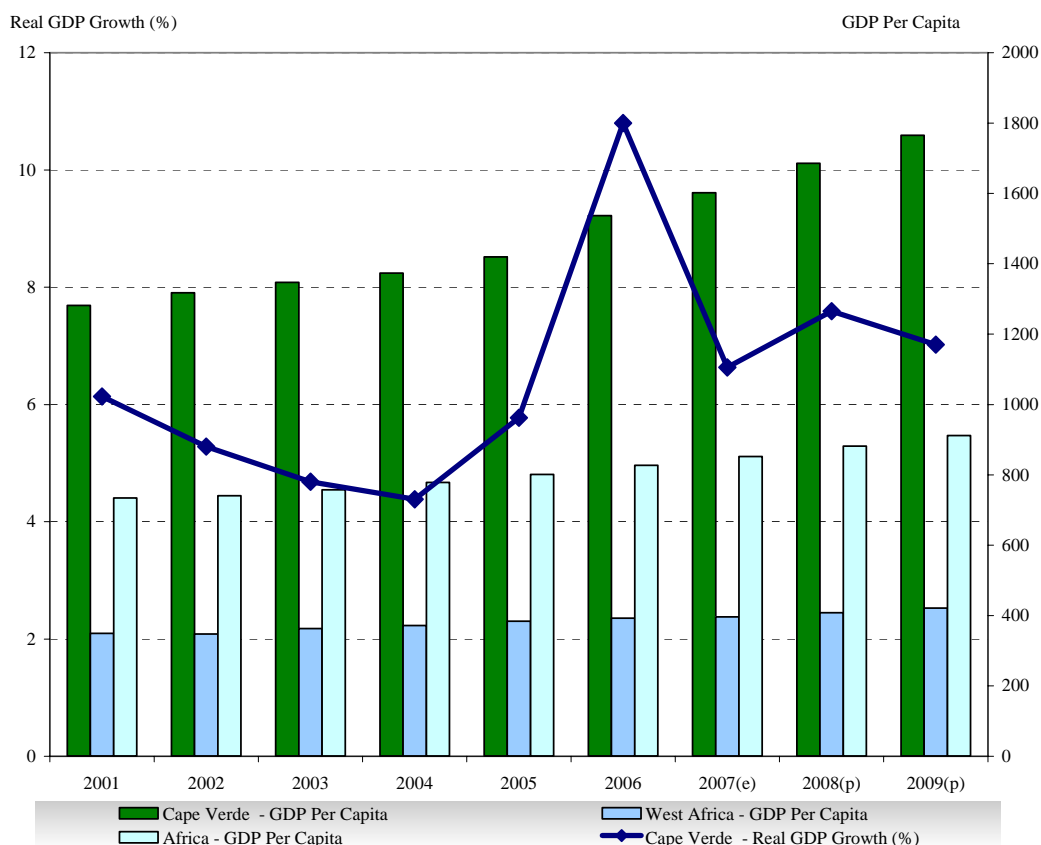
The Cape Verdean economy is service-oriented- the service sector accounting for almost $\frac{3}{4}$ of GDP in 2006. Tourism is by far the leading growth sector, which drives the economy. Although “tourism” is not identified as a separate sector in the national accounts, according to information from the AfDB/OECD report, tourism accounted to 18.3% of GDP in 2006, and its contribution had grown by 12.7 per cent yearly, between 2000 and 2003 and by 15.6 per cent between 2004 and 2007. The strategic plan for tourism 2004-2015 envisages that the number of tourists would reach 1.2m by 2015 (up from the 2006 figure of some 280,000 –measured by hotel registration), and it is estimated that tourism could account for as much as 30% of GDP in 2015.

The construction sector has increased its share of GDP, from 7.7 per cent in 2004 to around 10 percent in 2006. This is itself related to the development of tourism, as well as implementation of the Public Investment Program. The agricultural sector (including fisheries) accounts for less than 10 per cent of GDP. This is largely due to the fact that less than 10 per cent of the country’s land area (around 42,000 hectares) is suitable for crop production. Fishing accounts for only about 1 per cent of GDP. Manufacturing (recorded together with energy in national statistics) is very limited and its share of GDP has declined over the past decade.

1.5. RECENT ECONOMIC GROWTH

Cape Verde’s economic growth has been very satisfactory over the recent past. This is particularly remarkable for a country without natural resources, and which suffers from considerable vulnerability from factors beyond its control. Figure 1.2 gives the evolution of GDP in recent years (Projections for 2008 and 2009).

Figure 1.2 Real GDP growth and per capita GDP, 2001-2009, USD at constant 2000 prices



Source: AfDB/OECD, Africa Economic Outlook, based on IMF; estimates (e) and projections (p)

GDP growth has averaged 5.7 per cent between 2000 and 2005. The revised figures for 2006 show an exceptionally high growth for that year (10.8 per cent), and an average yearly figure well above 6 per cent is expected to be achieved over 2007-2009. Both income per capita (GNI: USD 2,130 in 2006 according to the World bank) and growth rates considerably above the average for Africa. The strong growth of the past several years has been mainly driven by the significant inflows of FDI, especially in hotels and construction. Other drivers were the continued inflow of remittances and public investment in infrastructure (itself funded to a great extent by ODA). The fastest growing sector has thus been construction with remarkable growth rates of 16,7%, 29,4% and 18,4% in 2005, 2006 and 2007, respectively. Both services and “energy and industry” (grouped together in the national accounts) also had growth rates averaging more than 10% in 2005-2007, while agriculture has recorded a decline (-13% in 2006; -8,8% in 2007).

1.6. NATIONAL BUDGET AND FISCAL POLICY

The current fiscal strategy is geared towards preserving macroeconomic stability, strengthening the tax effort and prioritizing public sector investment.

Table 1.2 Main components of public finance, 1999, and 2004-2009, Percentage of GDP

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants^a	28.6	33.5	30.0	30.9	31.6	31.6	31.4
Tax revenue	17.3	20.3	21.0	23.0	22.8	23.9	23.2
Grants	7.2	10.8	6.4	5.8	6.8	5.6	6.1
Total expenditure and net lending^a	42.1	38.2	34.0	35.5	34.0	34.1	33.7
Current expenditure	28.6	24.4	21.4	22.7	21.4	20.3	20.2
<i>Excluding interest</i>	26.3	21.9	19.2	20.8	19.8	18.7	18.6
Wages and salaries	10.7	11.9	12.1	11.6	10.9	10.2	9.7
Interest	2.3	2.5	2.2	1.9	1.6	1.6	1.6
Capital expenditure	13.5	13.6	12.5	12.5	12.3	13.7	13.5
Primary balance	-11.2	-2.2	-1.8	-2.6	-0.7	-0.9	-0.7
Overall balance	-13.6	-4.7	-4.0	-4.6	-2.3	-2.5	-2.3

Source: AfDB/OECD, based on IMF Data; Notes: (e) estimates; (p) projections, Only major items reported

Cape Verde has improved its tax effort through tax reform and improved tax collection. Tax revenue increased from about 17 per cent of GDP in 1999 to about 23 per cent in 2006 and 2007. Total revenues were also boosted by the one-time revenues from the privatization of nearly 30 state-owned enterprises. Cape Verde has a relatively high income tax rate (The top rate for the highest bracket is 45 per cent) and a moderate corporate tax rate (A top rate of 30 per cent). Other important sources of revenue are import duties and value added tax (VAT). A review is in progress to rationalize and streamline the use of tax incentives, exemptions, and import and consumption taxes, with the support of IMF. Grants continue to be an important source of revenue, amounting to about 6 per cent of GDP in 2006 and 2007. Grants and external loans together finance about 80 per cent of the Public Investment Program. Improved public expenditure management has enhanced donor confidence, leading to an increase in general budget support from 4 per cent of the total budget in 2006 to 7 per cent in 2007. Estimated total expenditure and net lending amounted to 34 per cent of GDP in 2007 - down slightly from the 35.5 per cent registered in 2006. The overall fiscal deficit (including grants) has been reduced to an estimated 2.3 per cent of GDP in 2007, compared to 4.6 per cent in 2006. The 2008 budget calls for a 13 percent increase in domestic financing in comparison to 2007, with revenue expected to increase further to 31.6 per cent of GDP, thanks to improved efficiency in tax collection, notably the tripling of the amount of local tax collected in the period 2004-07.

1.7. MONETARY POLICY AND INFLATION

In 1998, the decision was made to make the Cape Verdean escudo convertible at a fixed rate into the Portuguese escudo. This was transformed into the equivalent arrangement with the euro in 2000 (1 Cape Verde Escudo (CVE) = 0.009069 Euro (EUR); 110,265 CVE =1 Euro).

The IMF considers that “The exchange rate peg serves Cape Verde well as an anchor for financial stability”.

Owing to the importance of remittances and their sensitivity to interest rate differentials, the *Banco Central de Cabo Verde* (BCV) is attentive to keeping the main interest rate sufficiently high above the European Central Bank’s key refinancing rate. Part of government financing is assured through the sale of treasury bonds with maturities extending up to 2014.

In 2006, inflation as measured by the consumer price index accelerated to 6 per cent due to rises in food and fuel prices, after having averaged only 1 per cent from 2001 to 2005. The rise in food prices in 2006 was due to poor rainfall, higher international food prices, and upward adjustments in the regulated prices of petroleum products. In 2007, consumer price inflation fell back to 4.5 per cent – as prices of fresh food declined and the VAT rate on some categories of consumer goods was temporarily reduced. Over the medium term, the inflation rate is expected to return to levels equal to or below those in the euro area.

1.8. DEBT

Cape Verde has prudently managed its external debt, and is not among the countries eligible under the HIPIC and MDRI initiatives. According to a recent IMF-World Bank debt sustainability analysis, the risk of debt distress in Cape Verde remains low. The government has undertaken to reach and then maintain a central government public debt ratio of no more than 70 per cent of GDP (72.4 percent in 2006), while the domestic debt/GDP ratio should be stabilized at around 20 per cent of GDP by end-2008 (from over 33 per cent at end-2005). External debt as a percentage of GDP is declining. Similarly, domestic debt, net of deposits but including arrears, has continued to decline as a share of GDP from 32.7 per cent of GDP at end-2005 to 25 per cent at end-2007. This is due to strong revenue performance, improvements in tax administration and continued expenditure restraint. It is planned to clear the payment arrears of central and local government entities, as well those owed on fuel supplied to Electra, the country's electricity and water provider, by 2009.

1.9. SOCIAL INDICATORS, POVERTY PROFILE AND HUMAN DEVELOPMENT⁸

Cape Verde has improved under the UNDP human development index from 0.59 in 1990 to 0.72 in 2006 (world ranking of 106). The country is on track to achieve the MDGs. Nevertheless, poverty remains a problem for significant segments of the population.

1.9.1 POVERTY AND INCOME DISTRIBUTION

In Cape Verde, poverty is defined (for a household) as one earning less than 60% of the medium annual household income. Households with less than 40% of the median are considered to suffer from extreme poverty. In money terms, in 2003, the poverty threshold was 43.250 ECV escudos in 2002 (392 euros) and that for extreme poverty 28.833 escudos (261,5 euros),

One of the main objectives of GPRS II -and it was for GPRS I- is to halve the number of people living in extreme poverty by 2015 (MDG 1). The proportion of the population living below the national poverty threshold is estimated to have fallen from 49% to 37%, between 1988-89 and 2001-2002, and further to 29% in 2006. In 2001-2002, 14 % of the total population was considered "very poor". 62 per cent of the poor lived in rural areas, where 20 per cent were considered in extreme poverty (defined in terms of households with annual income of less than 40 per cent of median annual household income). The disparity among islands as regards the incidence of poverty is also striking. (Table 1.1). It is not a co-incidence that the two main tourist islands –Sal and Boa Vista- have by far the least levels of poverty (13% and 15%, respectively) whereas in the marginalized islands without tourism poverty incidence is 40% and above. The incidence of absolute poverty among women heads of household was estimated at 53 per cent. Income distribution appears to have widened; the Gini coefficient increased from 0.51 at the end of the 1980s to 0.57 in 2002. The Cape Verdean authorities are well aware of the danger of widening income distribution and both GPRS I and GPRS II place special emphasis on measures to enhance national solidarity and on the social safety net.

1.9.2 UNEMPLOYMENT

Unemployment has traditionally been high in Cape Verde. The rate of unemployment was 24.4 per cent in 2005 and fell to 18.3 per cent in 2006 (33,574 out of a labor force of 183,254). 48% of the labor force and 45% of the unemployed are women. Youth (aged 15-24) unemployment is particularly high (33% in 2006). The unemployment rate of girls (41.8%) is greater than that of boys (25.1%) of the same age. The pressure to migrate continues to be strong. However, with restrictions in traditional countries the net migratory balance is estimated at less than 2 000 per year currently as compared to some 9,000 in the 1990's. It is estimated that informal employment accounts for about 40 per cent of total. In 2006, 69,940 persons are covered by the contributory social insurance (about 42% of those employed). 21,361 persons benefit from the non-contributory social protection.

⁸ This section draws on "Relatório dos Progressos Realizados para Atingir os ODM" UN/Government of Cape Verde, May 2007, GPRS II and AfDB/OECD (2008).

1.9.3 GENDER

Although UNICEF reports that many girls drop out of secondary school due to sexual abuse and teenage pregnancy, data show a slightly higher enrolment in secondary schools for girls than for boys. It is generally recognized that substantial progress is being made in reducing gender inequality, with women becoming increasingly empowered and their rights formally established. The country is expected to achieve MDG 3 (Promote gender equality and empower women) before 2015.

1.9.4 HEALTH

In the health sector, efforts are being made to step up the campaign against non-contagious diseases; to control tuberculosis, HIV/AIDS and malaria; and to improve reproductive and child health. Cape Verde is expected to achieve the health-related MDGs in all municipalities before 2015, and these goals have already been achieved at the national level. As regards access to health services (Within 30 minutes), Cape Verde has reached a national rate of 73 per cent (88% Urban and 61% rural). There has been an evident improvement in public health, reflected in lower rates of maternal and under-five mortality (MDG 4), which has continued to drop from 29.8 per thousand in 2000 to 25.3 in 2007, and a marked increase in life expectancy at birth (69 years in 2006) - the third highest in Africa. 85% of the population has access to drinkable water (Urban: 86%; rural: 73%), while 30% have access to sanitation (61% Urban; 19% rural). However, some other health-related indicators have deteriorated in recent years. For example, the incidence of some highly contagious diseases such as HIV/AIDS and tuberculosis, (MDG5) has increased, although they remain far below African averages. HIV prevalence rate in Cape Verde is around 0.8 per cent in 2005, with 69.2% of cases in Santiago.

1.9.5 EDUCATION

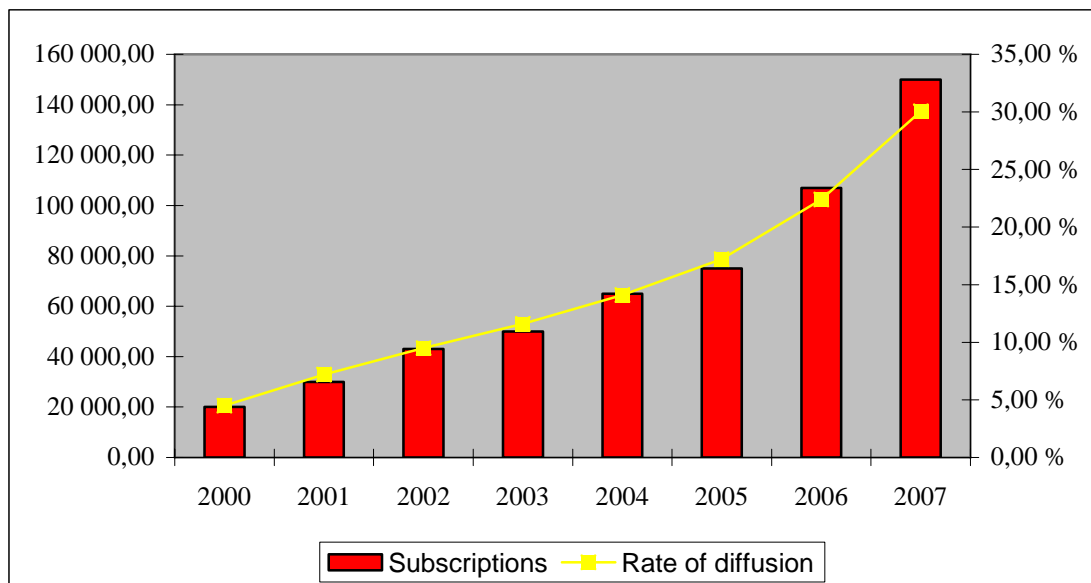
The extremely high literacy rate of 79 per cent in 2007 (97% for the youth) is the direct result of 32 years of sustained investment in education, amounting to 20.4 per cent of the budget between 2004 and 2006. It is estimated that some 65% of children age 4-6 attend pre-primary school (fee paying). Primary education is free, universal (98 per cent net enrolment) and compulsory until age 11 (MDG2); 83 per cent of primary school pupils finish without repeating and only 2.7 per cent drop out. Since 1980, however, the quality of education has gradually decreased, mainly as a result of an insufficient number of qualified teachers. The enrolment rate in secondary school for all children aged 12-17 years is a commendable 70 per cent . Radio is used to provide support for teachers and to enrich content for students.

1.9.6 INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT).

MDG 8, (global partnerships for development) contains a number of objectives. One of them is to “make available the benefits of new technologies— especially information and communications technologies”. This is particularly relevant for Cape Verde, as a service economy, which lays much emphasis on ICT as “to enhance human capital and give an impulse to innovation” (GPRS II, 3.3.6).

Cape Verde has made much progress in this area. As in other countries the number of fixed telephone lines has stagnated since 2002 - at around 70 000 users. Mobile phone users are increasing rapidly, reaching 30% of the population (Figure 2.3)

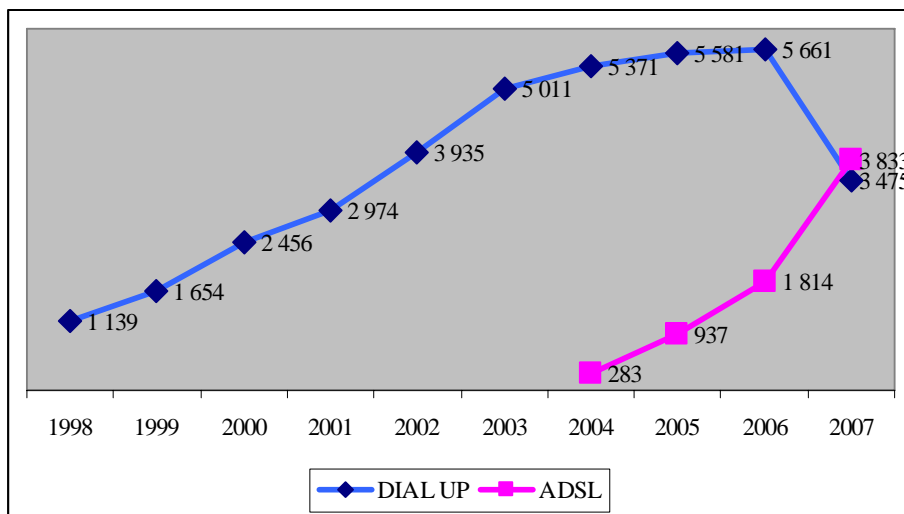
Figure 1.3. Evolution of mobile phone subscribers, 2000-2007



Data Source: ANA

Access to Internet has now become an important indicator of human development. Cape Verde is moving fast in this area with ADSL expanding exponentially (Figure 2.4).

Figure 1.4. Internet access, 1998-2007



Source: ANA

The above figure concerns subscriptions. However, there are many opportunities of communal access, for examples in municipalities and through cybercafés. It may be estimated that some 15 to 20% of the population use internet.

CHAPTER 2

EXTERNAL SECTOR PERFORMANCE

2.1. BALANCE OF PAYMENTS

Data and projections on Cape Verde's balance of payments, as presented in the latest IMF report, are reproduced in table 2.1.

Table 2.1 Balance of payments, 2005 - 2010

	2005	2006	2007	2008	2009	2010
	Estimates		Projections			
Current account balance (including official transfers)	-3,016	-5,259	-10,965	-14,978	-18,292	-23,686
Trade balance	-30,960	-40,654	-54,809	-65,429	-78,040	-90,926
Exports, f.o.b.	7,891	8,429	6,454	6,788	6,943	7,144
Imports, f.o.b.	-38,851	-49,083	-61,263	-72,218	-84,983	-98,069
Services (net)	6,148	13,822	21,244	27,204	32,991	38,536
Credit	24,667	35,523	43,578	52,672	61,752	70,798
Of which: tourism	10,466	19,097	26,249	34,233	42,044	49,156
Debit	-18,519	-21,700	-22,334	-25,467	-28,762	-32,263
Income (net)	-2,984	-3,952	-3,149	-3,599	-4,204	-4,934
Credit	1,641	1,627	1,923	2,285	2,623	2,993
Debit	-4,625	-5,579	-5,072	-5,884	-6,827	-7,927
Government interest	-551	-522	-531	-604	-687	-753
Interest by other sectors	-3,040	-2,443	-2,114	-2,397	-2,673	-3,012
Income on direct investment and other income	-1,034	-2,614	-2,428	-2,882	-3,466	-4,162
Current transfers (net)	24,780	25,525	25,750	26,846	30,961	33,639
Government	4,090	4,310	5,565	3,584	5,293	5,662
Other	20,690	21,215	20,185	23,261	25,668	27,976
Capital and financial account (net)	7,031	10,871	19,178	20,779	24,537	29,040
Capital transfers	1,821	1,540	2,199	2,841	3,361	4,213
Government	1,831	1,540	2,199	2,841	3,361	4,213
Other	200	0	0	0	0	0
Direct investment (net)	6,696	9,722	10,164	14,346	17,158	20,363
Portfolio investment	0	13	400	550	550	550
Government	1,880	2,266	2,229	2,329	2,085	2,510
Trust Fund	-200	0	0	0	0	0
Net official flows	2,080	2,266	2,229	2,329	2,085	2,510
Disbursements	4,314	4,240	4,176	4,403	4,321	4,697
Amortization	-2,234	-1,974	-1,947	-2,074	-2,236	-2,187
Other	0	0	0	0	0	0
Other investments	-3,366	-2,670	4,186	713	1,382	1,403
Commercial banks	-4,883	-2,543	1,823	-638	19	20
Commercial credit (net)	564	189	0	0	0	0
Other	953	-316	2,363	1,351	1,363	1,384
Net errors and omissions	986	-647	0	0	0	0
Overall balance	5,000	4,965	8,225	5,802	6,239	5,348
Financing	-5,000	-4,965	-8,225	-5,802	-6,239	-5,348
Gross international reserves (- accumulation)	-4,964	-5,044	-8,225	-5,802	-6,239	-5,348
Of which: IMF (net)	380	-96	-37	-62	-123	-184
Exceptional financing	-36	78	0	0	0	0
Financing gap	0	0	0	0	0	0
Memorandum items:						
Current account (including official transfers; percent of GDP)	-3.4	-5.1	-9.5	-11.5	-12.6	-14.7
Current account (excluding official transfers; percent of GDP)	-8.0	-9.2	-14.3	-14.2	-16.2	-18.2
Overall balance (percent of GDP)	5.6	4.8	7.1	4.4	4.3	3.3
Gross international reserves	16,260	21,304	29,529	35,331	41,570	46,917
Months of current year's import of goods and services	3.4	3.6	4.2	4.3	4.4	4.3
Months of next year's import of goods and services	2.8	3.1	3.6	3.7	3.8	3.9
External public debt	47,954	49,869	52,098	52,364	54,153	56,222
External aid (grants and loans; percent of GDP)	11.5	9.7	10.3	8.3	8.9	9.0

Source: IMF, based on Bank of Cape Verde

The structural current account deficit (5.1% of GDP in 2006, including official transfers) is continuing to widen⁹. This is associated with Cape Verde's heavy reliance on merchandise imports, which account for 2/3 of private consumption. Few goods are produced and exported and merchandise exports (even including the gross value of re-exports) cover only some 10 % of imports. The merchandise trade deficit is partly offset by a substantial increase in the services trade surplus, driven by buoyant tourism receipts. The deficit on goods and services trade is financed by FDI, foreign aid and migrant remittances. The overall balance of payments shows however a substantial surplus, because of the surplus on the capital account. Gross international reserves have grown steadily, and have been consistently maintained above the equivalent of 3 months of the level of imports of goods and services, which is itself rising rapidly.

2.2. MERCHANDISE TRADE

Table 2.2 Merchandise trade, 2000 - 2007, Million CVE

	2000	2001	2002	2003	2004	2005	2006	2007	tx. Var%
Exportação Nacional	1261	1201	1235	1216	1347	1577	1833	1552	-15,3
Reexportação	1544	1626	1554	3547	5021	6397	7956	7850	-1,3
Importação	27519	30519	32269	34632	38475	38884	47565	60118	26,4
Balança Comercial ^F	-26258	-29318	-31034	-33416	-37128	-37307	-45732	-58566	28,1

Source: INE

Table 2-3.3 records the recent evolution of domestic exports¹⁰.

Table 2.3 Merchandise Exports, 2002 - 2007, Million CVE

Items	2002	2003	2004	2005	2006	2007
Fish and fish products	59.0	46.7	109.0	634.9	888.1	564.2
Shoes and parts of shoes	446.3	348.5	414.0	255.7	260.6	375.3
Clothing	602.8	648.5	776.3	614.3	522.5	525.0
Alcohol (aguardiente)	10.9	18.8	22.5	40.5	38.1	48.5
Other	111.7	138.5	11.0	13.8	106.8	34.1
TOTAL	1,230.7	1,163.4	1,332.8 (1,342)	1,568.2	1816.1	1547.1

Source: INE (NB to be reconciled with Table 2.2)

Their absolute value is small (1, 3% of GDP in 2007). Clothing and footwear have accounted for up to 80% of exports over the period 2001-2005, in particular benefiting from AGOA. However, these "AGOA" exports have now disappeared. Fisheries exports (mostly fresh and frozen fish) were affected by a ban (for SPS reasons) in their main market in the EU. They have recovered since, although the recent figures are far above the historical exports, probably mistakenly recording transshipped fish as domestic exports.

Re-exports consists mainly (nearly 2/3) of refueling of aircraft and ships whose traffic grown steadily with the development of tourism and fish transshipment. Their value has been multiplied by 5 between 2000 and 2006. However, in 2007, they stopped increasing due to the discontinuation of the South African Airways operations at Sal Airport. The gross value of re-exports was about 5 times that of exports in 2006 and 2007. There are no official data on the net value (difference between purchase price and selling price) of re-exports.

⁹ Without official transfers the deficit would be 9.2%-which underscores Cape Verde's continued dependency on this source.

¹⁰ There are slight discrepancies with respect to Table 3.1

According to unofficial estimates the net value is around 30% of the gross value.

For imports, three categories, machines and transport materials, manufactured goods and food products account for 75% of the total. (Table 2.4)

Table 2.4 Structure of imports by product category, 2005 - 2007 average

	%
Food products and live animals	22,2
Beverages and tobacco products	4,2
Non-edible raw materials, except fuels	1,8
Mineral fuels	9,8
Oils, fats and intermediate consumption goods of animal or vegetable origin	1,8
Chemical products	6,4
Manufactured goods	26,2
Machines and transport materials	27,1
Others	0,6
Total	100

Source: Calculation of the DTIS mission, based on customs (ASYCUDA) data

Cape Verde imports more than 80% of the food consumed in the Country¹¹.

2.3. DIRECTION OF TRADE: EUROPE AS THE MAIN TRADING PARTNER.

More than 3/4 of Cape Verde's merchandise trade is with the EU (Table 2.5). Trade with ECOWAS countries is marginal.

-3/4 of imports originate from the EU. Portugal is the biggest exporter to Cape Verde, accounting for almost 45% of the latter's total imports in 2007, ahead of The Netherlands' 16 per cent share. A new trading partner is Mercosur –particularly Brazil- which nowadays accounts for some 7% of the country's imports (as against 0% in 1998).

The share of the EU as a destination of exports is also more than 70%- with Portugal and Spain the main markets.

Table 2.5 Direction of trade, 2005 - 2007 average

	Imports	Domestic Exports
ECOWAS	1,3	1,8
MERCOSUR	7,9	0,1
Rest of the world	14,3	21,0
EU	76,6	77,1
Total	100	100

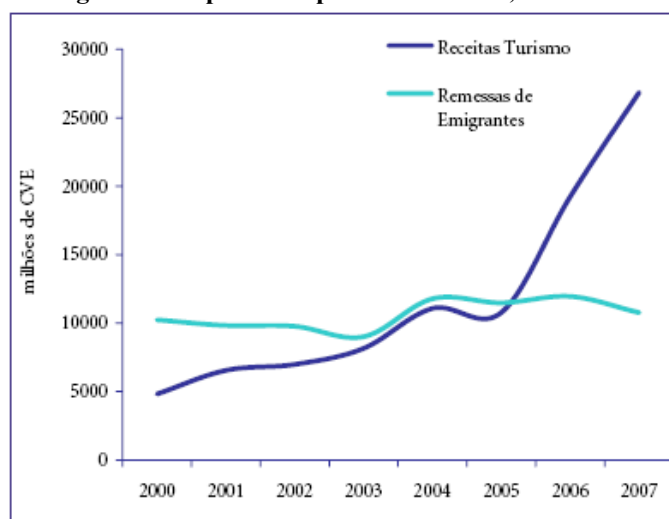
Source: Calculations based on Customs data

¹¹ World Bank (2007) Cape Verde Rural Development Assessment

The concentration of trade with a few countries (Portugal, Spain, Brazil) may point to the fact that Cape Verdean importers (and exporters) are not sufficiently dynamic to benefit from possibilities offered by other partners. The lack of good international transport, in particular with Asia (or South Africa), may also be a factor.

2.4. TRADE IN SERVICES

Figure 2.1 Export receipts from tourism, 2000 - 2007



Source: BCV, Annual Report 2007

The invisible account-balance of trade in services- was negative until the early 2000's, but is increasingly positive and expected to strengthen further (Table 2.1). This is due mostly to tourism receipts which have increased spectacularly (See Figure 2.1, which compares receipts from tourism with migrant remittances).

The gross tourism receipts which were approximately CVE 5 billion in 2000 (7 billion in 2002) have reached an estimated 26.2 billion in 2007, with spectacular growth of 23% in 2006, and 39% in 2007, in nominal terms¹². The strategic plan for tourism 2004-2015 prepared in 2003 had envisaged that tourism receipts would reach CVE 33 billion by 2015, but the current projections (Table 3.1) are that this amount will be reached well before this date.

This growth in tourism has transformed the Cape Verdean economy and help to reduce poverty. Other important exports of services are those from air transport (TACV.-the national airline), and air traffic control services over the Sal cone.

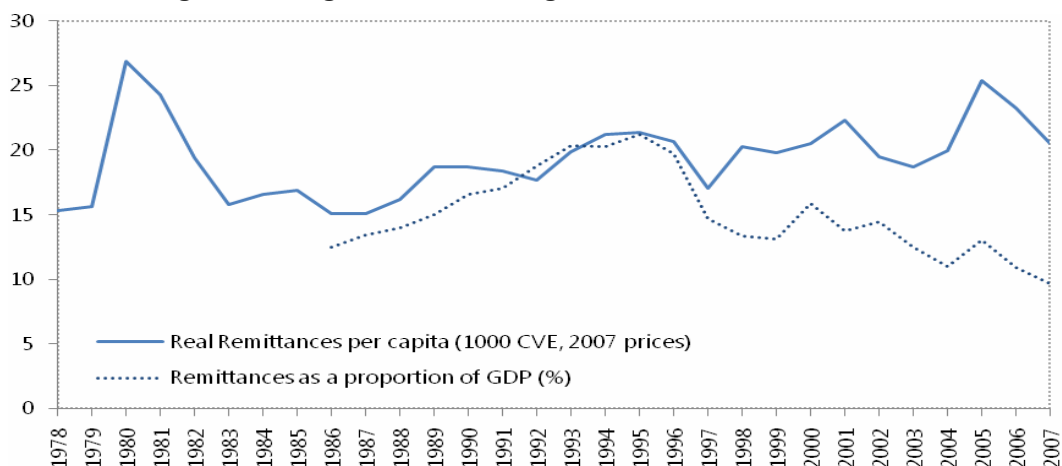
2.5. MIGRANT REMITTANCES AND DEPOSITS

Migrant remittances have always played a major role in Cape Verde. Figure 2.2 illustrates long-term trends in this regard, with respect to recorded transfers. (However, it is believed that a significant proportion of remittances take place "off-grid" via some form of triangulation). With the increase in GDP, remittances as a proportion of GDP have declined from around 20 percent in the mid-1990s to less than 10 percent in 2007. However, remittances per capita, adjusted for inflation, have shown a slow increase since the mid-1980s. It is too early to say if the decline in real remittances per capita during the past two years signals a turn in the trend. The average level of real remittances per capita has been around CVE 20,000 per year over the past

¹² Data on tourism receipts used here are those published by the BCV and IMF. It may be noted that the document *Perfil de turismo em Cabo Verde*, Direcção Geral de Desenvolvimento Turístico (March 2008), although it claims to use BCV/IMF data, contains in its introduction, some misleading information on tourism receipts.

decade.

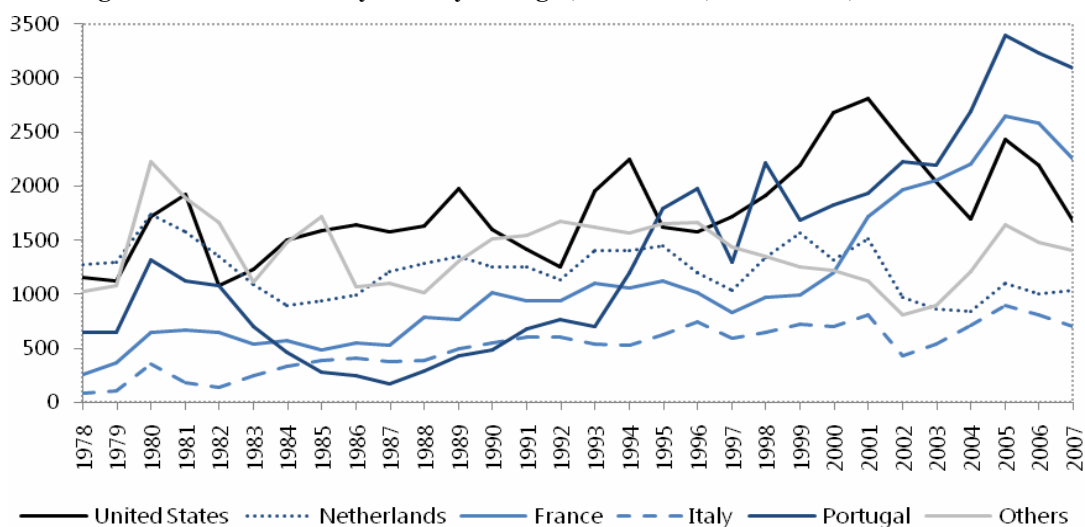
Figure 2.2 Long-term trends in migrant remittances, 1978 – 2007



Data Source: Banco de Cabo Verde, Instituto Nacional de Estatística and The World Bank

Figure 2.3 illustrates the relative importance of remittances from the five largest sources of remittances: United States, Netherlands, France, Italy and Portugal. Although there have been marked fluctuations as regards individual countries, total remittances have remained relatively stable because inflows from different countries have compensated for each other. Since 2000, for instance, the decline in remittances from the United States and the Netherlands has been more than outweighed by increased inflows from Portugal and France.

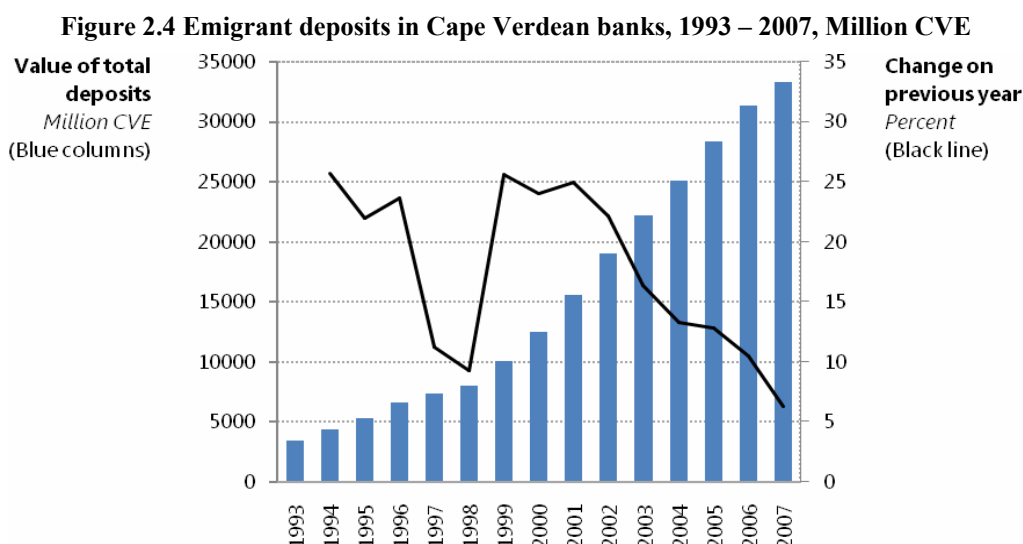
Figure 2.3 Remittances by country of origin, 1978–2007, 2007 Prices, Million CVE



Data source: *Banco de Cabo Verde*. Real value calculated on the basis of the consumer price index in Cape Verde

It should be noted that in Cape Verdean statistics, remittances and investment are separated. Transfers exceeding CVE 1,000,000 (EUR 9,069) are classified as investments.

Migrant deposits also have an important economic significance. The evolution is presented in Figure 3.4. They represent more than 40 per cent of bank deposits.



Data source: Banco de Cabo Verde

2.6. FOREIGN DIRECT INVESTMENT.

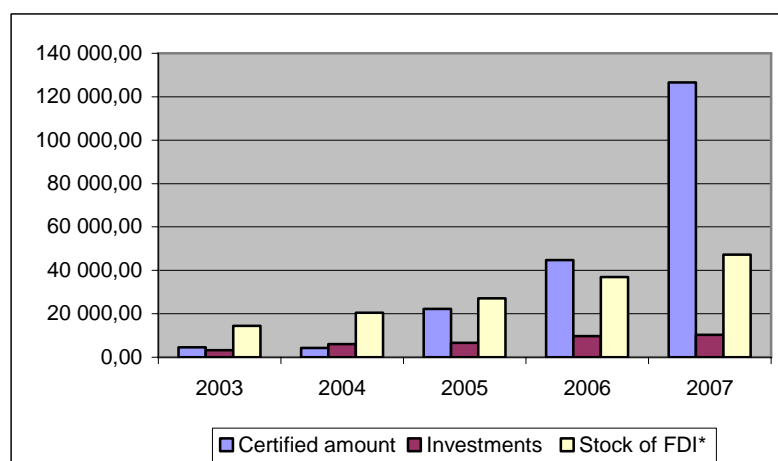
Foreign Direct Investment which was almost non-existent in the 1990's has increased considerably in recent years. (Table 2.6 and Figure 2.5)

Table 2.6 Foreign Direct Investments, 2003 – 2007, Million CVE

	2003	2004	2005	2006	2007
Certified amount	4548,6	4329,2	22186,8	44768,1	126587,0
Investments	3276,4	6037,8	6695,7	9786,8	10377,6
Stock of FDI*	14390,7	20428,5	27124,1	36911	47288,6

*Stock from 1999

Figure 2.5 Foreign Direct Investments, 2003 - 2007



Data source. *BCV.Boletim de Estatística*, 1st Quarter 2008, Quadro 10

*Stock from 1999

The “certified amounts” are those which have been approved to benefit from various investment incentives”. These actual investments corresponding to these certified amounts take place subsequently, sometimes over

several years.

Since economic reforms began in 2003, Cape Verde has attracted nearly 109 investment projects with total capital of USD 416 million in 2007. The level of approval has reached an extremely high level in 2007 (more than 126 CVE bn), which implies an acceleration of the trend.

Although, all sectors of the economy are now open to foreign investment, 90 per cent of FDI has flowed into tourism and only a small amount into manufacturing. Most FDI has originated in Portugal, the United Kingdom, Italy and Spain (Canary Islands). Data show that Angola has become a significant investor in 2007. Investment by migrants is significant. In 2007, emigrant investment constituted CVE 3,672 million, or 35% of total foreign direct investment¹³.

With the opening of a stock market in December 2005, some portfolio investment is also now taking place.

2.7. OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

ODA has traditionally played an important role in Cape Verde. ODA¹⁴ has averaged USD 124 million over the period 2001-05. In 2006, net ODA flows is estimated at USD 138 million External aid (grants and loans) is expected to be just above 10 per cent of GDP in 2007. (Table 2.1)

Among the main bilateral partners are Portugal, Luxemburg and the Netherlands. Since 2004, Cape Verde has secured considerable funding from the United States, under the Millennium Challenge Account. The main multilateral partners are the EU and the World Bank.

A Budget Support Group (BSG) was created in 2005 to align and harmonize donor support around the Growth and Poverty Reduction Strategy. Its original members were the World Bank, the European Union, and the Netherlands. The African Development Bank, Austria, Spain and most recently, Portugal, have since joined. During the last three years, around 25 percent of foreign aid was in the form of budget support.

2.8. SUMMARY AND CONCLUSIONS

For most of the 25 years following its Independence, Cape Verde depended mostly on unrequited transfers (aid and remittances)¹⁵ in order to sustain its standard of living and build up human resources and infrastructure. With the rapid development of tourism-and the related increase in foreign investment and construction - starting at the early years of this century, a new and dynamic dimension has been added.

Figure 2.6 gives the relative magnitudes in 2007 of the various components of external earnings and transfers. It is these different inflows which are essentially responsible for maintaining of the standard of living and determine the economy's capacity to import.

This Figure illustrates that a transformation in Cape Verde has occurred in many areas. As already shown in Figure 2.1, since 2005, tourism receipts have caught up with remittances and forged ahead. FDI, almost inexistent a decade ago, is now almost as significant as ODA. Figure 2.6 also shows the dominance of the service economy and the inherent structural weakness associated with the very limited role of domestic merchandize exports, (CVE 1.5 billion -only 1.3% of GDP, in 2007). In fact, this is not much more than the earnings obtained by Cape Verde from air traffic control, and less than the net value of re-exports (which

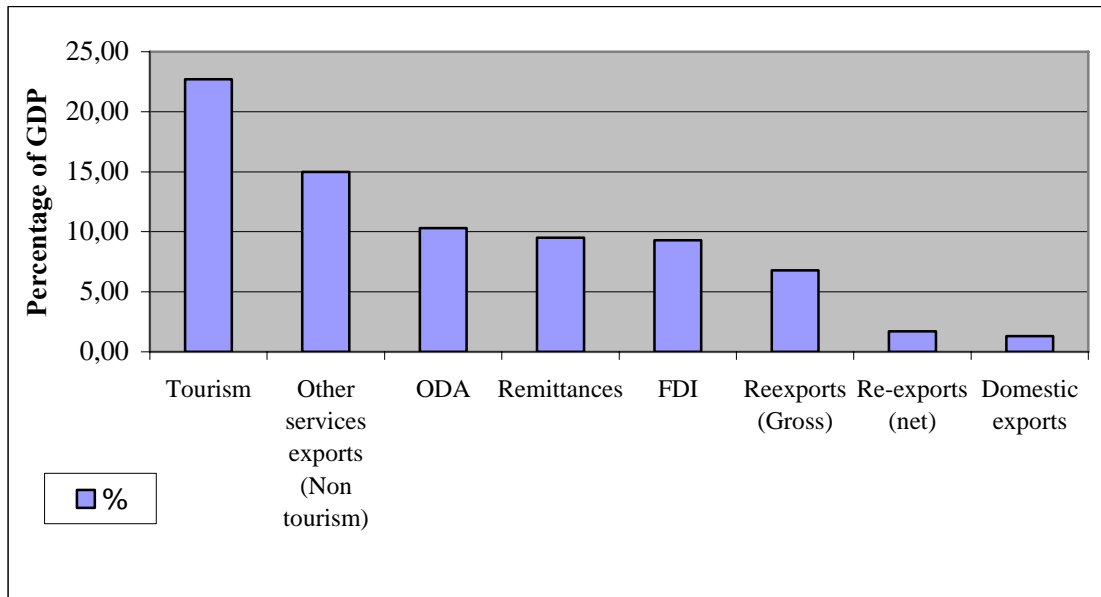
¹³ Source: BCV

¹⁴ The figures quoted are from the AfDB/OECD Report. They are consistent with the projection of 10.3% of GDP made by the IMF for 2007 (table 3.1). National sources (e.g. Report to the SG of the UN, December 2007) generally give slightly lower figures. On the other hand, the Economist Intelligence Unit (Country Profile, 2008) gives a slightly higher figure (USD 161 m for 2005). Differences may be partly due to foreign exchange conversions.

¹⁵ This type of situation was not dissimilar to the so-called MIRAB (Migration, Remittances, Aid and Bureaucracy) economy, referring to the functioning of some small island economies in the Pacific. See Bertram, G. & Watters, R.F. (1985) 'The MIRAB Economy in South Pacific Microstates', *Pacific Viewpoint*, Vol. 26, No. 3, pp. 497-519. Recent updating in Bertram and Watters, Bertram, G. (2006) 'Introduction: The MIRAB Model in the Twenty-First Century', *AsiaPacific Viewpoint*, Vol. 47, No. 1, pp. 45-60. See also Bertram, G. & Poirine, B. (2007) 'Island Political Economy' in G. Baldacchino (ed.) *A World of Islands: An Island Studies Reader*, Canada and Malta, Institute of Island Studies and Agenda Academic, pp. 332-378.

represent a service).

Figure 2.6 Main external earnings and transfers, 2007, Percentage of GDP



Source: BCV, INE, IMF and mission estimates

PART II CROSS- CUTTING ISSUES

CHAPTER 3

IMPROVING NATIONAL POLICY FRAMEWORKS AND MAINSTREAMING

Cape Verde has a number of well developed policy frameworks as discussed in the Introduction. The strategies, policy statements and related documentation (Declaration of the GAT of June 2007, Concept paper for GPRS II, GPRS II, presentation of ETS at the CPE formal inauguration in April 2008, statements by the Prime Minister) benefit from wide national approval and international support. As already mentioned, the DTIS and its recommendations should be considered as supporting these frameworks and policies, and not as a separate exercise.

However, in order to effectively implement the Integrated Framework, (or for that matter other development programs) it is acknowledged that a number of improvements in the overall policy frameworks works and in their implementation would be desirable. These suggested “improvements” do not put in question the thrust of national policies and visions. They are intended to give more coherence, clarity and credibility to the policies and to avoid the sending of mixed messages, and pave the way for better implementation..

3.1. QUANTIFYING AND SPECIFYING THE STRATEGY

Whereas Cape Verde is strong on vision and objectives, there is insufficient “content” regarding the components. For instance, there is very limited analysis of the value chains of the sub sectors identified in the Economic Transformation Agenda. There are at present no quantified projections about the specific components of becoming a “competitive service economy” and few insights on how much it would gain out of this kind of economy (and what the alternative scenarios would be). For instance, the objective of single digit unemployment is often stated, but there are no indications how much employment creation is expected in each of the main economic sectors and sub-sectors. At a time when Cape Verde has entered into a mobility partnership with the EU, no analysis is available on the place that migration, return migration or circular migration are expected to play with respect to the labour market and the unemployment situation, including in the gender balance. The time frame for Cape Verde to achieve the desired transformation strategy is also a key issue, but which has not so far been addressed. However, it is clear that, apart from tourism, whose evolution is very positive¹⁶, the development of other sectors mentioned in the ETS will take time to bear fruit, even under favorable conditions. A “transition period” is inevitable, when the country will have to continue to rely on the traditional sources of revenue, such as ODA and migrant remittances.

Recommendation 3.1 – Specify and quantify and specify the proposed economic transformation agenda by main sector.

DGP (together with CPE) should undertake a prospective exercise attempting to quantify over a medium time frame the outcome of the main indicators of the proposed economic transformation by main sector. It would be desirable to disaggregate industry and energy, and if possible analyze the value chains by main activity, including the different components of the various service sectors. Tourism Satellite Accounts should be prepared¹⁷. The main variables to be addressed are: investment, income and value added employment creation, as well as balance of payment items. This would provide a Tableau de Bord allowing (alongside monitoring the MDG, which is already taking place) monitoring of the economy, evaluation of progress and policy adjustments. The resources of INE, BCV and the recently created CPE should be brought to bear. External resources including from ACBI, UNDP, EU partnership agreement, the World Bank and Tier 1 and 2 of the IF could be mobilized for this purpose.

¹⁶ Tourism projections have been made. However, as mentioned in chapter 7, the data base on tourism is not fully reliable and little is known of the economic and social impact of the sector.

¹⁷ See chapter 7 and Annex C.

3.2. POLICY COORDINATION AND FOCUS

A second area of concern relates to internal coordination of development policy. There are several positive examples of coordination, including the Budget Support Group with donors and the existence of the GAT. Yet, various statements of the different initiatives and strategies are made, often without sufficient reference to one another. The accumulation of initiatives and “exercises”, which taken in isolation, are excellent but viewed within the overall national context are problematic, and may in fact be confusing. The lack of cross-references may give the impression to both the national stakeholders and international community that there is insufficient coordination in policy design and formulation.

This may be illustrated in difficulties in finalizing the GPRS II- which is generally regarded as the major overall framework for development policy. The successive drafts, while discussing at length “Towards a Transformation Agenda” do not make specific reference to the 4 (or 5) pillars (sectors) of the Transformation Agenda. In fact, in some areas many of the ideas and focus in GPRS II’s own Concept Paper are not fully reflected in the GRPRS II document itself. Nor does GPRS II refer to the GAT and the contents of its important Declaration of June 2007, which commits both Cape Verde and its development partners on the broad lines of development policy. It makes no reference to the forthcoming Integrated Framework whose focus (Competitiveness of the economy) is very close to that GPRS II, and whose mandate is to integrate with it. As a final example, GPRS II makes no mention of the important role of the diaspora in development (a matter which is highlighted in the 2003 ETS and the June 2007 GAT Declaration), and of the *Mobility Partnership* with the EU.

Other illustrations of coordination weaknesses are those relating to the determining and implementing of consistent policies in the area of trade and regional integration, as well as for investment incentives.

The Cape Verde government is itself well aware of this “coordination” problem. This is the main reason behind the creation of a new strategic body, the *Centro de Politicas Estrategicas*, (CPE), with its main mission “to ensure the coordination, coherence, and consistency of the actions by various actors in the implementation of the process of transformation of Cape Verde”. Its “superior direction” is of the competence of the Prime Minister, and its coordinator will be appointed by the Council of Ministers. The CPE has a Coordinating Council (16 members from Government and civil society), chaired by the Director General of Planning, which is a “consultative organ supporting the Prime Minister in the exercise of the superior direction of the CPE”. This is an excellent initiative. However, the documentation made available at formal inauguration of this high level coordinating mechanism on 25 April 2008 (Draft Rules, Program of Activities for 2008; power point presentation by the Minister of the Economy) is itself an illustration that more strategic coordination is indeed needed. The documentation rightly makes much mention of the Economic Transformation Strategy, and of the 2003 Forum which generated this strategy. However, there is no reference to the important framework constituted by DECRP II, or to the Declaration of the GAT of June 2007, which are also directly concerned with “strategic development policies”. For the CPE to work, much will depend on the personality and skills of the Coordinator, and the competence of its staff. (The Coordinating Council of 16 members has an important role, but it is only advisory and cannot be expected to provide the necessary day to day leadership and attention to detail necessary for the CPE to achieve its objective.)

Recommendation 3.2 - Improve coordination of economic, trade and social policies

Steps should taken by the Cape Verde authorities to better coordinate the formulation and implementation of economic, trade and social policies. The relationship between the new CPE and the DGP, STAD (responsible to support and coordinate GPRS II), MNECC and MECC should be clarified and close day today coordination established. The future NIU of the IF should itself be integrated with one of these bodies and should not constitute yet another distinct initiative. Future formal meetings with development partners (GAT or its successor) their agenda, documentation and planned outcome be specifically coordinated between MNECC and CPE and DGP and MECC. Similarly, the CPE (with DGP) should be involved in the contents of the strategic agreements with major aid partners, since these involve allocation of resources and priority setting. Part of the funding of the CPE (USD 1m) has been made available by the ACBF, and government will contribute USD 300 000, but complementary funding is sought from donors. Financing gap is USD 2.3 m over 4 years.

Improvement of coordination needs also to extend to implementation and enforcement. For instance, by ensuring that the various entities that approve FDI projects and incentives –or that are involved in trade policy- consult each other under a clear leadership before making decisions and monitor their implementation.

The next two sections- concerning better focus of relations with donors and the need to mainstream diaspora and mobility policies, respectively- also underscore the same need for better coordination

3.3. IMPROVING THE FOCUS OF DONOR RELATIONS

The support of development partners will continue to remain crucial in Cape Verde in order to implement its ETS and accompany the country's insertion in the global economy. Cape Verde has a tradition of maintaining a close dialogue with them. Regular meetings between various parts of Government and the partners represented in Praia take place (individually, collectively, or in small groups) to exchange information. A formal Round Table was organized in 2003, which led to positive results, including the approval of the budget support modality-which has since constituted an increasingly important feature of donor support. The Policy Support Instrument (PSI) with the IMF (2006-2009), which seeks to reduce macroeconomic risks, provides a margin of safety against shocks and prepares for a possible longer-term decline in access to concessional external financing, acts a re-assurance to all partners. With the impending graduation from LDC status, and the fear of a potential decline in ODA and other concessionary measures, Government and its development partners developed a strategy for smooth transition. To this effect a *Groupe d'Appui à la Transition* (GAT) comprising of Government and its bilateral and multilateral partners, was created in 2006 on "*Comment Gérer ensemble la Graduation du Cap Vert*"-the first example in the world of such a process. The GAT met five times. However not all these meetings were supported by action-oriented documentation and consequently could not lead to concrete recommendations. An exception was the third one (June 2007) when a solemn Declaration¹⁸ was adopted. This Declaration is a strategic document expressing the shared vision and commitment of Government and its development partners. It reaffirms donor support and contains language which endorses the current economic transformation agenda of Government, in line with the ETS. On the other hand, the other meetings, while useful for mutual briefing and exchanges of views, were not sufficiently focused on the main development programmes and could not lead to any significant actionable recommendations or decisions.¹⁹

The more the GAT meetings are directly linked to the development agenda and programmes, the more this would improve the country's image, avoid "donor fatigue" among participants, and help to make their

¹⁸ *Déclaration sur la sortie effective et durable du Cap Vert*, 12th June 2007.

¹⁹ The fourth GAT meeting (December 2007) did not reference or follow-up on the GAT's own Declaration of June 2007. It was presented two papers: on the cost of insularity, and copy of a report to the UN Secretary General, respectively, which did not call for any specific action.

programs more effective.

Recommendation 3.3 – Improve focus of formal meetings with donors partners

Formal meetings on development policy (or transition strategy), whether under the GAT or otherwise, should be action-oriented and supported by timely documentation allowing for concrete action, and focus on the main policy frameworks. (GPRS, ETS, IF, implementation of WTO accession package). A clear idea of the outcome should be envisaged before the meeting is called. (As happened at the June 2007 meeting). UNDP should continue to stand ready to support these formal consultations.

3.4. MAINSTREAMING DIASPORA AND MOBILITY POLICIES

One of the main ways in which Cape Verde has always been able to participate in the global economy has been through the international mobility of its population and the contribution of the diaspora to the economy in various forms, including through remittances. It is one of the very few countries where the diaspora is represented in Parliament and where there is a Ministry of Foreign Affairs and of the *comunidades*. The role of Cape Verdean migrants in the development process has been highlighted by the Conclusion of the 2003 Forum on the Transformation of Cape Verde which states as the very first point that the Economic Transformation Strategy “must prioritize (...) an emigration policy that reinforces the ties with the emigrant community (...)”. The issue is also on the agenda of the dialogue between Cape Verde and its development partners, in the course of which it was affirmed the need “to support the participation of migrants to the development and transformation of the country ...to facilitate the reduction of transfer costs of remittances,...to provide incentives to Cape Verdean migrants to invest their financial resources, skills and ideas in their country of origin.”(Paragraph [9. (e)] of the GAT Declaration of June 2007).

Cape Verde is also among the few countries in the world that has regarded emigration levels as “too low”²⁰. The *Mobility Partnership* which Cape Verde has entered into with the EU in December 2007 is potentially of great significance. Cape Verde is one of the two pilot countries (the other one is Moldova) which have been chosen as pilot “mobility” cases by the EU. This initiative involves a number of possibilities including “temporary, legal movement of people ...whereby third country nationals take up legal employment opportunities in the EU” (in other words the implementation of Mode 4 of GATS), “or persons legally resident in the EU go to their country of origin.”(In other words “return migration”).

In spite of this important role of the diaspora in the social and economic future of Cape Verde and its potential for implementing the transformation of the country, there is still an insufficient level of concrete political leadership that determines what Cape Verde wants and how this can be achieved with the diaspora. In fact diaspora/mobility issues are not at present mainstreamed, but too often treated as a separate issue, seen as the domain of dedicated agencies (BCV for remittances, MNECC and IC). For instance, as mentioned above, there is no reference to the economic role of the diaspora in the GPRS II (nor in the earlier GPRS I). It may also be noted that there are no representatives of institutions dealing with the diaspora (MNECC or IC) represented on the coordinating council of CPE.

It is highly desirable to build more synergies and strategic links between migration and other development dimensions, such as the growth of tourism or the expansion of professional training and higher education. Migration and ties with the diaspora have limited potential as development engines on their own, but may serve as catalysts for increased development impacts of government investment and/or private sector growth.

20 United Nations. World Population Policies 2003 (2004)

Recommendation 3.4 - Mainstream diaspora and mobility issues

These policies should be mainstreamed in all economic and social plans and programs. Mainstreaming refers to the integration of migration and diaspora concerns in a public administration and development planning. For instance, in the main components of national framework plans, including on tourism or the expansion of professional training and higher education, the expected contribution from the diaspora/mobility should be identified .

The various ways in which the diaspora (and mobility policies) can make to the development of Cape Verde are discussed in some detail in chapter 11 below.

3.5. MAINSTREAMING THE INTEGRATED FRAMEWORK

It is important to ensure that the program to be developed under the Integrated Framework itself be mainstreamed in the overall GPRS II and contributes to the implementation of the ETS. This implies a close cooperation between, on the one hand, the IF focal point and the project management unit to be created under Tier 1 of the IF and ,on the other hand, the STAD (secretariat for GPRS II) as well as the CPE Director, and Coordinating Council,. The IF Steering Committee will also need to have the breadth of experience to address the various issues raised in the program. The Department of Trade and the MECC-as focal point for the IF-will have an important role to play in IF implementation-as it has for the ETS. However, the notion should be resisted to consider the IF -because of the expression “trade related technical assistance” in its title- to be limited to a program to support the Department of Trade or even the MECC. Besides the participation of other Ministries, the association of he business sector and members of civil society in program validation and implementation is vital and will at the same time ensure a diversity of viewpoints from practitioners in the real economy.

CHAPTER 4

TRADE POLICIES

“Trade policies”, as generally understood and as addressed in this Chapter, relate mostly to merchandize trade. Typical trade policy issues such as tariffs, non-tariff and para-tariff measures, “market access”, trade preferences, analysis of the “terms of trade”, or “effective protection rates”, apply to merchandize trade. For international trade in services-which are of major interest to Cape Verde- very different concepts and tools apply-the 4 modes of GATS- as presented in Table 2 of the Introduction. “Service trade policies” are not considered in any detail in this Chapter, but are discussed in other Chapters that are devoted to tourism, gateways, offshore services, temporary work abroad, etc...

Although domestic exports of goods are very limited in Cape Verde²¹, imports of goods (and their taxation) are of vital importance to the economy. In addition, merchandize trade policy can influence the pattern of domestic agriculture and industry, including as suppliers to the tourist sector- which, in a sense, may be regarded as (indirect) exports (sales to foreigners).

Cape Verde at this juncture is faced with a number of trade policy challenges, including compliance with its commitments as a new member of WTO, and taking a position as regards the West Africa EPA with the EU, ECOWAS and its CET, while at the same time as implementing the recently signed SPA with the EU, as well as the Mobility partnership

4.1 TRADE POLICY INSTRUMENTS

4.1.1 EXCHANGE RATE POLICY

In many countries, managing the exchange rate can be a powerful instrument of trade policy. In Cape Verde, the pegging to the euro is a given, particularly at a time where relations with the European Union (EU) are getting ever closer. Eventual gains in competitiveness through manipulation of the nominal exchange rate are not envisaged as this could weaken the trust of foreign investors and of migrants (remittances and deposits). In fact, the Real Effective Exchange Rate (REER), which is closely monitored by the Central Bank, has only varied within a 0-5% range between 2000 and 2007. This has been possible because the country’s inflation has not been out of line with that of its main trading partners. It is also a sign of rigorous monetary policy which has maintained price competitiveness.

4.1.2 TARIFF POLICY: THE MAIN INSTRUMENT OF TRADE POLICY

Cape Verde’s customs tariff. Cape Verde’s tariff is composed of an Import Duty (ID) that comprises seven rates (0, 5, 10, 20, 30, 40, and 50 %). In order to fund ECOWAS institutions, there a 0.5% Community Tax (CT) on imports coming from countries outside of ECOWAS is levied. Cape Verde’s tariffs are in general designed for raising revenue with protection of domestic production a secondary objective. There is no list of sensitive products. The highest tariff rates are applied to the following goods: chicken, beverages, chocolate products, soaps and detergents, furniture, glassworks and cars. An environmental tax is applied to imported non biodegradable packaging materials and varies from 1 to 10% according to the product. As part of its commitments to the World Trade Organization (WTO), this tax is to be converted into a consumption tax (excise duty), applicable both to imports and local production. Various legal texts provide for total and partial exemptions of customs duties, as incentives to investment. A 1.04% ad valorem duty is applied to imports to pay for the services of the customs department.

Tariff concessions made in the framework of the WTO accession process apply to 3,047 tariff lines. For over

²¹ “Re-exports”-mainly the supply of bunkers to ships or aircraft- consist in fact the provision of services.

two-thirds of these lines (2,197), the bound tariff rate has only been reduced by 2 percentage points in comparison with the rate presently applied. For 287 lines, the tariff has been reduced by over 15 points. While 406 tariff lines have been bound at a 0% rate, 621 lines were bound at a rate of over 30%. For 2,666 tariff lines, these bound rates will be effective in 2013, whereas phased out until 2018. These bindings have been negotiated on the basis of the 2003 tariff- before the 2004 tariff reform that made reductions. Consequently, many rates are already much lower than the bound rates.

Tariffs used for protection of domestic activities. Even if the issue of protection is of less importance for Cape Verde, the country must ensure that its tariff policy does not constitute an obstacle to the development of economic activities on its territory. This point is important in a context where Cape Verde wishes to take advantage of its growing tourism industry in order to stimulate agricultural production and processing activities not only to respond to the foreign tourists' demand, but also in to respond to the increasing demand of the population.

Table 4.1 displays the average Nominal Protection Rates (NPR). The classification allows for the comparison of the average level of tariff protection on inputs (capital goods and intermediate consumption goods) with the one of final consumption goods. A tariff structure that promotes (protects) local production implies that final consumption goods should be taxed at a higher rate than inputs and capital goods.

In 2007, 30% of imports entered Cape Verde under a tax and duty exemption scheme, mostly due to the "Investment Code". Consequently, the tariff strongly protects local activities with high Effective Protection Rates (EPR) (see Table. 4.2). The EPR measures the extra value-added that an enterprise obtains as a result of the customs tariff.

Table 4.1 Cape Verde's tariff structure

	Fully taxed imports	All imports
	Percentage	
Capital goods	10.2	3.5
Intermediate consumption goods	7.0	5.6
Final consumption goods	18.8	18.6
Vehicles	38.4	22.0
Total	13.5	10.4

Source: Customs data; mission calculations

Table 4.4 shows the EPR for different types of Cape Verdean enterprises. Taking into account the average tariff structure, the taxation of common law (the tariff applied without exemption) provides an extra value-added of 43.5%. If tax incentives are taken into consideration (exemption of customs duty), the EPR changes only slightly (50.5%). Therefore, it is highly probable that tax incentives only constitute a secondary factor in the investment decision-making process. The protection offered by this tariff is even more significant for the production of goods that bear the highest tariffs (30 to 50%). With these tariff rates, the companies' value-added increases from 80 to 150% depending on the situation.²²

²² These last rates are actually higher because the calculations do not take into account the incentives in the "Investment Code".

Table 4.2 Effective protection rates in Cape Verde, Percentage

	“Mid-size” enterprise with exemption	“Mid-size” enterprise without exemption	Enterprise whose final goods are is taxed 30%	Enterprise whose final goods are taxed 40%	Enterprise whose final goods are taxed 50%
Average tariff on inputs	4.9	8.2	8.2	8.2	8.2
Tariff on finished goods	18.6	18.8	30.0	40.0	50.0
EPR²³	50.5	43.5	80.9	114.2	147.5

Source: Customs data; mission calculations.

The average tariff (average NPR), at 13.5%, is on the high side compared to the other countries of the region, namely those that levy the Common External Tariff (CET) of the West African Economic and Monetary Union (WAEMU) or that apply a similar tariff (Guinea, Mauritania...).

4.1.3 CONSUMPTION TAXES (COLLECTED AT THE CUSTOMS BORDER)

Both local production and imports are subject to consumption taxes: a 15% VAT rate is charged on goods,²⁴ although some goods are exempt from this tax. Special excise duties are levied on certain goods (beverages, tobacco products, petroleum products, vehicles,). The rates applied vary according to product categories (see Table 4.6). The total income generated by the consumption taxes collected at the customs border (CVE 7.2 billion) is superior to that of tariff income (CVE 5.6 billion).

²³ The input coefficient for the EPR calculation is set at 0.7; the average rate on inputs results from the weighted average of rates on capital goods and intermediate consumption goods (the weight is calculated according to the share of 2007 total imports).

²⁴ And services are subject to a 6% VAT.

Table 4.3 Indirect taxation applied to imports, 2005-2007 average weighted rate

	Tariff (ID and CT)	Consumption tax (VAT and special tax)
	Percentage	
Food products and live animals	13.5	5.7
Capital goods	0.8	0.0
intermediate consumption goods	2.7	3.3
Final consumption goods	15.3	6.1
Beverages and tobacco products	41.8	53.5
intermediate consumption goods	4.2	16.3
Final consumption goods	43.0	54.6
Non-edible raw materials, except fuels	9.4	9.5
intermediate consumption goods	9.3	9.5
Final consumption goods	21.0	18.5
Mineral fuels	3.8	23.1
intermediate consumption goods	3.6	24.0
Final consumption goods	5.5	15.8
Oils, fats and intermediate consumption goods of animal or vegetable origin	5.2	0.6
intermediate consumption goods	1.1	7.7
Final consumption goods	5.5	0.0
Chemical products	10.1	11.1
intermediate consumption goods	5.2	11.3
Final consumption goods	17.3	10.9
Manufactured goods	9.5	13.3
Capital goods	9.8	8.5
intermediate consumption goods	6.5	13.6
Final consumption goods	19.1	13.6
Machines and transport materials	6.8	9.3
Capital goods	2.8	6.9
intermediate consumption goods	6.2	8.3
Final consumption goods	19.4	13.9
Vehicles	22.0	21.1
Total	10.4	12.7

Source: Customs data; DTIS mission calculations

4.1.4 INVESTMENT INCENTIVES: AN IMPORTANT BUDGETARY COST

Incentives to investment may be regarded as a significant component of trade policy. Cape Verde's incentive policy is not dissimilar to that of most African countries: 86% of Sub-Saharan Africa LDCs have an Investment Code, and 50% of them have free zones.²⁵

However, it should be noted that these schemes are expensive. In 2007, that part of the incentives concerning indirect duties and taxes collected at the customs generated a loss of revenue valued at over CVE 2.5 billion, which represents 15.9% of tax revenues and 2.1% of the GDP (see Table 4.4).²⁶

²⁵ Keen, Mansour. 2008.

²⁶ The review of investment incentives is addressed in Chapter 6.4

Table 4.4 Tax spending due to specific import regimes

	Million CVE			% of tax revenues		
	2005	2006	2007	2005	2006	2007
Total imports	38,920	47,498	60,119			
Exempt imports	10,221	13,675	19,641			
Tariff revenues	4,387	5,315	5,565	23.6	23.3	21.9
Loss of profits on tariff revenues	1,124	1,537	1,513	6.0	6.7	5.9
Indirect internal tax revenues	5,023	6,380	7,223	27.0	27.9	28.4
Loss of profits on indirect internal tax revenues	1,299	1,657	2,534	7.0	7.3	10.0

Source: Customs data: DTIS mission calculations

4.1.5 OTHER TRADE POLICY INSTRUMENTS

The country implements “automatic” and “non-automatic” import licenses. The latter are required for products subject to Sanitary and Phytosanitary regulations (SPS), technical controls or to legally mandatory restrictions. These import licenses are not used for protection purposes. Issues related to SPS, Technical Barriers to Trade (TBT) and Trade-Related Aspects of Intellectual Property Rights (TRIPS) are also part of trade policy instruments. They are discussed elsewhere in this report (cp. 5, 6 and also 10).

4.1.6 MARKET ACCESS

The country does not implement any quantitative export restriction. The most important market access agreement for Cape Verde has been the Cotonou Agreement between the EU and the African, Caribbean and Pacific (ACP) countries. Recent developments and issues raised concerning the EU/ACP relationship are discussed in section 4.6.2.3 below.

Cape Verde is eligible for the “African Growth and Opportunity Act” (AGOA) which provides the country with a privileged access to the US market. After benefiting from the agreement for the export of textile products, Cape Verde ceased to export to the United States under the AGOA scheme. In numerous African countries, the end of the Multifibre Arrangement has severely shaken the export of textile products which were not able to compete with Asian exports (mostly Chinese) in spite of their preferential access to markets of developed countries. In addition, it has been difficult for Cape Verde to comply with the rules of origin which have been made stricter under AGOA 2, in comparison with AGOA 1.

Given the limited potential for exports of goods, the different losses of preferences linked to LDC status in other markets is of little practical importance.

4.2 TRADE POLICY FRAMEWORKS

4.2.1 ACCESSION TO WTO

After more than seven years of negotiations, Cape Verde had its Protocol of Accessions approved by the WTO General Council in December 2007. The accession package was formally accepted by Cape Verde on 23rd June 2008 and on 23rd July 2008 Cape Verde became the 153rd member of the World Trade

Organization. This process has significant implications for trade policy. A roadmap to achieve full implementation of the WTO agreements was agreed, and is to be completed by January 2018. Portugal and Brazil provided early technical assistance, including support with the translation of documents into Portuguese. In the framework of its TradeCom Facility program, the EU is also funding technical assistance to guide the country in the assessment of its needs and the formulation of new legislation. More information on the WTO accession work plans is provided in chapter 5, which also contains recommendations for the additional assistance and institutional support in the areas of Customs, SPS and IPRs.

For industrial goods, Cape Verde has agreed to bind tariffs at rates ranging from 0 to 55%. Some bindings involve reductions phased out until 2018. This would result in an average upper limit of 15%. For agricultural products, Cape Verde has agreed to bind tariffs at an average of about 19 %.

Concerning services, Cape Verde has also made specific commitments to ease market access in ten service sectors and a wide range of sub-sectors. These commitments particularly affect the working conditions of liberal professions and consulting. There will be limitations for people travelling on business, foreign employees, support staff, specialists, and contractual service providers. These commitments have only very limited restrictions on trade in services.

4.2.2 ECOWAS AND CAPE VERDE

Together with 14 other Western African countries, Cape Verde belongs to the Economic Community of West African States (ECOWAS).²⁷ The 1975 ECOWAS Treaty foresees the creation of a monetary and economic union. For many years, ECOWAS had not actively pushed for regional integration, but this process has recently been accelerated, especially due to the negotiation of the West Africa EPA with the EU. The ECOWAS CET was to be implemented in December of 2007, together with the signing of the West Africa EPA. Neither of these have occurred, as there have been delays of several months compared to the original timetable. These two integration processes are closely linked and are especially important for Cape Verde, now that the country is no longer an LDC.

Since Cape Verde did not play an active role in ECOWAS and EPA negotiations, common policies implemented or projected do not take into account the country's specificity. The following issues are of concern for Cape Verdean authorities:

- The **free movement of goods** in the region is not an economic stake of utmost importance for the country: trade with ECOWAS Member States represents slightly over 1% of the country's total trade.
- The **ECOWAS CET** negotiation (classification of goods and potential 5th band set at 50% for goods such as rice) creates the concern that the prices of basic goods will rise and particularly affect the most vulnerable populations;
- The objectives of Cape Verde's agricultural policy are not the same as those of the continental countries and do not really adapt to ECOWAS' common agricultural policy.
- **The free movement of persons** inside ECOWAS is a sensitive question for Cape Verde since the country has a limited capacity to "absorb" foreigners attracted by the country's important growth. In sectors like construction, ECOWAS labour has the effect of depressing wages and increasing the pressure for Cape Verdians to migrate in search of better conditions. The free movement provisions also facilitates illegal immigration of ECOWAS nationals to Europe via Cape Verde- which might create problems in the implementation of the *Mobility Partnership* with the EU
- The eventual **pooling of reserves** in the context of the projected monetary union (one of ECOWAS' objectives) would be difficult for Cape Verde to accept, since its reserves are partly made of migrant

²⁷WAEMU countries that belong to ECOWAS are: Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. Other ECOWAS countries include: Cape Verde, The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone.

deposits (25 %).²⁸

The basis for the ECOWAS CET negotiation is the WAEMU CET which was implemented on July 1st 2000 by WAEMU's eight Member States, all part of ECOWAS. However, applying it to all ECOWAS countries calls for adjustments due to the particular structural characteristics and "needs" of each country. It is proving difficult to reconcile the interests of various countries, several being land locked (Burkina Faso, Niger, Mali) and others having significant agricultural and industrial potential (Nigeria, Côte d'Ivoire, ...).

The implementation of the ECOWAS CET was planned to be gradual, with a transition period which was supposed to end on December 31st 2007. Two types of exceptions (A and B) were determined. A-type exceptions (1,402 tariff lines) concern goods for which the country's rates are different than the WAEMU CET, but where Member States decided to align to the WAEMU CET by the end of the transition period. B-type exceptions (498 tariff lines) affect goods for which the country's rates differ from WAEMU CET and where Member States decided to negotiate for the modification of the CET rate.

During the latest regional expert meeting (Nouakchott; February 2008), close to 95% of B-type tariff lines were determined. There still remain significant divergences on the ECOWAS CET structure:

- The classification in the category 0 of a certain number of goods from the list of B-type exceptions, in particular agricultural equipment and building materials
- The creation of a fifth band at 50%
- The implementation of customs duties on medicines and their inputs, presently classified in the category 0.

As regards the proposed taxation of pharmaceutical products and the creation of a 5th band at 50% for 94 tariff lines this derives from Nigeria's policy to protect its industry. Apart from the issue of other ECOWAS countries having to pay more to protect Nigerian products, the adoption of a 5th band is subject to various difficulties, including the fact that decision A/2EC.17/01/06 (concerning the adoption of the ECOWAS CET) only sets four bands and the provisions of article XXIV of the General Agreement on Tariffs and Trade (GATT) which specifies that customs duties cannot be higher after the creation of the Customs Union (CU).

The definition of the ECOWAS CET was set as a precondition by ECOWAS Member States and the EU for the EPA negotiations.²⁹ For that reason, the ECOWAS CET and the signature of the West Africa EPA are closely linked. However, ECOWAS countries may chose to apply the CET independently from the signature of the West Africa EPA, as the CU is one of the original objectives of the ECOWAS Treaty.

It should be noted that Article 68 of the ECOWAS Treaty is of particular importance to Cape Verde since it allows for special conditions for "island countries"- Cape Verde being the only case in point.

²⁸WAEMU countries (CFA zone) are also reluctant on this issue.

²⁹ It would technically be possible to have a regional EPA without a CET, but this has never been planned for ECOWAS as the objective has always been to reinforce regional integration among ECOWAS countries.

BOX 4.1 Adjusting the ECOWAS CET to Cape Verde: recourse to article 68 of the ECOWAS Treaty

Article 68 “Land-locked and Island Member States”, allows for special treatment for island Member States. Cape Verde has the possibility of asking for special treatment regarding two key issues: (i) the free movement of persons and (ii) the ECOWAS CET. Regarding the latter, the country should conduct a study on sensitive goods as soon as possible. These include: imports on which Cape Verde would not want to levy high CET rates (such as pharmaceutical products or food products); and on the contrary, goods on which the country wishes to “temporarily” maintain high CET rates in order to protect its own companies, allowing them to adapt to their new environment within a reasonable period of time. The question of the application of a fifth band is then particularly important. While remaining a member of ECOWAS, Cape Verde could negotiate the application of an “adjusted” ECOWAS CET. For this purpose, Cape Verde would have to take part in the negotiations to be able to demonstrate the country’s specificities.

Article 68 could also be invoked to withdraw from the West Africa EPA, while remaining a Member State of ECOWAS.

4.2.3 THE WEST AFRICA EPA: FAILURE IN NEGOTIATIONS

The 2000 Cotonou Agreement (revised in 2004) sets the framework for cooperation between 78 ACP countries and the EU, including for trade relations. While permitted by the WTO for LDCs, the special and differential treatment embedded in the Cotonou Agreement is, for other countries, incompatible with the principle of reciprocity (one of the pillars of the different WTO multilateral agreements). In order for both parties to respect the multilateral agreements they have signed, the EU has initiated the EPA process with ACP countries. The Economic Partnership Agreements are negotiated on a regional basis as a means to reinforce regional integration among ACP countries. Considering the fact that the European market is already broadly open to products originating from ACP countries, the principle of reciprocity is mostly concerned with the liberalization of the access of European products to the markets of ACP countries.

The EPAs must be WTO-compatible and apply to “substantially all trade”: meaning at least 90 % of goods, with a phasing out period of about 20 years. The EPAs had to be signed by December 31st of 2007 at the latest.

The West Africa EPA concerns ECOWAS countries and Mauritania. Negotiations primarily address the following two issues:

- Development cooperation linked to the EPA, through the timetable set by the Regional Indicative Program (RIP) of the 10th European Development Fund (EDF), and through the establishment of a Regional EPA Fund
- The adjustment costs for which the EU has committed itself to “significantly contribute to the absorption of the EPA net tax effect, complementarily to tax reforms” and to support measures, aiming particularly at improving the business climate and the competitiveness of the economies.

The December 31st 2007 deadline could not be met. The negotiations were blocked mainly due to the absence of concrete commitments on EPA funding from the EU and because of the timetable and scope of the liberalization of access to West-African markets. The countries’ difficulty to adopt a common regional position on certain questions further delayed the negotiations.

The fact that there could not be an extension of the Cotonou transitional trade regime beyond December 31st 2007 has varying implications for different countries. LDCs benefit from the Everything But Arms (EBA) initiative, and maintain their preferential access to the European market. On the other hand, the preferences for non LDCs (Cape Verde, Côte d’Ivoire, Ghana, and Nigeria) have been reduced. These last four countries have responded differently to this situation. Cape Verde, which stopped being an LDC in December 2007, was allowed to maintain its privileged access to the European market for four years. The country is thus in a

waiting position. Côte d'Ivoire and Ghana have decided to sign an intermediate EPA (on December 7th and 13th of 2007 respectively), mostly covering trade issues; these interim agreements are supposed to become obsolete when West Africa EPA is signed. Finally, Nigeria has requested to benefit from the reinforced Generalized System of Preferences (GSP), in case the EPA was not signed by December of 2008. There exists a risk of regional disintegration if the regional EPA is not concluded in the coming months. The consequences will certainly be more severe for the continental countries than for Cape Verde.

A new timetable was agreed upon on December 17th 2007. Two important issues are to be finalized by the end of the first semester of 2008:

1. National lists of sensitive goods are to be provided by March 31st so as to formulate a common list of goods that will be excluded from the EPA liberalization process (to be negotiated with the EU).
2. The ECOWAS CET is to be defined in June of 2008,³⁰ at which time the negotiations on market access under the EPA will begin.

Cape Verde has provided neither its list of EPA sensitive goods, nor the lists of A and B-type exceptions for the definition of the ECOWAS CET. Since November 2008, Cape Verde is working on the elaboration of the national List of sensitive goods.

After the accession of Cape Verde to the WTO, the country is now focusing its trade capacity on the analyses of issues related to the West Africa EPA. However, it is apparent that the interests defended by the continental countries were often very different from Cape Verde's interests, so that it could be a very arduous task to have the country's specificity taken into account.

4.2.4 THE SPECIAL PARTNERSHIP AGREEMENT (SPA) WITH THE EU

The signature of the Special Partnership Agreement (SPA) between Cape Verde and the EU in November of 2007 is potentially of major significance for Cape Verde, as is the parallel *Mobility Partnership*. This agreement purports to "go beyond the existing relationship to attain a significant degree of enhanced cooperation".

The Cape Verde/EU SPA adopts a new vision of partnership. It is intended to strengthen dialogue and policy convergence between both parties, while emphasizing the framework of mutual interests. The SPA should be based on enhanced cooperation, as its priority is to move closer to the outermost regions (OR), offering Cape Verde access to the European internal market as well as the possibility of gradually taking part in certain EU policies and programs. Additional funds could be raised to complement the 10th EDF, such as the European Regional Development Fund (ERDF) in the framework of cooperation with the outermost regions, or thematic and other budgetary lines managed by the European Commission.

The SPA is structured around six pillars:

1. Good governance
2. Security/stability
3. Regional integration favoring strengthened relations with the Outer Regions of the Canary Islands, the Azores and Madeira, as well as ECOWAS.
4. Technology and standards policy convergence with European standards
5. Knowledge-based society
6. Poverty alleviation and development

³⁰ In order for the CET to be effectively implemented by January 1st 2011.

With the regional integration element, Macaronesia becomes one of Cape Verde's main link to the EU. The technology and standards policy convergence with European standards is part of the country's strategy (in place for the past few years) to strengthen the credibility of Cape Verde's investment climate.

The Roadmaps based on these six pillars and sub-divided into more detailed actions are currently being elaborated. Funds will be raised once they are formulated.

4.3. CAP VERDE'S TRADE POLICY: WHAT CHOICE FOR TOMORROW?

4.3.1 THE OPTIONS

Cape Verde has already made a number of commitments for liberalization of trade when acceding to WTO³¹, but in other respects, its trade policy is at the crossroads. There are several options for Cape Verde regarding trade policy regional frameworks. These main options are presented in Table 4.8. Even if many factors are still unknown, some attempt is made here to examine the impact of CET as well as EPA with the aim to provide broad trends and stimulating reflection³². Simulations on the possible effects of both CET and EPA, under certain hypotheses, are presented in Annex A. (with their main conclusions inserted in Table 4.5).

Table 4.5 Summary of trade policy options for Cape Verde and their implications

Policy options for Cape Verde under various hypotheses	Probable impact and implications
1. ECOWAS Customs Union and Regional EPA are signed	The EPA will limit the effects of the Customs Union, since the CET would only apply to the slightly more than 20% of imports that originate outside the EU
I.a. Cape Verde participates and signs with the others	Substantial loss in budget revenue; this could reach 18.6% of fiscal revenue, or about 4% of GDP. The removal of duties on « substantially all » imports from the EU (more than ¾ of all imports in 2007) would make the effective protection rate close to 0; this could have a negative effect on domestic activities, since inputs originating from the rest of the world (US, Brazil, China) would be taxed while final goods originating from the EU would enter duty free. Tendency for lower consumer prices since imports from Europe would be cheaper on the Cape Verde market. (However loss of fiscal revenue may have to be compensated by higher VAT).
I.b. Cape Verde invokes Article.68 of the ECOWAS Treaty to obtain selected exemptions from the CET.	List of desired exemptions must be submitted. Above effects would be mitigated.
I.c. Cape Verde withdraws from this process invoking Art. 68	This would allow Cape Verde to determine its own fiscal and tariff policy. Risk that Cape Verde only gets GSP access with the EU after the 4 year EBA moratorium.

³¹ Although the process of accession involved several sectors and representatives of the private sector, some stakeholders have expressed the view that WTO commitments were made without fully studying their impact on the country's development priorities and agenda. Indeed a Portuguese translation of the commitments was only available after the event. However, the terms of accession have been duly ratified and are not at this time open to re-negotiation.

³² It should be noted that these impacts will not be immediate but would be gradual depending on the transition period agreed upon. In addition, in the case of the EPA, particularly, it is likely that some mitigation or compensatory measures of any negative effects may be negotiated with the EU.

Table 4.5 Summary of trade policy options for Cape Verde and their implications(continued)

Policy options for Cape Verde under various hypotheses	Probable impact and implications
2 ECOWAS Customs Union is signed, but Regional EPA is <u>not</u> concluded	
2.a. Cape Verde applies CET	Limited impact on budget (in fact a surplus of 3.1% of fiscal revenue); loss of protection of local production against imports from ECOWAS countries. Increase in the price of certain products (rice, maize, medicines). This increase could be considerable, particularly, if the proposed fifth tariff band at 50% is accepted, since Cape Verde imports 2/3rds of its consumer goods, on which present tariff is low. This will impact particularly on the most vulnerable groups. (Limited) opportunity to export some goods in the protected ECOWAS markets.
2.b. Invoke Art.68 to request exemptions.	List of requested exemptions must be submitted. Above impact will be mitigated
2.c. Withdraw from the Customs Union and participate in Free Trade Zone with ECOWAS countries (to be negotiated under Art. 68)	This would allow Cape Verde to determine its own fiscal and tariff policy.
3. Neither ECOWAS Customs Union nor EPA are concluded³³. (or Cape Verde has decided to withdraw from Customs Union and EPA)	Status quo prevails. Cape Verde may determine its own fiscal and tariff policy. CV participates in the FTZ with ECOWAS. SPA with the EU becomes the main trade policy framework, with focus on treatment as ultra-peripheral region of Europe and Macaronesia link.
3.a. Cape Verde continues its present tariff and fiscal policy, conforming to the WTO accession package.	Certain specific modifications may be made, for instance, following the review in the fiscal and duty exemptions.
3.b. Cape Verde takes the opportunity to undertake an in-depth review of tariff and fiscal policy. An ambitious reform would consist in going all the way and replacing (all or almost all) border taxes by the equivalent internal taxes, making the country a duty free zone.	Such a scenario would be WTO compatible and with the reasons for the EU needing to sign an EPA. Thus at the end of the EBA moratorium Cape Verdean goods would have free access to the EU market on account of mutual reciprocity-since EU goods would not be dutiable in Cape Verde. This might comfort the image of Cape Verde as an open intercontinental platform and gateway.

The possibility for Cape Verde to exercise choices 1 and 2 will of course depend on the success of the EPA and of the CET. In view of the problems encountered so far, and of the delays that have occurred, it is difficult to make a prediction as to the outcome.

As already noted, Cape Verde has not been active in issues related to the West Africa EPA and ECOWAS, and has not made concrete proposals to take into account its specific circumstances. Cape Verde has not provided the lists of A and B-type exemptions, which have been identified in CET negotiations. Two main factors can explain this delay and the country's lack of involvement in the ECOWAS CET negotiations:

1. The weak negotiating and analytical capacity of the country in the area of international trade. Almost the entire available capacity has been taken up with the WTO accession process.
2. ECOWAS countries are not important trading partners for Cape Verde (representing less than 1.5% of the country's total trade- considerably less than trade with Brazil, for instance). Some mention is sometimes made of the "potentialities" of the ECOWAS market. However, in spite of several studies

³³ It is not known at this stage what will happen to the individual interim EPA signed (with Cote d'Ivoire and Ghana); in case the regional EPA is not signed.

made to reinforce specific aspects of regional cooperation, it has proven very difficult in practice to identify many concrete trade and cooperation opportunities.

Indeed, it is only to be expected that ECOWAS/EPA arrangements that are designed by, and suitable for, Nigeria and the other larger members (in the absence of Cape Verde participation) are unlikely to meet the requirements of Cap Verde, whose situation is unique in the sub-region (Small, fragmented island country, with almost no potential for exports of agricultural or industrial goods)

High-level attention is being given to the conclusion of the SPA and the *Mobility Partnership* with the EU and the country's moves to be assimilated to the ultra peripheral regions of Europe. This reflects the high priority to the bilateral EU relation, going far beyond the Cotonou framework. (Economic relations with China have also taken a higher priority in terms of high level attention).

4.3.2 USING THE SPA TO RECONSIDER TARIFF POLICY AND THE REGIONAL INTEGRATION STRATEGY

Under the scenario when Cape Verde was not part of the West Africa EPA and of the CET, (either because neither of these frameworks came about, or Cape Verde obtained a special treatment under article 68 of the ECOWAS treaty), the SPA would then become the main framework for regional cooperation governing Cape Verde's development strategy (option 3.b in Table 4.8). Since using tariff policy for protection purposes is not a priority for the country, the SPA could be an opportunity for an in-depth reconsideration of the country's regional integration strategy and its tariff policy. Due to Cape Verde's lack of productive capacity and because of the natural protection afforded by insularity, the country could consider eliminating all (or almost all) customs duties. This situation –turning the whole country almost into a free zone- would make Cape Verde more attractive to FDI, and at the same time it would ensure compliance with a majority of WTO rules and with the EPA requirement to be WTO- compatible. In the context of Cape Verde's development strategy as an international service economy, this would also send a strong message to the international partners, expressing the authorities' will to transform the country into a very open international service platform.

Such a strategy would require an ambitious tax reform, since customs duties represent 4.7% of GDP. It would be necessary to identify alternative sources of revenue-as would also be the case if a regional EPA were to be implemented. The efficient administration of VAT in Cape Verde would allow considering raising the VAT rates within reasonable limits. A VAT rate of about 20% and an increase on excise duties on certain goods would thus be able to compensate the losses of tariff revenues. The impact on prices of consumer goods could be completely neutral. The implications of such a strategy would need to be studied in greater detail and, if implemented, phased out over a period.

4.4. CONCLUSIONS AND RECOMMENDATIONS ON TRADE POLICIES

Recommendations to reinforce the human and technical capacities covering specific institutions dealing with various aspects of trade policy are made in the next Chapter (5). Questions related to the business environment and investment incentives –also part of trade policy-are discussed in Chapter 6. .

It is in the interest of Cape Verde to assume a more proactive attitude as regards its regional trade policy. The definition of the country's stance will allow the economic actors and development and trade partners to have a clear vision of the medium and long term development strategy and to focus their decisions and interventions accordingly.

Among the concrete problems arising from this uncertainty is the difficulty to review of the incentive system for investors and of the indirect taxation system (including tariff exemptions) in the absence of a clear idea of the regional integration status and commitments. Another consideration is the strain on analytical and implementation capacity. The implementation of the WTO accession package and management of other programs (promoting the hubs, offshore services, entrepreneurship, maximizing the impact of tourism, attracting investment from China) is already straining the country's limited capacity in the area of trade and investment. It appears unrealistic to expect Cape Verde to have, in addition, the capacity to effectively negotiate and implement simultaneously two sets of complex agreements: on the one hand the EPA and

CET, and, on the other, the two partnerships (SPA and Mobility) with the EU-each one involving several working groups. A dispersion of objectives is unwise and risks to lead to the achieving of none of them effectively.

The DTIS has itself tried to raise and analyse the main issues concerned and to outline options, but, in the end, the determination of country's trade and integration policy is a geo-strategic matter which should be taken by the authorities at the highest level.

Recommendation 4.1 – Support to the definition of an external trade strategy

Cape Verde should be supported in defining its regional integration strategy towards ECOWAS, the EPA with the EU, and the SPA with the EU, and its corresponding tariff policy. A decision should be based on an options paper to be prepared by CPE and MECC. The analysis could draw on the points raised in the DTIS, including Table 4.5, completed by Annex A. In the light of the strategy based on making the country a service platform, option 3.b (duty free status) should be given special consideration. Independent technical assistance may be requested.

MECC feels the need to issue a trade policy paper which would include the country's policies and arrangements in such areas as trade facilitation, internal trade and consumer protection.

Recommendation 4.2-Elaborate a trade policy paper, addressing issues in such areas as trade facilitation, internal trade and consumer protection.

On a related aspect of trade policy, Cape Verde has started work on defining a list of sensitive goods, with the assistance of UNCTAD under the one-UN programme..

Recommendation 4.3 – Finalize the list of sensitive goods

Including the training of nationals in the methodology.

CHAPTER 5

TRADE AND INVESTMENT RELATED INSTITUTIONS

The efficiency of a country's trade and economic policy is closely linked to the efficiency of the public and private institutions that are supporting it. As already noted in the Introduction, Cape Verde has a number of strategies and frameworks for its economic transformation. However, the Cape Verde authorities recognize that their weakness has been on the institutional side, on how to move from the vision to concrete road maps, and then to implementation and monitoring against targets and benchmarks. The IF provides an opportunity to implement concrete capacity building measures so that the key institutions are enabled to guide, support and catalyze the transformation agenda. In 2008, changes in Cape Verde's institutional framework in the area of trade and investment are under way. This chapter focuses on the new foreseen arrangements, and how to strengthen them, rather than on those still formally in place at the time of writing.

5.1. THE MINISTRY OF ECONOMY, GROWTH AND COMPETITIVENESS (MECC)

The Ministry of Economy, Growth and Competitiveness (MECC) has wide responsibilities to give leadership and impetus to the development of the real economy-with the Ministry of Finance concentrating on the financial and budgetary aspects. It also has regulatory functions which are essential for the functioning of a market economy. A recent internal institutional review has found that MECC had not been able to effectively perform its assigned duties, and a reform is underway with a view to improving the situation.

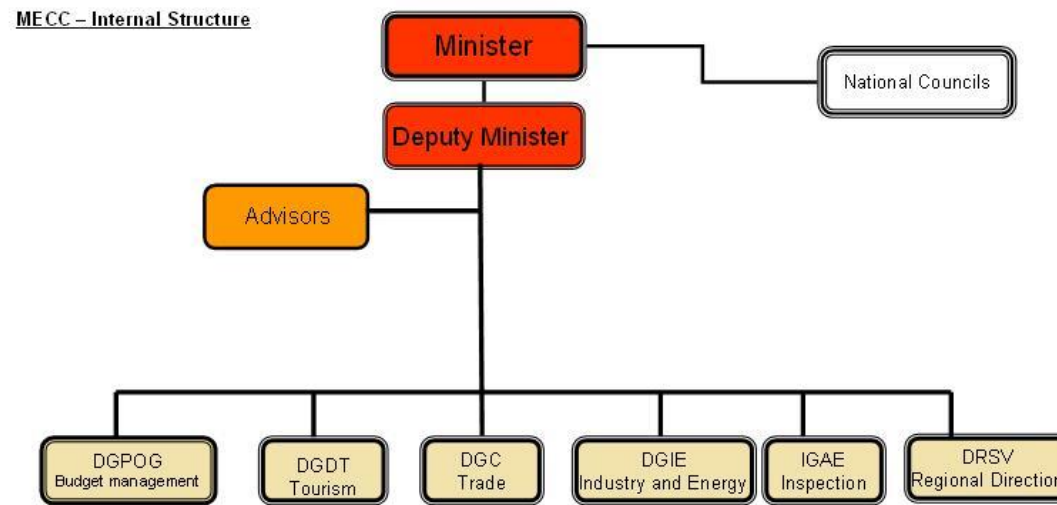
According to the current organization chart, (Figure 5.1), the Ministry is composed of six Departments – Energy and Industry, Tourism, Trade, Inspection of Economic Activities, Budget Management and Planning - and the Sao Vicente regional Office (DRSV).

In addition to the above six Departments, the MECC has oversight responsibility on:

- (i) Sectoral coordination: Regulatory and inspection Agencies, includes ANSA (Food Security Agency), ARFA (Regulatory agency for food and pharmaceutical products), ARE (Regulatory agency for electricity and water, communications and transports);
- (ii) Superintendence: Autonomous agencies, namely CI (Cape Verde Investment) and ADEI (Enterprises development);
- (iii) Supervision of State owned enterprises: about 6 enterprises, of which Electra (Electricity), SDTIBM (Tourism development of the Islands of Boa Vista and Maio), FIC (International trade show of Cap Verde), ZIL (Industrial parks) and CABNAVE/CABMAR.

To fulfill its tasks and engage a dialogue with the civil society and the economic operators, the MECC Minister is assisted by two National Councils: the National Tourism Council (CNT) and the National Council for Enterprise Development (CNSP). In addition, a Competition Council will be created.

Figure 5.1 Current Organization Chart of the MECC, 2008



MECC is undergoing re-structuring. It has managed to get the resources (i) To bring the various departments and units, previously scattered in various locations, under a single location-a modern building and (ii) To recruit new staff. From a staff of about 50 in 2007, it is expected that the number will reach 70 by the end of 2009. A priority for Cape Verde is to ensure that it has an operational pro-development MECC.

Recommendation 5.1 - Build up the capacity of MECC

The strengthening of its human resources should be high on the MECC agenda. A plan for strengthening further MECC itself (as well as the institutions under MECC's supervision) should be prepared. A recruitment and training plan over a period of 5 years should be adopted. Technical assistance for the implementation of this programme should be a priority for the IF resources.

The wide responsibilities of MECC require more financial resources for recruiting specialized services, commission studies and organize meetings.

The on-going efforts of disseminating new management tools (annual work plans, results based management, etc...) should be continued. The tools are available but the implementation should be improved during the coming years.

The program should include the development of a mindset that views the role of the Ministry as mainly one of supporting the business sector in upgrading the quality of the products, services and processes according to international norms. In fact, given the Ministry's mission, it should aim at becoming a role model for the other Ministries.

The Ministry currently has a long list of activities under the business plans of its various departments. (As an illustration that part related to international trade - 13 themes - is listed below). Even with the most comprehensive capacity building measures and recruitment of additional staff, MECC will not be able to effectively address all the issues contained in the present programme. It is essential to prioritize them. The supervision of many parastatals is also a burden for the MECC. For instance, the supervision of a shipyard (CABNAVE) or a cold store (INTERBASE) detracts from more strategic tasks. Some of the parastatals are scheduled for being privatized. Others could be outsourced. As an illustration the FIC (International Trade Show of Cap Verde) - which fulfills a useful role in providing an opportunity to importers and local firms to compare the quality and prices- could be handed over to private parties or Chambers of Commerce.

Recommendation 5.2 - Review the responsibilities and work programme of MECC and establish work priorities

The Ministry would need to concentrate its energies and resources on the most strategic areas and to fully develop an actionable priority actions plan, with an indication of a time table and of the human and financial resources needed. One priority for the Ministry is to take the lead in developing, implementing and monitoring trade policy

It is expected that the Priority Action Matrix contained in the DTIS (after validation by the Ministry-as IF Focal point- and all stakeholders) will contribute to better focusing the Ministry's

own priorities. The leadership function in trade policy should have a high priority. Paradoxically, the IF programme arising out of the DTIS (after endorsement) may make it more difficult to select priorities, since it may add to the scope of the work of MECC if issues like monitoring re-exports, promoting BPO and cultural industries-presently not in the work programme-are brought in, and DG Tourism is assigned a wider role. In most cases, MECC will need to work more closely with other Ministries and with the business sector, if only to share the work load. This approach is particularly needed for the implementation of broad programmes such as the Tourism Master Plan, the Special Partnership with EU, relations with ECOWAS and its EPA, and the IF itself.

It is not possible here to review the programmes and institutional arrangements for all parts of the Ministry. However, the cases of the Departments responsible for Trade and for Tourism, which are of particular relevance to the IF, are specially highlighted below.

5.1.1 THE TRADE DEPARTMENT

The Trade Department has a particularly important role to play, with respect to IF issues. As for the other departments of MECC, the Trade Department has identified a number of thematic areas for its work for the next five years. These 13 thematic areas are as follows:

- (i) Ratification of the Protocol of Adhesion to WTO
- (ii) Implementation and monitoring of the working plan with WTO
- (iii) Strengthening capacities for trade negotiations
- (iv) Minimize the challenges and costs of insularity
- (v) Reduce the cost of setting up a business
- (vi) Strengthening the institutional capacity for regional integration
- (vii) Getting benefits from membership with ECOWAS
- (viii) Review of the opportunities with AGOA, Canadian Programme, etc...
- (ix) Special Partnership with EU, including EPA
- (x) The international trade agreements and market access as LDC
- (xi) Revision of the legal framework for the free trade zone and other institutional arrangements such as the Industrial Parks and the International Fair of Cape Verde
- (xii) Revision and publication of the Commercial law
- (xiii) Implementation of the special projects with China

This list of themes and their formulation illustrate the difficulty in prioritizing activities, and the gap between what is planned and what may realistically be implemented with available resources. As of April 2008, the staff of the Department - even counting new recruitment - is composed of 12 civil servants, of which seven with a university degree (Compared to 17 persons in 2003).

Because of these resource constraints, the Trade Department has only been able in the past to give limited inputs in the WTO accession process. In fact, not all the implications of the commitments which had to be made to gain WTO accession are fully understood. (Portuguese translations could only be made ex-post). The Department could not contribute to the requirement of providing the list of products A and B under the ECOWAS Common External Tariff, or assist in defining a stance under the proposed EPA with the EU. Yet these important issues of trade policy and regional cooperation are of major significance for Cape Verde and the MECC, through its trade department, must be enabled to take leadership in the development, monitoring and enforcing of national policies.

5.1.2 THE TOURISM DEPARTMENT

The tasks of the Directorate General of tourist development, as aptly described in the relevant official text³⁴, are to maintain a database of information about the tourism sector; create tourism development plans; develop tourism products which protect the cultural and natural resources; collaborate with other organizations that promote tourism domestically and internationally; coordinate zones of tourist development; and, maintain tourism statistics.

A number of the functions in this quite extensive mandate have not been fulfilled in the past. This is understandable in view of the fact that the Tourism Department has only five staff.

Issues related to tourism and to the enhancement of its contribution to the economy and to the reduction of poverty are discussed in chapter 7, complemented by Annex C. A number of recommendations are made, ranging from the need to improve data and analysis to better planning and evolving a diversified marketing strategy. These cannot be implemented without a properly resourced Tourism Department. Tourism development is becoming less dominated by the need to stimulate investment (and approve them to qualify for incentives, by the CI). There is now time and space to explore how to enhance the developmental impact of tourism, moving away from the relatively unregulated Sal model-which has reached its limits- to the other models described in chapter 7, including the more regulated and accountable model of tourist development in STDBVM, which integrates social and environmental dimensions and a participatory approach, and the cultural tourism model.

Recommendation 5.3 - Strengthen and raise the profile of the tourism department

Staff with some prior experience in tourism should be recruited.

The National Tourism Council should be supported and encouraged to play a leading role in the development of the tourism master plan

Activities could include study tours in some leading tourist destinations, a few short term strategic missions by high level consultants from the industry and the preparation of short policy papers prior to meetings of the NTC.

The recent operationalisation of the National Tourist Council is a welcome development which allows the public and private sectors to discuss tourist development issues in a multi- stakeholder forum. This is particularly important as the private sector becomes more organised, as evidenced

³⁴ Boletim Oficial (2003) Organica do MECC Decreto Lei 15/2003, Article 14.

by the development of UNOTOUR as a representative body. The backstopping of the NTC will also fall on DG Tourism.

Tourism has become of such importance to Cape Verde that a case could even be made for having a full Ministry devoted to tourism and ensuring its linkages to the economy.

5.2. AGENCIES AND BODIES UNDER THE ÆGIS OF MECC

5.2.1 CAPE VERDE INVESTMENT (CI).

The original mandate of CI was built around four objectives: (i) Attracting foreign investment; (ii) Tourism development; (iii) Export promotion of Cap Verde products and (iv) Support to the development of an industrial tissue by the private sector.

In practice, CI has concentrated on the approval of investments in the tourism sector. Developments in tourism and investments in this sector have indeed been spectacular, in particular since 2003. The CI must take some credit for this, although the extent of its contribution -and what would it have happened without CI-are not clear. CI has not played its assigned role in export development and entrepreneurial development. Its investment promotional efforts have not been to the level of similar institutions elsewhere.³⁵

Under the reform under implementation, business development and entrepreneurship support will be transferred to a new institution, ADEI. In tourism, the new CI will not be any longer involved in buying land in the so-called Tourist Development Zones to facilitate land acquisition by investors, but will continue to undertake the promotion of Cap Verde as a tourist destination and be guided by the Master plan for tourism being developed by MECC.

Investment (In tourism related activities, essentially) seems to be succeeding under its own momentum. Data (Table 3.6, Figure 3.5) show extremely high levels of “certified investments”: in 2007 126,5 billion CVE - exceeding by almost 3 times the total stock of FDI in the country accumulated over the previous years.

In view of the changed circumstances, CI needs to refocus itself.

³⁵ Promotion support is done mostly through brochures, and after several years of operation CI does not have a website-in contrast to several good websites by real estate agents. The brochures are of mediocre quality in form and content. For instance, its brochure on “Business Opportunities” lacks focus and mentions a long list of “opportunities”, including such peripheral ones as “the assembly of bicycles and motorcycles specifically oriented to the domestic market and the ECOWAS” and “laundry services”, alongside specific hotels and resorts opportunities.

Recommendation 5.4 - Refocus CI as the “one stop window” to promote Cape Verde to the world

CI should promote the main activities identified in the ETS (and to be specified in the IF Programme-as endorsed). This should include, not only tourism, but the promotion of Cape Verde as a venue for new ventures in financial and legal services, BPO (Including call centres), creative industries, transshipment, light assembly for exports, and the facilitation of re-exports. The promotion of many of these service- type activities does not require so much the mobilization of “investment” in the traditional FDI sense to be measured in millions for the purchase of land, equipment and buildings. It consists often in persuading foreign parties in effect to “sub-contract” to Cape Verdean entities or persons certain tasks, and investing more in the provision of training, technical support and quality control.

CI need not get involved in the promotion of artisanal types of activities for the local market. (This may be undertaken by ADEI).

CI should have a special unit to deal with diaspora investors.

The number of staff (30 persons) seems sufficient, but there will be need for an institutional review to better define the tasks to be carried out and ensure the corresponding competencies and qualifications of the staff.

Strategic technical assistance is recommended to CI to assist it in fulfilling its new role.

5.2.2 ADEI

The new Agency for the Entrepreneurial Development and Innovation (ADEI)³⁶ will be taking support functions for local firms, including incubation, which were not adequately performed in the past. It would need special support in the definition of its priorities and in its functioning.

Recommendation 5.5 - Support the creation and functioning of ADEI

The responsibilities of ADEI vis-à-vis CI, MECC and the line Ministries and institutions should be clearly delineated. The possibility of teaming up with a well established similar institution in southern Europe should be explored.

ADEI should pay particular attention to supporting diaspora entrepreneurs and help them in their business plans (see Recommendation 11.x).

5.2.3 ANSA/ARFA

The institutional framework for Food Security includes, among others, the National Food Security Agency (ANSA – Agência Nacional de Segurança Alimentar), which is responsible for regulating and guaranteeing the supply of essential food products in the market and the Food and

³⁶ It is understood that the new agency ADEI will absorb IDEA. This will raise the level of human and financial resources available to ADEI

Drug Regulation and Supervision Agency (ARFA – Agência de Regulação e Supervisão de Produtos Farmacêuticos e Alimentares).

Cape Verde has to put its SPS measures in conformity with WTO and build the national competencies for implementing and managing SPS requirements. SPS norms are necessary not only for exports but for imports in order to guarantee the quality of products and protect the health of consumers. At present Cap Verde has a limited capacity to monitor the quality of exports and imports. One exception is a private laboratory located outside Praia, which has been habilitated by the EU sanitary services in 2005 to deliver certifications for tuna fish exports³⁷ to European countries. The plan of action adopted jointly with WTO in the area of SPS is presented in Table 5.1.

Table 5.1 Work plan for SPS conformity with WTO

Actions	Deadline
Review existing legislation and new amendments to ensure regulations are based on risk assessment and sufficient scientific evidence	No later than 1 December 2008
Development and enactment of basic legislation for SPS regime: <ul style="list-style-type: none"> • Drafting and enactment of new Laws related to Food Safety, Plant Health and Animal health • Establishment of Regulations and updating existing laws 	No later than 1 December 2008
Submission of notifications required by the Agreement to the Committee on SPS	No later than 1 January 2008
Acquisition of laboratory equipment and upgrading of laboratory infrastructure, international accreditation of lab with international standards related to the different requirements included tenders etc.	No later than 1 January 2010
Upgrading and strengthening of quality control, quarantine system and proper border inspection posts, functional Food Authority related to the 3 areas, including proper staffing and training and full compliance and implementation of the WTO Agreement on the Application of SPS measures	No later than 1 January 2010
Training of staff on SPS implementation	No later than 1 January 2010
Full implementation of the WTO Agreement on the Application of Sanitary and Phyto-sanitary Measures	No later than 1 January 2010

ANSA monitors the price of staples in the various islands. According to its Monthly Reports, differences of 20 to 30% observed between the lowest and highest prices for the same staple are common, depending of the islands. This is due partly to transport costs which are higher for those islands which are at the end of the distribution chain, and where there is deficient infrastructure in harbors. Oligopolistic structures are also partly responsible, since, as in most fragmented SIDS,

³⁷ This has contributed to lifting the ban on fish export to EU in 2002-04

there are only a small number of participants in most market segments. An Authority of **Competition** is about to be created to attempt to control such oligoplistic structures.

5.2.4 THE INTELLECTUAL PROPERTY RIGHTS AGENCY (IPI)

This agency remains to be created and Cape Verde's needs to be put in full conformity with the TRIPS Agreement by December 2012. There will be a huge effort to train personnel, -including customs officials and police officers involved in the protection of registered trademarks, judges and lawyers-, creation of a Registered Trademarks Data Base, and sensitization of the public. A modern Copyright Law - and a capacity to effectively implementing it - is particularly important if Cape Verde is to develop creative industries. (See Chapter 10).

Recommendation 5.6 - Support to WTO agreed work plans

Selective and targeted support for implementation of the various work plans agreed with WTO (Customs, SPS and IPR) is required. The DGC, in cooperation with concerned administrations, could review the needs for TA for the implementation of the WTO programme and prepare a comprehensive TA package to be discussed with the development partners. An important source of TA is the EU Comtrade programme, but this will not cover all the needs.

These matters could be discussed at a forthcoming meeting of the GAT, and donors presented with a well thought out plan to provide timely support.

5.3. THE CHAMBERS OF COMMERCE

The Chambers of Commerce are the main representative bodies of the private sector (UNOTOUR for tourism and the Association of Ship owners are also important bodies in their respective fields).

There are two Chambers of Commerce, Industry and Services, one for the Northern islands (Barlavento), in Mindelo, and the other one for the Southern islands (Sotavento), in Praia. Both Chambers were established in the mid 1990's. They pursue the usual objectives for these kinds of institutions such as representation of the interests of economic operators vis-à-vis Government. They also undertake training activities as well as market studies and trade missions overseas. The Praia Chamber makes a special effort to identify business people of Cape Verdean origin from the diaspora and bring them to Cape Verde to acquaint them with the current opportunities for investment in the Archipelago. There are 500 members in Praia and 400 in Mindelo. They each have a President and a General Executive Secretary (appointed by the President with the approval of the Directive Council) and a small number of permanent staff. 80 percent of their budget is derived from the issuing of export and import licenses and 20 percent from the balance being generated by annual membership fees as well as proceeds from participants to activities such as conferences, seminars, and training.

The Chambers of Commerce are recent institutions in a country which had a tradition of state control with little participation of the private sector. The main problems of the Chambers include

- Insufficient human and financial resources to review and analyze complex legislative proposals under their different dimensions - legal, economic, impact on employment, etc... - and insufficient knowledge of such issues as WTO and ISO

standards, and the operation of trade arrangements such as AGOA;

- Lack of activities targeted to agricultural producers;
- Over-dependence on one source of revenue, license fees. (One option to be considered is to replace this by a small direct charge on imports-as is done to finance customs).

The strengthening of Chambers of Commerce is in the national interest. It would enable them to become a force of propositions, providing better services to their members and becoming a better partner to the government.

Recommendation 5.7 - Strengthen the Chambers of Commerce.

Preparation and implementation of a TA/CB program. This would include training of trainers, the development of capacities on technical issues, the preparation of a pluri-annual financing plan and linkages with similar institutions in other countries.

Although there is common agreement on the fact that the quality of the private-public dialogue is improving and is better than a few years ago, stronger Chambers of Commerce would also help to arrive at mutually agreeable rules for participating in policy making.

5.4. CUSTOMS

The effectiveness of trade policy depends to a great extent on the rapid, efficient and transparent operations of customs administration. A new customs Code has been prepared, in line with the requirements on valuation of imports and trade facilitation of the revised Kyoto convention. It was agreed at the WTO working group on Cap Verde's accession that the Agreement on Customs Valuation would be progressively implemented in accordance to an action plan (Summarized in Table 5.2.)

Table 5.2 Work plan for Customs Offices, 2008-2011

Subject	Actions	Timeframe
Custom code	Seminars and workshop	2 quarter 2009
	Adaptation and familiarization with the new Code	3 quarter 2009
	Evaluation of implementation	End 2009
Adaptation to WTO valuation system	Workshop, staff study and training visit	2008-2010
Data base risk management	Data base of evaluation of risks	
Training course on Customs valuation agreement	Seminars and workshop on Custom Valuation Agreement	
Technical training on determination custom value	Course to train trainers on custom valuation	Oct2008-dec.2010
Reference data base on value of identical or similar goods	The data base is vital to implementation of identical and similar merchandise transactional value	2008-2010
Training on risk evaluation	Workshop presented by specialists in risk evaluation	
Training on post declaration	Workshop on post declaration or post dispatch audits	

	Total implementation of the WTO Customs Valuation Agreement	January 2011
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ASYCUDA++ is used by the Cape Verde customs and its functioning is much appreciated. Customs are ready to migrate to ASYCUDA World, if resources are made available. Computers are old and breakdowns are frequent. It is considered that half of the computers and printers should be replaced. Three scanners are being installed by a Chinese supplier which will provide technical assistance for their operation during the first year of operation.

<p>Recommendation 5.8- Provide support to the customs administration</p> <ul style="list-style-type: none"> • <i>Additional training to what can be delivered by WTO and the World Customs Organization will be necessary. In particular, more support is needed to implement risk management techniques.</i> • <i>A plan for updating and purchasing new computers and office equipment should be prepared and resources secured.</i> • <i>Install the three scanners in customs offices of Praia, Mindelo and Palmeira ; and develop a plan for technology transfer with the Chinese company which supplied them.</i> • <i>Once the scanners installed, review the customs procedures and introduce selected manual controls based on statistical analyses for risk management.</i> • <i>Implementing ASYCUDA World should be planned</i>

5.5. THE MINISTRY OF FOREIGN AFFAIRS AND INSTITUTIONAL CHALLENGES LINKED TO NEW DEVELOPMENTS WITH THE EU AND THE INSTITUTO DAS COMUNIDADES (IC)

In all countries Ministries of Foreign Affairs (and Ambassadors) are increasingly devoting a large part of their attention to international economic relations³⁸. In Cape Verde, both the Special Partnership Agreement (SPA) and the “Joint Declaration on a Partnership on Mobility” were negotiated under the leadership of MNECC (With different authorities of EU). These agreements, which are described elsewhere in this Report, could have potentially very important impacts on Cape Verde. In both cases, negotiating of their precise content remains to be fleshed out, followed by implementation and monitoring. They pose a special challenge for Cape Verde, and in particular to MNECC. For instance, the SPA and its Plan of Action, built around six pillars (See chapter 4.2.4) involves elaborate and complex institutional arrangements. Each year, Cape Verde will produce a report outlining what has been achieved and the difficulties met. On that basis, the partners will discuss how to improve performances. As the partnership deepens, new targets will be jointly defined. The institutional machinery is composed of (i) An inter-ministerial group, composed of six working groups corresponding to the six pillars; (ii) A technical group, formed by officials, which will meet twice a year; (iii) A local follow-up group composed of the EC (and the EU countries) and Cape Verde to review progresses made; (iv) An annual Ministerial level to discuss progress made.

Similarly, the *Mobility Partnership* with the EU (described in Chapter 11) will involve some

³⁸ In several countries the external trade divisions have been placed with the Ministry of Foreign Affairs. This is the case for instance in Mauritius, and a recommendation of the Vanuatu DTIS was to move the External Trade Division of the Department of Trade to the Ministry of Foreign Affairs.

arrangements between several European countries and Cape Verde; others will be led by European Commission or a European agency, with or without partner countries. Most of the issues imply sensitive political negotiations, changes in legislations in the European countries, strengthening national institutions in Cape Verde and improving coordination between several agencies and departments.

MNECC has a good record of maintaining good relations with a particularly wide variety of donors and dealing with traditional ODA issues, but is insufficiently equipped to provide effective leadership in these two major and complex strategic initiatives with Europe.

The “*Instituto das Comunidades*” (IC), created in 2001, under the aegis of the MNECC, is in charge of promoting and executing governmental policies related to the Cape Verdean communities living outside of the country. It comprises a staff of 17 persons (Of which four are executives). If the suggestions made in this report to fuller use of the resources of the diaspora are accepted (see chapter 11), the IC will have to be strengthened. Among the new tasks now facing IC is also to provide support and follow-up in the *Mobility Partnership*.

A recommendation to strengthen the department of MNECC dealing with the diaspora and the IC is made in Chapter 11 (recommendation 11.7)

CHAPTER 6

BUSINESS ENVIRONMENT AND INVESTMENT CLIMATE

This chapter addresses the main aspects of the business environment and the investment climate throughout the economy, including factor costs. It complements the issues raised concerning improving policy frameworks (chapter 3), trade policies (chapter 4) and institutional arrangements (chapter 5), which are important parts of the business environment.

6.1. BENCHMARKING CAPE VERDE

For the purpose of meaningfully assessing international competitiveness indicators of a country have to be benchmarked against other “comparable” countries. In this regard, Cape Verde, with its unique geo-economic features, is difficult to categorize. A standard tool for evaluating the investment climate is IFC’s Investment Climate Assessment (ICA) - an exercise which was completed for Cape Verde in 2006. ICA recognized the benchmarking problem, and chose to benchmark Cape Verde against lower-middle income countries including Indonesia, the Philippines, the Maldives, South Africa, Guyana, the Dominican Republic and Mauritius. Table 6.1 summarizes the constraints faced by enterprises in Cape Verde and the selected comparator countries at the time when the ICA was conducted.

Table 6.1 Constraints reported by enterprises - Cape Verde and ICA comparator countries

	Cape Verde (2005)	Senegal (2003)	South Africa (2003)	Mauritius (2005)	Philippines (2003)	Indonesia (2003)	Maldives (2005)	Guyana (2004)	Dominican Republic (2005)
Electricity	63.2%	34.7%	9.2%	12.6%	33.4%	22.4%	19.6%	41.0%	84.4%
Access to Financing	49.3%	61.5%	12.8%	32.6%	13.5%	17.7%	72.3%	30.7%	35.6%
Tax Rates	47.3%	52.1%	19.0%	28.4%	30.4%	29.4%	32.6%	16.7%	50.6%
Cost of Financing	45.6%	73.8%	16.3%	48.1%	23.0%	28.8%	67.4%	55.8%	50.0%
Informal Sector Competition	36.6%	51.0%	15.8%	38.5%	24.3%	17.3%	14.9%	12.5%	51.7%
Trade Regulation	2.7%	39.3%	16.6%	23.2%	21.7%	16.0%	6.1%	18.4%	17.8%
Transportation	22.3%	34.7%	10.4%	14.9%	18.3%	16.7%	17.6%	16.7%	21.7%
Tax Administration	21.8%	51.1%	10.4%	21.7%	25.1%	29.4%	5.0%	8.7%	27.8%
Crime, theft disorder	20.5%	18.6%	29.3%	25.4%	26.5%	22.3%	35.4%	30.1%	60.0%

**Table 6.1 Constraints reported by enterprises - Cape Verde and ICA comparator countries
(continued)**

	Cape Verde (2005)	Senegal (2003)	South Africa (2003)	Mauritius (2005)	Philippines (2003)	Indonesia (2003)	Maldives (2005)	Guyana (2004)	Dominican Republic (2005)
Business Licensing	16.7%	8.2%	3.4%	46.4%	13.5%	20.7%	2.0%	6.1%	10.6%
Labour Regulation	16.7%	14.0%	33.3%	26.9%	24.7%	26.0%	24.0%	10.6%	16.1%
Legal System	16.0%	13.5%	8.7%	23.0%	---	24.9%	42.6%	8.1%	31.7%
Corruption	15.2%	45.8%	16.3%	37.8%	35.2%	41.9%	40.0%	17.8%	75.0%
Macroeconomic Instability	11.5%	31.2%	33.6%	38.5%	38.4%	50.2%	10.2%	44.2%	60.0%
Telecommunications	9.0%	3.5%	3.6%	5.5%	11.3%	9.1%	3.9%	24.7%	2.8%
Access to Land	7.2%	32.0%	3.3%	21.9%	14.8%	13.1%	64.0%	27.8%	10.6%
Worker Skills and Education	4.5%	20.8%	35.4%	42.1%	11.9%	19.1%	25.0%	40.4%	35.6%

Source: IFC, Cape Verde Investment Climate Assessment, 2006

The Cape Verde ICA Report is a comprehensive document prepared by a strong team of international and national consultants, and contains detailed comparisons on the relevant items based on extensive field research. However, its results are of relatively less operational relevance to Cape Verde than the equivalent exercise for other countries, since

➤ Benchmarking is against some large countries with good natural resource bases, such as Indonesia, the Philippines and South Africa, which have very different profiles from Cape Verde and are not its competitors.

➤ ICA focuses almost exclusively on «manufacturing». It is true that most factors analyzed are relevant to all other sectors, e.g.: utilities, access to financing, taxation and administration, cost of labor, labor regulations, etc. However, “manufacturing” as such is a very limited sector in Cape Verde, and enterprises in the rest of the economy may have different perceptions of the priorities. ICA thus contains some surprising results, such as the fact that 47% of enterprises report that “tax rates” are a problem, while only 4,5 % of enterprises mention “worker skills and education” as a constraint. Interviews conducted for the DTIS in Cap Verde, on the other hand, clearly show that, at least in tourism, the main dynamic sector of Cape Verde, “worker skill and education” is a major problem, whereas most hotels and resorts cannot suffer from “tax rates” problems, since they are in effect tax exempt.

➤ The ICA data relates mostly to 2004 and has not been updated since. However a number of

improvements have occurred since then.

In the DTIS report, Cape Verde is also compared to its closest West African neighbors, when this has some relevance to the extent that these countries are competitors for hubs (Dakar) and to a lesser degree in tourism and offshore outsourcing.

However, these are mostly low-income countries ranked below the Archipelago in the World Bank's *Doing Business* reports. In the 2009 edition of *Doing Business*, out of 181 countries, Cape Verde is ranked 143rd in the world, Senegal 149th, Mauritania 160th and Guinea Bissau 179th.

Consultations with the Government and the private sector confirm that Cape Verde would wish to be compared against a different set of countries. If the country's objective, as stated in the SPA, is to achieve "convergence" with Europe, the appropriate benchmarks should include, for instance the Canary Islands, but also countries such as Tunisia, Montenegro, Serbia or Moldova. The *Doing Business 2009* report ranks these countries in the 70 to 100 range, compared to Cape Verde's ranking of 143. It should be noted, however, that Cape Verde has dropped six places in this ranking compared to the *Doing Business 2008* report, when it ranked 137th. Some lessons may also be learnt from more advanced SIDS, such as Mauritius, or even former SIDS (Malta and Cyprus). With this consideration in mind, and in order to complement the ICA's findings, six countries -Croatia, Mauritius, Moldova, Montenegro, Morocco and Spain- are selected here for their relevance in terms of development profile and Cape Verde's aspirations, using the **Doing Business** Indicators. These indicators focus more on procedures than on cost of factors such as water, electricity and telecommunications. The picture that emerges is in Table 6.2.

Table 6.2 Cape Verde and Selected Benchmark Countries – Doing Business Indicators, 2009

			Cape Verde	Croatia	Mauritius	Moldova	Montenegro	Morocco	Spain
Starting a Business	Procedures	number	12	8	5	9	15	6	10
	Time	Days	52	40	6	15	21	12	47
	Cost	% of GNI per capita	35.7	11.5	5	8.9	4.4	10.2	14.9
	Minimum capital	% of GNI per capita	47.5	16.6	0	13.4	0	58.3	13.1
Dealing with Construction Permits	Procedures	number	18	19	18	30	20	19	11
	Time	days	120	410	107	292	248	163	233
	Cost	% of income per capita	639.1	655.2	41.0	142.2	1323.2	292.5	62.3

Table 6.2 Cape Verde and Selected Benchmark Countries – Doing Business Indicators, 2009
(Continued)

			Cape Verde	Croatia	Mauritius	Moldova	Montenegro	Morocco	Spain
Employing Workers	Difficulty of hiring index	0-100	33	61	0	44	33	100	78
	Rigidity of hours index	0-100	60	40	20	40	40	40	60
	Difficulty of firing index	0-100	70	50	50	40	40	50	50
	Rigidity of employment index	0-100	54	50	23	41	38	63	56
	Firing cost	weeks of salary	93	39	35	37	39	85	56
	Strength of legal rights index	0-10	3	6	5	8	9	3	6
Getting Credit	Depth of credit information index	0-6	3	3	3	0	2	2	5
	Public registry coverage	% of adults	21.8	0	20.6	0	26.3	2.4	45.8
	Private bureau coverage	% of adults	0	71.8	0	0	0	0	8.1
Registering Property	PROCEDURES	Number	6	5	4	6	8	8	4
	Time	Days	73	174	210	48	86	47	18
	Cost	% of property value	7.7	5	10.8	0.8	3.3	4.9	7.2
Trading Across Borders	Documents for export	Number	5	7	5	6	9	7	6
	Time for export	Days	19	20	1	32	18	14	9
	Cost to export	US\$/container	1325	1281	725	1175	1710	700	1121
	Documents for import	Number	5	8	6	7	7	10	8
	Time to import	Days	18	16	16	35	19	18	10
	Cost for import	US\$/container	1129	1141	677	1895	1910	1000	1121
Protecting Investors	Disclosure index	0-10	1	2	6	7	5	6	5
	Director liability index	0-10	5	5	8	1	8	2	6

	Shareholder suits index	0-10	6	2	9	6	6	1	4
	Investor protection index	0-10	4	3	7.7	4.7	6.3	3.0	5
Paying Taxes	Payments	Number	57	39	7	53	89	28	8
	Time	Hours	100	196	161	234	372	358	234
	Profit tax	%	22	11.4	11.3	10.4	9.6	21.3	22.2
	Labour tax & contributions	%	18.5	19.4	3.6	31.4	20.0	21.5	37.2
	Other taxes	%	13.5	1.7	7.3	0.3	2.2	1.8	0.8
	Total tax rate	% of profit	54.0	32.5	22.2	42.1	31.8	44.6	60.2
Enforcing Contracts	Procedures	Number	37	38	37	31	49	40	39
	Time	Days	425	561	750	365	545	615	515
	Cost	% of claim	21.8	13.8	17.4	16.6	25.7	25.2	17.2
Closing Business	Time	Years	no practice	3.1	1.7	2.8	2.0	1.8	1
	Cost	% of estate	no practice	15	15	9	8	18	15
	Recovery rate	cents in dollar	0	30.5	33.6	28.6	43.7	35.1	73.3

Note: Indicators for Cape Verde significantly above or below those of the selected comparator countries are highlighted in bold print

Source: *Doing Business 2009*, World Bank

It may be noted that even the 2009 edition of the Doing Business Report is in some respects outdated, as a number of recent steps have been taken, particularly by UCRE to streamline Government machinery.

Recommendation 6.1 - Benchmark Cape Verde against meaningful comparator countries

Meaningful comparator countries should be determined in line with Cape Verde's profile, development goals and competition. The available benchmarking exercises should be revisited to establish clear objectives in terms of competitiveness (factor costs, productivity, regulatory framework, etc.). Detailed comparisons should be made of all factor costs, including transport and port handling charges. This should be done by MECC with the assistance of CPE, at say, 2 yearly intervals. The results should be published and used to guide intervention and policies. Given the workload of MECC, outside technical assistance will be required.

6.2. COST AND QUALITY OF FACTORS

6.2.1 HUMAN RESOURCES

6.2.1.1 Cost

According to the ICA report, labor costs in Cape Verde are high considering its level of development, at about US\$ 2 800/year per worker for the median firm in 2005. Average productivity is equal to, or higher than that of several of ICA's comparator countries.

There is no regulated minimum wage in Cape Verde. Based on field interviews conducted by the DTIS mission in April 2008 typical earnings are estimated as follows:

Table 6.3 Cape Verde – Typical earnings, April 2008

Employee	Typical monthly earnings (€)
Unskilled laborer	100
Semi-skilled laborer/clerical worker	150
Secretary	500
General manager	5000

Source: Enterprises, Sotovento and Barlavento Chambers of Commerce

According to the ICA report, average wages in services were estimated to be some 24% higher than in manufacturing, which reflects the differences in the quality of the respective workforces. In the hotel industry, in April 2008 the average non-managerial wages were estimated at about EUR 289 per month, with the highest wages paid in Sal, then Boa Vista, then Santiago and the lowest in S. Vincente. These wage differentials reflect the different costs of living and scarcity of labour on the different islands. If non-wage labour costs (about 17% of salary) are included, the total cost of manpower may be regarded as of the factors which make it difficult for Cape Verde to compete in labour intensive export processing industries- even without considering transport and energy costs.

6.2.1.2 Qualifications

Human resource development is a major crosscutting issue and one of the keys to the development of Cape Verde. The ICA finds that Cape Verde tends to have a higher productivity than ICA comparator countries. However, technical and vocational education, and training (TVET), is not well developed. Only 7 per cent of the 25 000 students enrolled in all programmes were enrolled in TVET (9% of male students and 6% of females). The TVET entrance age in Cape Verde is 14 years and programmes last for four years.

It is not in purview of the DTIS to discuss in any detail the education and TVET situation in Cape Verde. However, the following considerations are regarded as of particular relevance for the

country's insertion in the global economy.

Priority should be given to professions that are in demand in Cape Verde, so as to enhance the competitiveness of activities and services undertaken in the country. At the same time, in most cases these are usually those which are also in demand overseas, and will thus facilitate circular migration, as discussed in chapter 11. It is recommended that Cape Verde invests additional resources in training in the following areas:

- **Tourism related skills** (See chapter 7 4.3 for details)

- **IT.** This is important for all sectors of the economy, and in particular BPO and offshore services. Annex B provides details about the main institutions involved and their potential.

- **Construction skills.** There is a lack of formally trained masons, plumbers and electricians, and Cape Verde is importing labour from ECOWAS countries. Government should work closely with the construction industry to identify and train the workforce to ensure that the higher skilled positions with attractive wage levels can be filled with Cape Verdean workers.

- **Care workers.** It is expected that care workers will increasingly be needed for servicing the health and retirement tourism, including retirees from the diaspora, as this activity develops. In view of its special relevance of care workers for circular migration, this is the subject of a recommendation in chapter 11. (See Recommendation 11.4)

- **Sea-related careers,** where the Higher Institute for Marine Studies (ISECMAR) in S. Vicente has established an excellent reputation. (See chapter 8.1.The Mindelo platform).

Recommendation 6.2 - Enhance vocational training programmes

Focusing on tourism, IT, construction, personal care and sea careers. Other than for construction, this should include proficiency in English

An important specific area is training in language skills. In the current educational system, students learn English *or* French in the 7th and 8th grade and both languages in the 9th and 10th grade. French, traditionally been considered the 'easier' choice, is relatively widely spoken and understood. It is increasingly common for senior civil servants to speak English. For "insertion in the global economy", foreign languages, particularly English-the international language of business-has a strategic importance. This is particularly relevant for tourism and offshore outsourcing, but also for public administration, research, and the media. It is also important for maintaining relations with the diaspora- since a growing proportion of Cape Verdeans in the diaspora (children and descendents) have had all their education abroad, and have a very limited command of Portuguese.

Many stakeholders feel that the Ministry of Education should play a more development role in adapting to the needs of the economy including in "technical English" and in construction skills.

Recommendation 6.3 - Develop a national plan for acquiring language skills, particularly English

A national plan for increased competence in foreign languages-particularly English should be developed. Such a plan should encompass not only the school system, but also consider ways of making widely available and affordable to different groups of the adult population. UNICV and the other institutions mentioned in Annex B should play an important role

This plan should consider the different needs of various population sub-groups. The experience of China in preparation for the Beijing Olympics is illustrative of how this is possible.

6.2.1.3 Labour regulations and human resources development.

Cape Verde ranks poorly in terms of employing workers, according to the *Doing Business 2009* Report: 169th position out 181 countries. On a scale of 0 to 100, its major weaknesses are the difficulty of firing index (70) largely because of the 91 weeks of salary due to the dismissed worker, general rigidity of employment index (54) and rigidity hours index (60). The tourism sector -as well as the inter-island shipping lines - are particularly concerned about the rigidity of labour regulations. Enterprises in sectors like BPO, transshipment, light assembly, or in the creative sector have to be flexible and agile if they are to be internationally competitive. In order to do so they need the flexibility to constantly readjust their workforce and work methods according to changing conditions. In this respect it is reported that in many cases workers remain on the same job for several years without promotion or salary increases.

The Labour Code is being modernized to address the needs of the sectors covered by the Transformation Agenda.

Recommendation 6.4 – Support to the implementation of the labour code and of subsidiary legislation

Tripartite consultations should continue to take place with a view to making employment less rigid and simplifying procedures. Incentives should be provided to employers to improve skills of their work force.

6.2.2 ENERGY AND WATER

The DTIS mission confirms the ICA finding that electricity supply is by far the number one constraint faced by Cape Verdean operators (Table 6.1). The ICA survey showed that 60% of enterprises considered that power supply was a major or very severe obstacle to their operations. Manufacturing industries are particularly affected by blackouts. Most of the larger hotels have diesel-run generator stand-by systems that are inefficient, expensive and polluting. According to the ICA, the private sector reports that outages account for losses amounting to up to 11% of sales.

ELECTRA, the electricity and water company, supplying the main islands of Santiago, Sao Vicente, Boavista and Sal is the main organization concerned. (Electricity and water supplies in

the smaller islands are managed by the municipalities). ELECTRA's shares were returned to the Government in 2006, which now controls the company once again, but is faced with a large debt (mainly due to frozen tariffs and customer arrears), obsolete equipment, and an escalation of non-technical losses due to fraud and unauthorised connections to the grid. In addition to power outages, enterprises complain of high rates (twice that of Portugal) and poor service. Needs, estimated at about 30 megawatts (35% of installed capacity) are to be addressed urgently not only for the manufacturing and hotel industries, but also for IT services or cold storage facilities, where reliable power supplies are essential.

The Government has developed a business plan to invest in production capacity at a cost estimated at €80 million, of which EUR 20 million had reportedly been mobilized by the ADB and Japan by April 2008.

Government is also promoting alternative energy sources. The construct four wind farms has started and is expected to provide one-quarter of the Archipelago's energy needs by 2011. Cape Verde is also considering a proposal to construct an offshore nuclear power plant-a project under technical review by the International Atomic Energy Agency.

Recommendation 6.5 – Promote and guarantee energy sustainability

This should involve : (a) the creation of a Strategic Reserve of Fuels; (b) Reform of the fuels sector – rationalization of the sector, creation of an additional point of off-loading, improvement and relocation of stock capacities; (c) Reduction of the country's dependence on imported petroleum products; (d) Increase in the penetration rate of renewable energy. The idea of splitting ELECTRA into a production company and a distribution company, as well as the principle of ELECTRA buying from private operators could also be explored, in the context of public-private partnership arrangements

Water supply is also a critical issue in Cape Verde, a country with low and erratic rainfall which has the lowest underground water resources in sub-Saharan Africa, after Djibouti. Desalination plants, requiring substantial energy supplies, account for about 75% of water supplies. Water is therefore an expensive commodity and hoteliers reporting being charged between EUR 4 and EUR 7 per m³ reflect the high cost of desalination. The costs of running generators and buying desalinated water are two of the cost drivers behind the 11% of total hotel operating costs which are made up by utilities. Such costs may be passed on, but not in the industrial sector.

Even under the best-managed arrangements, Cape Verde will always have high costs in water and electricity, but the present arrangements need to be improved.

6.2.3 TELECOMMUNICATIONS

Because a number of important investments made, Cape Verde has an efficient telecommunications network. Between 1996 and 1999, these have included: (i) implementation of a fiber optic transatlantic submarine cable system, of a land mobile network under GSM (Global System for Mobile Communication) standards; (ii) the Atlantis-2 cable system connecting

Portugal to Brazil and Argentina, through the Madeira archipelago, the Canary Islands and Cape Verde (with also links to Africa, via Dakar). CVT is one of its eight co-owners. (iii) The Africa ONE optical cable network which connects Cape Verde to the continental African countries.

Cape Verde does not yet connect with SAT-3/Wasc/Safe, the international cable which goes along the African coastline to the Far East.

Digital cellular phones work in all the islands. A fiber optic submarine cable system connects the six most inhabited islands and complements the system of fixed line telephone connections through satellite available since 1997. An Integrated Services Digital Network (ISDN) is in place since 1999. The Chinese company Huawei is in the process of completing the equipment of the whole country with fiber optic cables. Data concerning telephone and internet use-which are expanding rapidly-are presented in chapter 2.

Data for 2007 from the ITU show that Cape Verde connectivity rates are on the high side (Table 6.4), but not out of line with countries in the region.

Table 6.4 Internet and fixed telephone tariffs, 2007 (USD)

Country	DDSL Broadband	Fixed telephone		
	Lower speed (128 to 512 kbps/s) monthly charge	Higher speed (1024 Kbits/s and over) monthly charge	Lowest sample cost US\$/100Kbits/s	Rental/month (connection + rental/month +(15 minutes call)
Cape Verde	57,09	356,83	17,42	8
Ghana	63,83	-	24,93	7
Madagascar	104,59	-	20,43	14
Morocco	20,27	101,71	0,51	22
Mauritius	38,01	-	7,42	6
Senegal	41,52	150,23	7,51	17
South Africa	28,23	58,58	1,43	21
North Africa	94,27	771,88	13,85	-
Sub-Saharan Africa	368,60	505,38	97,04	-
Africa	327,84	526,98	84,56	13

Source: ITU, 2008

The rates have fallen in 2008, since the Government has ended *Cabo Verde Telecom*'s monopoly, and allowed a second national telecom operator (T+) to offer mobile, Internet and cable TV services. Only the fixed line monopoly for *Cabo Verde Telecom* will remain in place until 2010. In April 2008, CVT had 170,000 clients for mobile telephones while T+ had 20,000.

In May 2007, a commercial agreement, allowing improvement in the development of Voice over IP (VoIP) and Videoconferencing has been signed with the Chinese multinational HUAWEI. The arrival of VoIP triple play (telephone, Internet, TV) should, in theory, divide costs by four (provided that competitive conditions prevail).

In view of the importance of telecommunications for the service economy and for the knowledge society (*Sociedade de conhecimento*) that the country would like to develop, it is of vital importance that Cape Verde continues to upgrade its infrastructure in line with advancing Very High Speed (VHS) technology³⁹. This is of particular interest since FTT technology (Fiber to the Home FTTH, Fiber To The Premises FTTP etc) is well adapted to rural areas, because it does not cause any signal degradation, as opposed to copper wiring, and it could enable the development of teleservice activities-including outsourcing-from home even to isolated rural zones.

This will require major investments to enhance the VHS telecom infrastructure with optic fiber and mobile connections ((WiMax, 4th generation G3+ and G4 phones). Issues to be addressed include : (i) A decision on the bandwidth including attribution to operators and volume (Mbits/sec), (ii) Determining connection priorities (iii) Arrangements for pooling of civil engineering expenses (Trenching works, connection to buildings)⁴⁰, and (iv) Changes in legislation concerning e-business and regulation of FTT plug-in agreements in order to facilitate negotiations with various types of users.

6.2.4 FINANCE AND CREDIT

Cape Verde is in an average position for “getting credit” compared to DB benchmarks (Table 6.2). Local financial institutions have no shortage of liquidity, and loans are readily available if sufficient guarantees can be provided by the borrower. The main constraints in the financial area seem to be the lack of competition (Two banks cover 80% of the market) and unavailability of differentiated instruments, all banks offering the same products mainly geared to the funding of real estate projects.

Micro-finance is of particular relevance to the rural poor. A recommendation on micro-finance aiming at establishing connections between micro-entrepreneurship in Cape Verde, inflow of remittances, and the savings of the diaspora is made in Chapter 11 - Recommendation 11-1), which also addresses the transaction costs of remittances.

Nominal interest rates were of the order of 12% in 2002-2004 (ICA) dropped to around 10% at the end of 2007, but remain high when considering that the escudo is pegged to the euro. This explains the ICA finding that real interest rates were significantly higher than in comparator countries when inflation in Cape Verde was negative or particularly low (In 2004 and 2005). Inflation rose to 5.4% in 2006, which combined to a lower bank spread, has improved the real interest rate to around 4.5% per year.

³⁹ Fiber optic technology can now reach speeds of up to 1Gbps (1,000 Mbps) - soon 10Gbps- i.e. between 40 and 400 times faster than the current ADSL.

⁴⁰ Pooling is important since technologies such as the PON (Passive Optical Network) allow for grouping together 64 different fibers of subscribers, thus considerably reducing the diameter of the cables.

6.3. INTER ISLAND TRANSPORT

Cape Verde's infrastructures and arrangements for **international** transport (both by sea and air), often lags behind competitors in several respects. Several improvements are suggested (see chapter 8), which would assist in the further development of tourism or of merchandise trade, as well as enhance the chances of the country to act as a minor international hub for transshipments and transit. Inter-island transport remains a major challenge.

6.3.1 AIR TRANSPORT

Until very recently Cape Verde Airlines (TACV) had a monopoly on domestic flights. This has resulted in high ticket prices being charged by TACV on domestic flights, in effect cross-subsidizing loss-making flights on the competitive international routes to Europe and America. This created the perverse situation where the Cape Verdean taxpayer and domestic traveller subsidise the costs of flying for affluent international tourists.

Poor inter-island connections are one reason why tourism- is almost completely by-passing the some islands. However, competitive carriers have recently been allowed to open scheduled services in the domestic market (*Halcyon* and *CV Express*). This should reduce costs and increase passenger loads. Government policy should aim at diverting even a small proportion of existing tourist flows from Sal, Boa Vista, Sao Tiago or Sao Vincente for 'add on' excursions to other marginalized islands-implementing the "island-hopping" policy.

6.3.2 MARITIME TRANSPORT

A general complaint expressed in the course of the DTIS mission is the inadequacy of inter-island sea freight (and absence of rapid passenger ferries). The main scheduled routes are shown in Figure 6.1.

In a context of geographical dispersion of the islands, the cost of maritime transportation between islands is high because of several factors: (i) Except for Praia, Palmeira and Mindelo, the harbors are rudimentary, sometimes dangerous; (ii) There is very little competition, if any, between the shipping companies; (iii) On several islands, cranes and trucks of the required capacity for loading and unloading 20ft containers are not available or are in short supply. In Sal (the main tourist centre) unloading - on one small jetty - is so slow that sometimes incoming ships are held for two weeks. The costs are also prohibitive, with a container costing EUR 1,000 to transport from Praia to Sal and only EUR 2,000 from Lisbon to Sal – and much cheaper goods available in Lisbon than Praia. This imposes costs on enterprises, including hotels, both directly in terms of high freight costs and also indirectly in terms of large cold storage facilities for food items. These costs erode the advantage that Cape Verdean suppliers should have over overseas suppliers and contribute to the 'leakages' reported in the tourism business. It also discourages economic activities that depend on inputs from outside, in the peripheral islands. The 13 registered members of the Association of Ship-owners have a combined fleet of about 20 small vessels in operating condition. They recognise the need to renovate their fleet but lack the financial resources. Government is reported to be agreeable to guaranteeing bank loans, provided a business plan is prepared. Ship owners also advocate more flexibility in labour laws and freedom to determine freight rates (regulated by ARE).

Measures that can either reduce costs or increase the quality of inter-island service are a priority.

Figure 6.1 Major Shipping routes (schematic)



Source: World Bank, Cape Verde Rural Development Assessment, July 2007

Recommendation 6.6 - Review regulations relating to inter-island shipping and upgrade landing facilities and procedures

A critical review should include tariff rates and labour regulations, and the encouragement of competition between boat operators. The Association of Ship Owners should be assisted to prepare a business plan, which should be presented to Government to facilitate bank loans for the renovation of the inter-island fleet. Efforts should be pursued to upgrade landing facilities and processes, as this would lower the costs of inter-island transport.

6.4. TAXATION AND INCENTIVES

6.4.1 TAXATION

Corporate. Taxation is not a major issue for export-oriented FDI since it enjoys a number of

exemptions. For enterprises operating on the domestic market, corporate tax is 30.6% of profits, in line with most ICA comparator countries, but various other levies – including property registration - increase the estimated total tax rate to 54.4% - a high number. Compared to ICA benchmarks, marginal tax rates, however, are in line with most countries and tax administration is less burdensome. In addition, many companies are eligible to a host of fiscal incentives (e.g. favourable depreciation rates) which mitigates the tax burden.

Personal taxation. The top rate for the highest bracket is 45 per cent. Personal taxation is not seen as a disincentive for expatriates. No tax is levied on overseas earnings and non-employed foreign residents can stay up to 180 days/year in Cape Verde without being subjected to personal income tax. A specific scheme has been developed to allow retired foreigners to be domiciled in Cape Verde without being taxable.

6.4.2 INVESTMENT INCENTIVES

The legal framework for investment is governed by an accumulation of laws introduced over the years, lacking consistency and clarity, e.g. on the status of industrial enterprises (1989), foreign investments (1993), free zones (1993), tourism (2004). Specific incentives available to investors, particularly those engaged in exporting, include:

- 5-year tax holiday. In the 6th year corporate tax is set at 10% and from the 12th year the standard rate of 30% applies.
 - 10% tax rebate on reinvestments.
 - Free repatriation of profits generated overseas.
 - Freedom to employ foreign workers in the start-up phase.
 - 2-year import duty exemption on equipment, raw materials and vehicles
 - Guarantee and protection against nationalisation and expropriation (except for “public necessity”).

Special agreements including more favourable conditions can be negotiated for investments above €50 million or concerning technological innovations. To be eligible to incentives, investments require the prior approval of *Cabo Verde Investimentos*.

The incentives are costly. As indicated in chapter 4.1.4, in terms of waived customs duties and indirect taxes alone, in 2007, CVE 2.5 billion (EUR 22 million), i.e. almost 16% of total fiscal revenue and 2.1% of GDP. A study conducted by the IMF consultants (using data up to 2003) ⁴¹ found that these incentives were not well focused in that there was weak link between fiscal incentives and the increased flow of FDI. Many sub-sectors having benefited from incentives were not the most strategic for the development of Cape Verde, nor those generating the most employment⁴².

It appears that the present system allows for the granting of additional tax holidays (in the

⁴¹ *Avaliacao dos Incentivos Fiscais*, Aide-mémoire, Ricardo Varsano and Andréa Lemgruber Viol, IMF, November 2004.

⁴² According to this report ,among those which had received incentives were laundries, bakeries, photo shops, dance halls and undertakers (“production of non-metallic materials”)

“tourist” sector) on the basis of what are essentially real estate sales to new overseas investors for hotels after the expiry of the tax holiday period. The pattern is thus developing where hotels are sold every five years to allow another foreign company to qualify the purchases for a further five years to tax and duty-free status. Another issue is that many benefits apply to foreign investors, including members of the diaspora, but not to domestic investors, which have the effect of discriminating against potential indigenous entrepreneurs. Finally, at least one case has been reported when an enterprise (in manufacturing) has – successfully - sued Government for not delivering on agreed incentives.

The IMF consultants recommended a number of changes in order to consolidate the fiscal incentive framework, temporary suspension of any new incentives, removal of ineffective benefits, streamline customs duties (e.g. 0% rate on capital goods, removal of exemptions for consumer goods – including vehicles - and of VAT exemptions, etc.). Some well informed Cape Verdean sources feel that the system may have been subjected to abuse and fraud, while others consider that the country has only just started benefiting from the existing fiscal incentives, and that investors need continued assurances that the framework will not change in the medium-term (2015-20). However, it is generally recognized that there is little strategic/policy coordination between various entities that approve FDI, and that the fiscal impact of incentives is not systematically taken into account.

Recommendation 6.7 - Complete the review of investment incentives to ensure support to priority sectors

The review of the different investment incentives already under way, under the leadership of Ministry of Finance, with the support of IMF should be completed, notably by benchmarking against the more successful and competitive export-oriented models.

The options chosen for regional integration will need to inform this review. The exercise should focus on the best way to make the business environment favourable to ensure the international competitiveness of priority activities, and conducted in close cooperation with local stakeholders and donors. Coordination in design and implementation of incentives among the various entities involved is necessary.

Given the current demand and considerable level of already approved investments, the development of the resort and hotel industry, would probably not be very much affected by reduced incentives. In contrast, other service sectors such as BPO, supply of re-exports and light manufacturing (assembly) could benefit from additional incentives. For instance, VAT on tourism could be at 15% (now 6%), and manufacturing and telecommunications at 6% (now 15%).

The regional (island-specific) dimension should also be considered, in view of maximizing spread effects and impact on the economy, and the poor in particular. In the tourist sector, for instance efforts to be made to channel a higher proportion of new investments outside Sal and Maio (which have relatively fewer linkages with the non-tourist sector, and are the richest islands).

A new approach increasingly followed is to harmonize investment conditions (for example, Mauritius no longer has a special EPZ status and all exporting enterprises operate on the same basis) and devise incentives applicable to the act of exporting). Domestic enterprises should not be discriminated against foreign investors.

The option envisaged in Cp 4, that Cape Verde could envisage gradually removing almost all customs duties, and maintain fiscal revenues by other means should be seriously explored. Such an approach would send a strong message to the international community as to the country's determination to become an open trade and service platform.

6.5. PROCEDURES AND THE “BURDEN OF REGULATION”

Using the ICA's comparators, the “burden of regulation” is heavier in Cape Verde than in all comparator countries except Senegal, with an estimated 12% of management time against 2 in the Maldives and 6 in Indonesia. Since 2005, when Government set up a working group for the reduction of administrative barriers to investment (*Grupo de Trabalho para a Redução das Barreiras Administrativas ao Investimento – GTBRAL*) a number of improvements have been made. In 2008 the “Business in a Day” programme is fully functional in Praia, already accounting for 60% of new registered business, using the portal *Porton di nos ilha*. Work is underway to incorporate business licensing in the Business in a Day program, and by early 2009 retail and wholesale licensing are expected to be included. This should have a significant impact, and help to reverse the perception recorded in a 2008 poll launched by ‘*Porton di nos ilha*’, that found that 62 percent of users regarded public services as “deficient” or “bad”.⁴³

Land ownership. Acquisition and registration of real estate property is important to investors, whether foreign (to secure their locally acquired assets) or domestic (to meet the banks' collateral requirements). In this area, Cape Verde does not perform well in absolute terms (122nd world ranking in the Cost of Doing Business), largely because of time-consuming procedures, but is in an average position in “registering property” compared to selected benchmarks in Table 6.2. The ICA reported that only about 10% of manufacturing enterprises interviewed considered access to land as a serious constraint, but this is far greater concern amongst investors in the tourism sector. It is also reported to be a constraint to increased agricultural production. This problem is due to the rigidity of legislation, absence of a land register and controversies surrounding past expropriations.

Recommendation 6 8 – Reinforce the modernization of the land registration system

In terms of efficiency, speed and enforcement of title deeds. The project already prepared by MECC to accelerate property registration according to the business a day model should be considered for attracting funding and implemented as soon as possible.

Licenses. Cape Verde is the one of the best scorers under “dealing with construction permits” compared to selected DB benchmarks (Table 6.2). Arrangements are in hand to include all business licenses-including retail and whosale licences under the Business a Day Programme in 2009. Export licences were reported by FIAS (2002 survey of 120 companies) to be seen as a priority area to be addressed. In any event export and import licenses are an unnecessary procedure - except for specified imports subject to SPS rules or technical inspection.

⁴³ Source: Porton di nos ilha (www.portondinosilha.cv), 1 April 2008. N=1846.) Respondents were self-selected, and are therefore not representative of all users. It is nevertheless striking that among those who actively voiced an opinion, the attitudes were so negative — even while visiting an impressive-looking newly launched portal.

Recommendation 6.9 – Review export and import licenses

To examine the possibility of removing them. Develop other sources of income for the Chambers of Commerce.

6.6. MINDSET

There is general agreement that many Cape Verde actors need to change their mind set to meet the new challenges now faced by the country to adapt to the global economy. The Prime Minister outlining the country's transformation strategies said: "This implies many profound changes in the manner in which we think and act. We need to break with many mental and organizational paradigms. We need to reconsider various aspects of our life".

The question of mindset is a more general question, going far beyond the scope of the IF.

Yet there are numerous examples throughout this report of how the old mindsets and outmoded practices-some inherited from the colonial past-constitute a constraint to a competitive economy.

One further illustration involving the leadership of the country is the tendency towards inaugurations and announcements rather than consolidation. This creates a risk of undermining the fundamental, but largely invisible, work of consolidating and improving existing services and institutions and undermining trust through disappointment over new initiatives. A case in point is **e-governance**. Cape Verde's world ranking (With a coefficient of 0.34), is below the world average (0.41), but ahead of Africa (0.25). The ambition is officially declared to upgrade towards South East Asia (0.46), and even reach European levels (0.59). Yet the reality is that the mushrooming web sites of government departments consist mostly of empty sections, broken links, 'under construction' signs or inability to handle the requests that are invited. CI-which is mandated to attract investment and promote tourism does not have a website. The site www.tacv.cv, presumably belonging to TACV (In many ways part of the Cape Verde image), contains the words 'under construction'. TACV airplanes have for some time, been decorated with the URL www.flytacv.com, but the most vital interface of any airline (which would enable booking online) is covered with a 'coming soon' label. In certain quarters of the private sector, there is a lingering tendency to expect the State to solve all problems.

Many recommendations in this report address the need to change the mindsets. For instance, on the new approach to benchmarking, which should increasingly be against countries of Southern Europe, including the Canary Islands- rather than be content with the lesser standards of most West African countries. Improving language skills – particularly English - would also help opening to new perspectives. ADEI should have an important role to play in promoting innovation and outward looking entrepreneurship. Facilitating the diaspora to contribute to development (Other than merely through remittances) as suggested in chapter 11 is also relevant. All opportunities should be taken at all levels to improve awareness of the external (Particularly European) markets for goods and services, language and management skills - whether the beneficiaries will find occupations in tourism, IT, financial or health services-or indeed be involved in circular migration. This should include schoolchildren - particularly as the most dramatic physical changes (tourism related) are in places like Sal and Boa Vista, where few Cape Verdeans live.

If Cape Verde really means business, leadership should come from the top. Policy-makers should be sensitized to the importance of a change of mindset. This could take the form of 2 or 3

workshops a year for Ministers, senior officials and business leaders. Since the 2003 Forum on the on the Transformation Strategy process, there has been sufficient consultations and information on the “vision”. What is needed now is to focus on results management, change management, innovation processes and implementation. Examples or case studies involving other service economies, such as the Canaries, Dubai and Singapore should be showcased. The “results” of these workshops should obtain wide publicity and be used for other events and purposes, including in schools

6.7. CONCLUSIONS

In spite of the high factor costs and imperfections in the business environment, Cape Verde has been able to overcome these constraints and developed an internationally competitive tourist industry. There is a legitimate desire to diversify and not rely only on one “engine” of development. Yet, it may be easier for Cape Verde to capitalize on the tourist sector, and developing up- and down-stream from the core, resort-centred industry. The question of linkages is crucial. (This is addressed throughout this report, and in particular in chapter 7 and Annex C).

PART III
SECTORS AND
OPPORTUNITIES

CHAPTER 7

TOURISM AND ITS CONTRIBUTION TO THE ECONOMY

The story of tourism in Cape Verde is one of almost unparalleled success. The growth in tourism has been remarkable, and tourism has become the backbone of the economy. This has contributed significantly to transforming the Cape Verdean economy and helped to reduce poverty. Projections, including the strategic plan for tourism 2004-2015, envisage further rapid growth.

7.1. DEFINING AND MEASURING TOURISM

A recent consultant study had claimed that there were instances where official statistics overestimated true tourist numbers, by counting some migrant workers as tourists⁴⁴. Although migrant workers are part of the frontier statistics, the INE informs that main tourist data are derived not from arrivals but from hotel sources. However, this still leaves an element of double counting, since each visitor registering in an establishment is recorded as a “new entrant”, although it may be the same person visiting more than one establishment during the same visit. Some doubt also exists how the diaspora visitors are recorded. The role of emigrants as tourists is clearly changing: hotel surveys conducted for the DTIS revealed that, particularly during the somewhat quieter mid-year period- when discounts are available for large and long-staying family groups - Cape Verdean emigrants are becoming an important source of demand for beds in hotels on in Santiago and Sao Vicente. In Praia, one of the main upmarket hotels is almost fully occupied by emigrants in June and July.

The length of stay data, suggesting an average duration of 4.5 days, seems very low in the context of a destination dominated by Europeans on package holidays⁴⁵. Similarly, the official occupancy figures are very much lower than hotel surveys conducted for the DTIS suggest are realistic.

INE is improving its data collection and is about to conduct a tourist expenditure survey (going beyond the aggregate tourist receipts presently available). It has developed a methodology for preparing Tourism Satellite Accounts and a pilot project will soon be launched. The absence of reliable tourist satisfaction surveys is also a weakness for policy-makers.

Tourism being the central engine of growth in Cape Verde, it is important to ensure that the data available is accurate and to understand how the tourist economy works and relates to the rest of the macro-economy.

⁴⁴ Citing analysis undertaken by the Sterling Merchant Bank, the Grant Thornton report suggests that official figures could overstate the true international tourist arrivals by almost 50%.

⁴⁵ One would expect holiday durations of roughly twice this level in comparable destinations. This low recorded figure may be partly due to counting separately the length of stay in more than one island by the same tourist.

Recommendation 7.1- Continue to improve tourism statistics

Collect more robust basic tourism statistics by, for instance, reconciling the tourist arrival figures with hotel figures .Conducting detailed tourist expenditure surveys and satisfaction surveys. Preparation of a Tourism Observatory-an annual publication. Technical assistance may be requested.

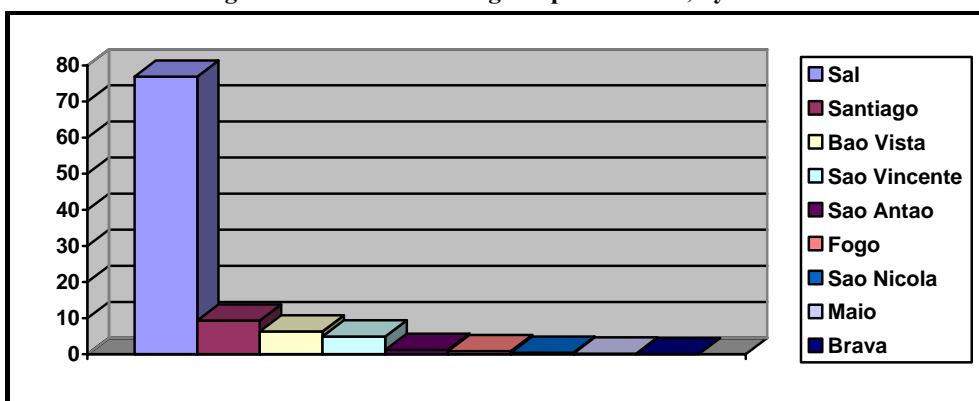
7.2. OVERVIEW OF TOURISM IN CAPE VERDE

7.2.1 SUPPLY

The concentration of tourist activity on one or two centres on just four islands is striking. Over three-quarters of all tourist bed-nights in Cape Verde (1.1m nights out of a national total of 1.4m in 2007) were spent on the island of Sal and over 80% of the tourist rooms on Sal are located in the small town of Santa Maria.

Well over half the registered national bed stock is located in ten large hotels on the islands of Sal, Santiago and Boa Vista. Approved investments are also highly concentrated geographically.

Figure 7.1: Tourist bed-nights spent in 2007, by island



Data source: INE (2008)

On the basis of the present supply and of approved investments, it is expected that over the next few years, the pattern of tourism development would be along the following lines.

- The great majority of tourist activity - at least 80% of bed nights and perhaps 70% expenditure - will be for European package tourists staying at large beach hotels on the islands of Sal and Boa Vista;
- Almost all the remaining 20% of bed nights and tourist expenditure will be on the islands of Santiago and Sao Vincente. This will be encouraged by direct flights serving the new international airports (opened in October 2005 in Santiago and scheduled for opening at the end of 2008 in Sao Vincente); and

- Tourism is almost completely bypassing the remaining five inhabited islands of the Archipelago. In 2007, they collectively accounted for about 2.7% of total tourist bed nights in Cape Verde – or an average of about twenty tourists per day on each island. Since these marginalized islands tend to be those with the highest poverty levels, an objective of policy should be to spread at least some tourism to these islands.

Tourist-related development proposals in Cape Verde are dominated by large, foreign-owned, mixed use resorts include hotels and holiday flats. Most residential developments are being sold ‘off plan’.

7.2.2 DEMAND

Gross tourism receipts have been presented in chapter 2. (See Table 2.1. Balance of Payments and Figure 2.1). This shows a spectacular growth of 23% in 2006 and 39% in 2007. As regards the number of international tourist arrivals, given the recording and definitional problems discussed above, it may be prudent to interpret the available figures with caution. For instance, for 2007, a figure of 250 000 international tourists might be closer to ‘reality’ than the official figure of 312,880.

Tourist expenditure: In 2007, foreign tourists spent an estimated at ECV 19.3bn (or €175m) on goods and services in Cape Verde. This equates to a gross spend per tourists (based on the ‘best guess’ of 250,000 international tourists in 2007- rather than the official arrival figure of 312,000- of €700 per trip. This gross expenditure reduces to a net yield figure of some €324 when taking account of the ECV 10.7bn (or €97m) spent on imports generated by tourist demand (see Annex C for more details). This is a relatively high spend by tourist. These figures equate to gross and net yields of €155 and €72 respectively per day (for an average length of stay of 4.5 days – which may well only appear high because of the low length of stay estimate).

INE estimates indicate that Cape Verde has successfully maintained the length of stay per visitor over the period 2000-2007 (around 4.5 days). Even if, as mentioned above, this figure appears abnormally low, the stability of the duration of overnight stays is significant⁴⁶.

Cape Verde is able to achieve relatively high contracted room rates in their negotiations with European tour operators because demand for rooms outstrips supply for much of the year. According to the DTIS survey, in city hotels, in the four-star quality category, contracted rates were in the range €50-€55. (On a bed and breakfast basis). Hotels in Sao Vicente tend to be less expensive than hotels in Santiago. Large beach hotels on Sal and Boa Vista are contracted at cheaper rates than the city hotels and in a much narrower range of €45-€52. Smaller guesthouses sell rooms directly to the public, rather than to tourists via tour operators. Their average rates are higher than larger hotels in their vicinity.

These room rates are remarkably high compared with other destinations serving a predominantly European market for a sun and sea product just beyond the Eurozone. For instance, in Gambia, contracted room rates only reach about €25 during the high season and are less than half this rate during the low season⁴⁷. In the Red Sea destinations in Egypt, even lower rates for five star, all-inclusive packages are reported. In Cape Verde, even the beach hotel rates are about twice the

⁴⁶ Some competing destinations are clearly ‘trading down’ in order to maintain visitor arrival number growth. In Tunisia for instance, despite increasing visitor numbers, there has been painfully slow increases in tourist receipts from US\$1.8bn in 1995 to US\$2.7bn in 2005

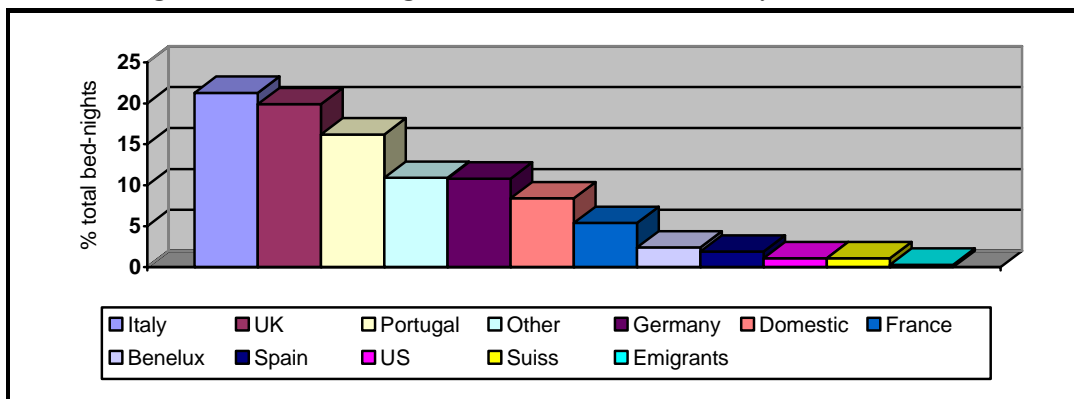
⁴⁷ J Mitchell and Faal, J (2008) The Gambian Tourism Value Chain and Prospects for Pro-Poor Tourism ODI Working Paper 289

peak rates achieved in competitor destinations elsewhere. Also, because of high occupancy and the lack of seasonality, these rates are relatively firm throughout the year.

Highly diversified source markets: This good outcome is possible partly because of the highly diversified source markets enjoyed by Cape Verde (Figure 7.2).

Among the interesting features of the Cape Verde are the importance of domestic tourism (some 8% of total bed-nights), the magnitude of the ‘other’ category – the fourth largest group of tourists about whom virtually nothing is known- and the rapid increase in tourists from the UK.

Figure 7.2 Visitor bed-nights in tourist accommodation by source market, 2007



Data source: INE (2008) *Nota de Imprensa*

Apart from allowing for higher for higher room rates another key advantage of diversified source markets is that it allows suppliers of tourism services to benefit from more stable demand throughout the year. Data show a remarkable seasonal stability in occupancy in Cape Verde because tourists from different source markets visit at different times of year. This means that the composition of demand changes throughout the year – but the aggregate demand for accommodation remains rather stable.

7.3. TOURISM POLICIES

7.3.1 PLANNING

Cape Verde has a strategic plan for tourism 2004-2015. The focus of this plan is on the financial impacts of tourist expansion. So far this has consisted mostly in extrapolating recent tourism trends over the next ten years and generating investment volumes and arrival numbers. It envisages that the number of tourists would reach 1.2m by 2015. However, it forecasts a surprisingly low projection of receipts (rising to CVE 33bn by 2015). This receipts figure is expected to be reached well before that date when the number of tourists would still be considerably less than 1 million (see Table 3.1).

A tourism master planning process has been initiated. Issues of environmental sustainability and local benefits and linkages between the tourism and non-tourism economy should receive much greater prominence than hitherto. The master plan process should move beyond being a conventional strategy driven by tourist numbers and supply infrastructure. It should analyze the benefits accruing from tourism to Cape Verde, including its impact on poverty, and develop a policy to enhance these benefits. The Plan should be disaggregated to comprise what each island

has to offer. Inputs could be provided by an international consultant with a strategic policy orientation in the master planning process and familiar with the satellite account methodology

This process needs to be informed by accurate baseline tourist statistics (recommendation 7.1) and a stronger analysis of the functioning of the tourist sector-not an easy task. Making full use of the National Tourism Council will increase the likelihood of the key policy questions being addressed.

The fear is often expressed that the rapid rate of growth of tourism in Cape Verde may risk doing irrevocable damage to its ecological assets. As part of the master planning process policy makers should strive to establish a realistic assessment of environmental carrying capacity of tourism areas, based on an appreciation for the trade-offs between an environmental and socio-economic development agenda.

In this respect, the following considerations should be borne in mind:

- The absolute level of tourism is currently small and highly concentrated into one corner of one island (Santa Monica town on Sal Island) – so it is quite possible to have dramatic rates of growth without any plausible risk of concreting over the whole country; and
- Tourism may well offer Cape Verde almost the only single narrow window of opportunity for moving to a dynamic and competitive service sector economy.

7.3.2 RECONSIDERING THE RESORT POLICY

Much recent tourist-related development proposals in Cape Verde comprises large, foreign-owned, mixed use resorts that include hotels and *residentios* (holiday flats) and often a golf course or marina development. There are some real advantages of mixed use schemes. However, residential developments may have fewer socio-economic benefits than hotels, since they are empty for periods of time, sometimes leading ‘urban deserts’ around residential ‘time-share’ type developments. With hotels there are strong incentives to utilize capacity throughout the year.

Recommendation 7.2-Review the residential ‘time share’ resorts policy

This should be informed by the experience of the Spanish the second-home market.

A related issue is that, as most residential developments are being sold ‘off plan’ and many developers are on-selling projects after housing units have been purchased but before the start of building. This practice happens for new developments in many parts of the world. However, Cape Verde being a new destination with a limited number of actors, there is a danger that a bubble will develop and that some investors will feel exploited, thus damaging investment confidence in Cape Verde as a whole. Uncertainty of land tenure is also an issue. Cases have been reported of advertising on websites of the sale of plots for land without the knowledge of the owner. Government should consider closer regulation of the land and property markets -of which the current efforts to improve land registration is a step in the right direction- so as to reduce the chances of investors being exploited and maintain the credibility of the Cape Verde business environment.

A wider consideration concerns the redirection of investments in resorts and hotels towards those

which can meet simultaneously the larger social and infrastructure needs of the population.

7.3.3 COUNTERING NEGATIVE PERCEPTIONS

In spite of the very significant direct and indirect impacts of tourism on the economy of Cape Verde (documented in Annex C), there is a broad range of people in Cape Verde who are critical or sceptical of tourism, and who feel that it is not really benefiting the country. Among frequently negative perceptions are the following:

- The benefits of tourism are just ‘leaking’ away to the off-shore accounts of international operators and overseas companies supplying the tourist industry dominated by large, foreign-owned, all-inclusive resorts. There are no linkages between the tourist and non-tourist economies;
- Tourism is threatening the environment and society of Cape Verde through unplanned development and encouraging crimes such as prostitution and gun crime; and
- Hotel wages are exploitative and that foreign-owned hotels pay staff particularly badly.

The danger of not addressing the widely-held (and largely incorrect) perceptions is that an anti-tourism coalition develops which proposes a policy programme that is not compatible with the sustainable development of the tourist sector. It would thus be desirable to implement a public information campaign setting out the significant direct and indirect impacts of tourism for the economy. These benefits should be communicated effectively to the public and policy-makers domestically. The SA Tourism model in South Africa in the early 2000’s is a useful model in this respect.

7.3.4 MARKETING STRATEGY

Until recently what Cape Verde had to offer was mainly a middle range sun and sea experience. However, with the opening of international airports at Boa Vista, Santiago and Sao Vicente and the development of domestic and diaspora tourism – there are some interesting markets developing which are less conventional. In particular, the upgrading of the airport to international standards in Mindelo and Praia will be bringing tourists to destinations that are population centres with an agricultural sector and a vibrant cultural environment. This is a much more conducive environment for developing local economic linkages than in Sal and Boa Vista.

Cape Verde now offers a number of different models of tourist development associated with particular island environments. These may be characterized as the:

- Sal model of relatively less regulated sun and sea tourism;
- Boa Vista model of more upmarket sun and sea tourism;
- Cultural tourism, mainly in Praia and Sao Vicente; and
- Community-based tourism, particularly in Santo Antao.

The Sal model is widely-regarded in Cape Verde as a mistake. There are legitimate concerns about the environmental impact of seemingly haphazard, large-scale, duty-free tourist resorts. However, the analysis (Annex C) found that this type of development does bring significant

benefits to Cape Verde and people from poor backgrounds. Without the scale and speed of tourist development in Sal mainstream tour operators and scheduled flights would not have been encouraged to start operations in Cape Verde. There is however real concern amongst hoteliers on Sal about the sustainability of the tourist product on offer. Tourists are not experiencing the 'real' Cape Verde and most are seeing little other than the hotel and the beach. The concern is that Cape Verde may have a short life as a novelty destination, but is unlikely to enjoy repeat trade unless it offers more to tourists. The alternative is to be forced to compete on price terms only and slashes prices to become competitive with other sun and sand destinations. Tourist exit survey results from tourists staying in hotels in Sal suggest that 70% would not consider returning to Cape Verde.

The Boa Vista model marks a significant development on the Sal model. The increased emphasis on master planning and environmental standards by the creation of the Society for the Development of Tourism in Boa Vista and Maio (SDTBVM) is an institutional expression of the perceived need to plan tourism development more effectively in the future. Whether this will actually change the pattern of development remains to be seen. The compulsory purchase of land in tourism zones and the centralisation of development control decisions in central government may be a pragmatic response to the need for rapid implementation of projects. However, it is provocative for local government and communities and – as tourist stakeholders are finding in Sal – trying to develop a long-term relationship with an alienated municipality is a challenge. The facilitation of direct community benefits from tourist developers to the local community on Boa Vista is an important positive feature of the STDBVM model.

The Cultural tourism model tends to be applied to tourism that looks different from tourism in Sal and Boa Vista. Cultural tourism already takes place in locations such as Sao Vicente and Praia, which are major concentrations of urban Cape Verdeans. Besides festivals, these locations offer facilities such as restaurants, music clubs and historical sites that are attractive to tourists. The promise of cultural tourism is that it will present a tourist product with the Cape Verdeans participating in it. It certainly should present a picture of tourism that is distinctively Cape Verdean and more attractive to a segment of the traditional source markets. Cape Verde's image can be built around its already world-famous singers, and by organizing a major *Mid-Atlantic Festival* of West-African, Latin-American and South European cultures. The development of cultural industries is increasingly mentioned as a potential development axis in Cape Verde to generate income and employment. This is addressed in chapter 10. There is clearly much synergy between tourism and the cultural industries, as illustrated by Figure 10.1: the Music Tourism and Export model), and the development of cultural tourism is a very appropriate springboard for the launching of cultural industries in their wider dimension.

Finally, as regards **community based tourism** (CBT) there are impressive examples of NGO-supported community schemes on Santo Antao (the Atilier Mar project in Lajedos) or the more commercially-led Pedracin Village project near Ribeira Grande. They positively impact upon large number of poor beneficiaries in these very poor rural environments through village home-stays, the cooking of traditional food and craft sales. However, CBT is not an alternative to mainstream tourism. In fact, successful community tourism projects need the kind of tourism flows generated by mainstream tourism and need the physical and distribution infrastructure associated with conventional tourism flows. And vice versa. Local hoteliers and tour operators need well organized community projects as an excursion to offer to their guests. Cape Verde should continue to pursue initiatives designed to make incremental changes to mainstream tourist flows. An approach like that of the Millennium Challenge Fund linkage programme is appropriate. This initiative seeks to facilitate linkages between large tourism operators and Cape Verdean businesses through a range of demand and supply side interventions and establishing a

linkage unit to facilitate the interface between supply and demand⁴⁸. Similarly, the World Hotel Link is an intervention which provides a direct linkage between the international independent traveller and Cape Verdean-owned accommodation providers⁴⁹.

Apart from the categories mentioned above there would seem possibilities for the development of offshoots such as:

Business-related tourism. Resort facilities could be used, particularly during periods of lower demand, to attract business travelers. Selected hotels and resorts could provide conference facilities. This would improve the overall occupancy rates and could, indirectly, promote Cape Verde as an investment destination. There is evidence that a significant proportion of FDI in Cape Verde is currently being generated by tourists whose primary purpose of travel is visiting friends and relations (for the diaspora) and holidays (for other tourists) – and who initiate investment opportunities whilst at the destination. This phenomenon should be recognized and capitalized upon with different segments of the tourism market. This implies making the business travelers (and tourists in general) aware of the local investment potential through brochures, videos, guided tours, etc.

Wellness and health tourism. In the longer term, given the increasing demand for health and care services, the significant number of senior tourists and Cape Verde's dry and moderately warm climate, the potential for health tourism should be exploited. This implies a well-coordinated approach as it covers the availability of medical skills, infrastructure (spas, medical and physiotherapy equipment, operating facilities), insurance and promotion. This could start with wellness centres and medically equipped retiree residences, and slowly graduating to full clinical services, and possibilities for non-emergency treatments (e.g. dental care, hair transplant). The major constraint for this type of tourism flow is the current near-absence of adequate health facilities in Cape Verde. It would be in Cape Verde's interest to liberalize this sub-sector to diaspora and foreign practitioners and operators, while ensuring minimum standards. As discussed in chapter 11, the availability of better health services would also encourage the return migration of members of the diaspora.

Recommendation 7.3-Develop a marketing strategy to promote the changing face of Cape Verdean tourism

The marketing strategy will be part of the master plan being prepared. However, the main outlines are already clear. DG Tourism, in consultation with the private sector to tour operators, should develop this marketing strategy which should include the diaspora and domestic tourists. Sao Vicente and Santiago should be promoted as a Cape Verdean experience to complement the sun and sand experience offered in Sal and Boa Vista. Working with the National Tourism Council, this process should be supported by tourism branding specialists with practical international experience.

The design and implementation of the policies as well as their monitoring and evaluation require strengthened institutions, in particular DG Tourism and the operation of the National Tourism Council. Recommendations to this effect are made under chapter 5.(Recommendation 5.3)

⁴⁸ IFC (2008) Cape Verde Programme to Mobilise Investment: Tourism Component.

⁴⁹ WHL (2007) Mission report for Cape Verde

7.3.5 FOOD SECURITY IN HOTELS AND RESTAURANTS

The development and implementation of SPS standards to ensure food security in hotels and restaurants have not reached a satisfactory level in Cape Verde. Improvements are needed so that Cape Verde tourism reaches a higher quality.

Recommendation 7.4-Improve SPS standards and food security in hotels and restaurants

This would require the strengthening of ARFA and cooperation with the Ministry of Health

7.4. TOURISM LINKAGES AND BENEFITS TO THE POOR

The DTIS is mandated to integrate with the GRPRS II and to pay special attention of the impact of trade on the population at large - and the poor in particular. Tourism is the main export sector of Cape Verde and estimates of the impact of tourism in Cape Verde on the economy, and the poor, are presented in Annex C. The main points are summarized below. (7.4.1 to 7.4.7)

7.4.1 OVERALL EFFECTS AND IMPACT

In 2007, tourists spent an estimated €270m in Cape Verde. Some two-thirds of this total demand was met by domestic supply with the remaining one-third supplied by imports generated by tourist demand. The two-thirds of tourist demand supplied locally equates to 19.1% of GDP or CVE 49,000 (€46) per person resident in Cape Verde.

Only a little over half of the total local supply which is meeting tourist demand is direct from the tourist industry itself (the hotels, restaurants, bars, excursions and transport services normally associated with the tourism). The rest of the local benefit derived from tourism is through indirect impacts – suppliers to the tourist industry (such as food, crafts, etc). This is particularly striking in terms of jobs. INE estimates 3,450 people worked in hotels in 2007 – yet the tourism satellite accounts suggest there are 9,200 tourism direct jobs created by tourism (representing some 10% of employment in the formal sector)

The extent of linkage between the tourist and non-tourist economy demonstrated by Cape Verde is a fairly typical multiplier for a developing country⁵⁰. This is a surprise finding, since one would expect that Cape Verde would have a very low figure.

7.4.2 LOCATIONAL ASPECTS OF THE IMPACT OF TOURISM

Tourism in Cape Verde does not take place where most poor people live. The centres of tourism activity are located on Sal, Santiago, Boa Vista and - soon - Sao Vicente which are the four richest islands on the Archipelago. Not only are Sal and Boa Vista comparatively affluent they

⁵⁰ Mitchell, J & Ashley, C (2008) 'Pathways to Prosperity: how tourism can reduce poverty'

also have a very small population to interact with the tourist sector.

As already noted in chapter 6, the present generous investment regime has the effect of discriminating against indigenous enterprise. Levelling the playing field between domestic and foreign investors may be one way of channelling more investment towards Santiago and Sao Vicente, thus increasing the likelihood of local linkages between the tourist and non-tourist sector.

As for the remaining five inhabited islands of the Archipelago, that are almost completely bypassed by tourism, the recommendations made in chapter 6 on improving inter-island air links and rapid ferry links should reduce costs or increase the quality of services and help to diverting even a small proportion of existing tourist flows from Sal, Boa Vista, Santiago or Sao Vicente and encourage 'island hopping' thus spreading the effects of tourism to these currently marginalized islands.

7.4.3 DIRECT JOBS IN THE TOURIST SECTOR

Of the 9,200 workers estimated in the tourism satellite account exercise that that in the broadly-defined travel and tourism sector in Cape Verde,

The DTIS survey suggested that a high proportion (some 98%) of hotel workers are Cape Verdean and 95% of staff are non-management grades. This amounts to a minimum of some 8,500 non-management Cape Verdeans working in the tourist sector - a very high proportion from poor backgrounds.

There is almost complete consensus from employers in the tourist sector that the labour force in Cape Verde needs significant investment to improve human capital. There is presently a shortage of skilled personnel. As waiters, for instance, employers often seek workers with 12 years of schooling and competence in English and French, but offer salaries averaging about €289 per month. The required skills are still rare, and those who possess them will often have higher ambitions. As a result, posts are often filled from the large pool of workers with inferior qualifications and/or employees are dissatisfied and fail to provide the service at the level that tourists may expect. Complaints about the lack of service-mindedness in Cape Verde are common in the diaspora, especially as a growing proportion of emigrants on holiday stay in hotels and eat in restaurants.

Specific weaknesses identified include language and practical tourism skills for workers in tourist establishments. Management training is also required if Cape Verde is going to localise management positions and breaks the current dependency on expatriate senior managers. The first hotel school due to be opened in Praia is acknowledged by the sector. However, if the number of tourist arrivals each year is planned to increase some 400% from the current level of about 250,000 to over one million by 2015 – as envisaged in the strategic plan - there will be a need to train about 2,000 workers a year simply to avoid the current capacity backlog getting worse.

The tourism labour market is an important mechanism for the transfer of benefits from tourism to Cape Verde. It is one of the few supply chains in Cape Verde that is overwhelmingly indigenous and pro-poor⁵¹. Failing to capitalize on this, will not only reduce one of the major benefits of

⁵¹ The ability of migrant workers from ECOWAS to move into semi-skilled occupations in large numbers, putting downward pressure on wages and therefore encouraging an exodus of skilled workers has been demonstrated in the construction sector. This should be avoided in the tourism sector.

tourism to Cape Verde but will also encourage the kind of low quality and low wage tourist economy that stakeholders in the tourist industry fear, and constitute added pressure to migrate.

The acceleration of tourism training should thus be a priority (A recommendation to this effect is under Recommendation 6.2 (Vocational Training). For this purpose, Government should thus work with the tourist industry to ensure that workers with the correct skills are available. This will require interventions at many different levels. For instance, school children should be aware of the job opportunities in the tourist sector. More hotel schools are needed and different models of private sector participation can be piloted, which are likely to offer a more relevant training than state-run and donor-financed operations. There is also a need to develop a cadre of indigenous senior tourism managers in Cape Verde with international qualifications and the experience to provide leadership and mentorship in the sector. Government should consider developing a 'Business Leaders of the Future' program with some of the large international tourist companies in Cape Verde and co-fund a manager development program.

7.4.4 EFFECTS ON CONSTRUCTION

Tourist development has precipitated a construction boom in Cape Verde. According to the satellite accounts, it is likely that the construction sector, alone, accounts for at least half the total links with the non-tourist sector. Even if only half the construction workforce is from Cape Verde, this €17.5m flow of indirect benefits from the tourist sector to (mostly poor) Cape Verdeans is very significant. It is thus important that Government should work closely with the construction industry to identify and train the workforce to ensure that the higher skilled positions with attractive wage levels can be filled with Cape Verdean workers-limiting at the same time the need for the employment of foreign workers.

7.4.5 AGRICULTURAL SUPPLIES TO THE TOURISM SECTOR

The high level of spending on food and beverages by hotels is striking (32% of their total operating costs). Locally-sourced foods include some fruit (bananas, papaya, mango), some fish, some vegetables from Sao Antoa, the interior of Santiago, a few Fogo specialized products and some red meat from Santiago.

The problem of lack of local food supply is aggravated by the fact that the main tourist island of Sal and rapidly-growing Boa Vista are virtually devoid of agriculture – and are located furthest from the most important agricultural centres in Sao Antoa and Santiago. This is compounded by the poor goods handling facilities at the harbours in Sal and Boa Vista.

In broad terms, the tourist industry is likely to spend at least €15m a year on food and beverage supplies (1.4m total tourist bed-nights in 2007 multiplied by €1 per guest per day as an average unit cost).

With the increasing availability of drip irrigation, and tourism diversifying to parts of the country closer to agricultural areas, there is some scope for more local cultivation and simple processing of agricultural products. Hotels and resorts should be encouraged to source locally items like floral arrangements and decorations, traditional regional products (wine, grogue, coffee, fruits, jams, vegetables, meat, cheese ...)

Chapter 12 makes specific suggestions for supply of fish to the the tourist sector. This same chapter contains an important recommendation (12.5) for the development of projects to support the whole value chain of agro-based projects. An important focus should be on identifying

specific agricultural inputs required by the tourist industry and supporting the organization of the supply chain concerned. Another recommendation (12.6) in chapter 12 concerns the certification and quality control of indigenous projects, which also aims at facilitating increasing the local procurement by the tourist sector .

7.4.6 TAX CONTRIBUTION OF TOURISM

An important mechanism for transferring resources from tourists the rest of the economy is taxation. The tax take from tourism in Cape Verde is not known and is limited as a result of the generous exemptions provided. Even a very modest tax take from the tourist sector could have a dramatic influence on government finances, and enable the funding of the “social cohesion” measures-Axis IV of DECRP II. (See also Recommendation 6.8 on the review of incentives)

7.4.7 SUMMARY OF BENEFITS TO THE POOR

The most obvious linkage between tourism and the poor are direct links – such as when poor people find jobs in hotels and restaurants in the tourist sector. Indirect links concern the network of links to the non-tourism (i.e. craft and food) economy. Another form of indirect linkage between tourism and the poor is induced links, where non-poor tourist workers spend these wages in a way that benefits the poor.

Finally, the dynamic effects of tourism are the longer-term effects. For example, taxes contributed by the tourist sector, can benefit the poor through government expenditure.

To summarize the calculations made (Annex C), the main pathways by which benefits are transmitted to the poor are:

- EUR 29.5m through direct jobs in the tourist industry;
- EUR 17.5m for Cape Verdean construction workers building tourist infrastructure (i.e. about 6% of annual tourist expenditure of €270m).;
- EUR 1.5m for local purchases of food and beverages; and
- EUR 7.8m transfers generated by visa and income tax paid by tourism workers.

This equates to a minimum of €56.3m benefits flowing directly, indirectly and via dynamic flows to poor Cape Verdeans from total tourist spending of €270m – or about 21%.

7.5. ENABLING ENVIRONMENT

The enabling environment for economic activities in general is presented in chapter 6. Most of the issues raised there are relevant to the tourism industry, the leading sector of the economy. Of particular interest to tourism are:

- Cost and reliability of electricity and water.
- Inter-island air and maritime transport
- General training in languages and sensitization in changing mind sets towards the needs of a competitive service economy.

Conversely, a large number of infrastructural investments designed primarily to assist tourism development have wider external effects on the population as a whole. These externalities should be taken into account when prioritizing investment decisions in roads, transport, ports, energy, water, etc...

CHAPTER 8

THE GATEWAY CONCEPT: HUBS AND PLATFORMS

A number of official policy documents and statements, including by the Prime Minister, indicate that one of the country's "strategic development axes" is the promotion of Cape Verde as both an air transport and maritime transport platform, for both passengers and cargo. Although the link between air and sea modes (and the road network) is more difficult to achieve in Cape Verde than in other hubs, because of territorial discontinuity, there is some intermodal potential, for instance, for the cruise ship industry, or for pleasure yachts to use Mindelo (soon to have its airport certified for international flights) as a point for passengers and crews to board and disembark. One specialized possibility for future developments is to build-up further fish transshipment and related activities. In fact, a Regional Fisheries Centre is specially highlighted as a distinct "hub" in most presentations of the Transformation Strategy (See Introduction, Figure 1)

In the discussion below, all the various activities concerned, including fish transshipment are treated together under "The Mindelo platform" - since they concern the infrastructure at or around Porto Grande. The airline hub is discussed in 8.2 below, while the fisheries activities proper are mentioned in chapter 12.1

8.1. THE MINDELO PLATFORM

Historically, the natural deep water port at Mindelo in Sao Vicente played an important role in supplying the intercontinental trade. However, in the course of time, Sao Vicente lost most of this trade to the port of Dakar.

8.1.1 PORTO GRANDE

With depths between 10 and 30 metres, Porto Grande provides three piers 235m to 315m long and 15m to 50m wide joined by an access wharf of 1 750m in total. A passenger terminal features three quays of 50m to 120m long and 25m to 55m wide. Storage facilities include five 1,400 square meters warehouses. Key statistics for traffic at Porto Grande are given in Table 8.1.

Over 2003-2007, an average of 584 long-haul vessels have called at Porto Grande per year. There was a peak of 717 ships in 2006. However, traffic fell back to 557 vessels in 2007. (Inter-island cargo movements accounted for an average of 1,580 vessels). In total, the port has handled a peak of 18,747 TEU in 2006, falling back to 17,429 TEU in 2007. The increased traffic due to the development of the country has been more than offset by the fall of transit cargo which, after peaking at 1,827 TEU 2006 , fell back significantly in 2007 (826 TEU). Cruise ships and passengers (37 ships, 16,140 passengers in 2007) have tended to increase. On average, about 200 fishing vessels call each year. These include those for transshipment, whose tonnage has increased sharply, reaching 8,333 t in 2007, from 841 t in 2003. (Table 8.1 and Figure 8.1 below)

Table 8.1 Traffic at Porto Grande, 2003-2007

	2003	2004	2005	2006	2007
Number of ships calling (International traffic)	482	531	635	717	557
Merchandise (in 000 tons)					
• international	343	334	353	397	415
• inter-island	109	152	246	273	238
• Total	453	486	598	670	652
Passengers (000)					
• cruise ships	14	8	13	21	16
• inter-island	183	216	244	252	271
Containers (TEUs)					
Total	14.082	12.122	14.825	18.747	17.429
(of which transshipment)	(285)	(387)	(495)	(1.827)	(826)
Fishing Vessels					
• Numbers calling	185	221	281	201	213
• Transshipments (tons)	841	1.902	7.989	5.918	8.333
Cruise Ships (Numbers)	32	21	24	36	37

Source: ENAPOR

The port is managed by the state-owned company ENAPOR, which in 2007 had turnover was CVE 645 million (about EUR 5.9 million) generating a profit of CVE 95 million (EUR 860,000). It employs some 120 administrative staff (other than dockers); this is regarded as an excessive number. The company has invested around USD 5 million in recent years to improve equipment and reorganize the port. In theory, the present infrastructure could cope with transit of merchandise exceeding 1 million tons per year. The utilization of the general storage facilities is relatively low, given the small volumes and the fact that the structure of the imported cargo is fragmented. A new project to upgrade and increase its storage capacity is under way; the USD 13.2 million project is being financed by the World Bank, the European Investment Bank, OPEC and The Netherlands.

It is government policy to privatize ENAPOR. It is understood that several parties are potentially interested, including Chinese enterprises. It is planned that the services function of ENAPOR would be separated from the regulatory function (the latter to be coordinated-or merged with-the Instituto Marítimo)

In the 2007 Datamar Report, the cost of handling containers at Mindelo is indicated at USD 400/20' and USD 600/40'. In the World Bank *Cost of Doing Business* Reports much higher figures are quoted: for imports, USD 1024 and 1129 in the 2008 and 2009 editions, respectively. (This includes paperwork and clearance through customs for 20'containers). The export handling costs were reported at USD 1325 in the 2009 edition. According to the Doing Business tables

(2009 edition) the Cape Verde container handling costs- for both imports and exports- are broadly in line with those of Senegal (Dakar) and of OECD countries, including Spain but higher than many other hubs (e.g. Singapore: USD 439; Mauritius: USD 677, for imports) .

Mindelo-as well as Praia- is certified at the level of Code ISP (International Security Ports).

For maritime communications, the maritime authorities use the system GMSS (Global Maritime Security System) since 2005 and operate the AIS (Automatic Identification System) for identification of ships along all the Cabo Verde's coast.

8.1.2 CARGO TRANSHIPMENT AND THE GLOBAL LOGISTICS SERVICE CENTRE PROJECT

The desire to develop Mindelo as an international platform has led to the design of a very ambitious **Transshipment Port and Global Logistics Centre** project at Porto Grande, estimated at EUR300 million. Situated opposite the present shipyard, this proposed infrastructure would feature a 1,000 m access breakwater and a 700 m breakwater protecting a 610m long container terminal. With draft of up to 17 m available to accommodate post-Panamax vessels, the terminal would provide state-of-the-art tracking, stowage and gate dispatch systems over a total of 19.4 ha. It could handle 300,000 containers per year and the possibility to expand to 1,000,000 (Compared to less than 20,000 containers a year, in 2006 and in 2007).

This major proposed investment is not necessary to meet present demand, but the expectation is that this enhanced infrastructure, being able to accommodate larger vessels, would attract new traffic for transshipment.

However, recent commercial studies (DATAMAR, 2007; PEP Africa team, 2005) have not been positive and have concluded that the potential for the development of Cape Verde as a merchandize transshipment hub appears quite limited. Cape Verde faces several constraints.

- It has little base cargo on which to build, and this cargo is fragmented. (Cargo base is the first number shipping lines look at when they decide to call at a port). Since there are very few exports, the total number of full containers handled a year in the whole archipelago is around 25,000 TEU. In addition, Cape Verde is not in fact directly on the normal cross routes of the main sea lanes, so that in almost all cases deviation would be required.
- Competition from other ports, particularly Dakar, and to a lesser extent the Canary Islands. Dakar has a large cargo base, including that of the land-locked countries. Its management is also improving. DP World, the Dubai-based and fourth-ranked global container operator, have recently secured a 25-year concession to develop Dakar's container facilities, aiming at a capacity for 1.5 million TEU by 2010. In fact, even Dakar is being bypassed as regards transshipment of the (increasing) northbound traffic from South America in favor of direct East Coast South America - West Africa services.

However, container handling costs, as reported above, appear competitive as compared to other regional ports including Dakar and Las Palmas, and Mindelo has some potential security and possible geopolitical advantages. This is why APM Terminals (associated with the Maersk/AP Moller Group) undertook studies between 2003 and 2006, and seriously considered developing Mindelo as a transshipment hub for West Africa. It was expected that they would provide 72 port calls a year at Porto Grande, from where cargoes would be transshipped to Praia, Bissau and

Dakar. In fact, Maersk Line had begun calls at Mindelo in early 2006 with three ships. This brought the number of cargo transshipments in Mindelo from 337 TEU in 2005 to 1827 TEU in 2006 (Table 8.1). Their initial target to make the investment worthwhile was to reach a throughput of 1.5 million TEU /year within the first few years of operation, building to 3 million TEU. To achieve these figures APM Terminals would have to bring in as clients, not only their own sister companies (Maersk Line, AP Moller), but also most of the lines already operating to and from West Africa.

Regrettably, this study did not prove conclusive, and Maersk has reverted to feeding Mindelo and Praia from Dakar (Transshipments in Mindelo fell to 826 TEU in 2007)⁵². APMT-Maersk would have been an ideal partner for Cape Verde. APMT is the third in the global ranking of terminal operators worldwide, and Maersk Line, its associate, has the world's largest container fleet. They are shareholders in most of the main terminals in West Africa. Another potential partner for this project would be China. There have been a number of discussions on this question at a high level and there are still hopes that China would choose Cape Verde as one of the entrepôts in Africa for Chinese trade with the continent. In parallel, Cape Verde has also requested consultants (from the Netherlands) to approach the Dubai authorities, as another possible option.

8.1.3 CABNAVE

Mindelo is the base of a medium-size shipyard, CABNAVE, which is state-owned. Covering 12 ha, it includes dry dock facilities for up to seven ships at a time (110m x 16m). Draft is 5 m and the shipyard can handle vessels of up to 2,800 t. A 145 m long floating dock is also available. The shipyard employs from 170 to 240 persons, depending on workload. In May 2008, CABNAVE was operating on a two eight-hour shift basis and 50% of its total capacity. Most of the ships using CABNAVE facilities are relatively small, mainly Spanish fishing vessels and some West African boats. Competition from Dakar and the Canary Islands is badly felt. CABNAVE's annual turnover does not exceed EUR2 million, and the shipyard is in a difficult financial position, with estimated 30-40 redundant workers on its payroll. In 2008, negotiations for an acquisition by the Chinese National Fisheries Company (CNFC) are reported to be well advanced, and conclusion is awaiting a solution to the shipyard's outstanding debt. The prospect is that CNFC's fleet of 300 vessels fishing off the West African coast would make use of the dockyard, and that CABNAVE's equipment and facilities would be enhanced, allowing for larger ships to be serviced.

8.1.4 TRANSHIPMENT OF FISH: REGIONAL FISHING CENTRE

Porto Grande is already a platform for fish transshipment. Government policy is to develop this further and encourage fish processing, packaging and marketing activities (The so-called "fisheries hub" or "fisheries centre").

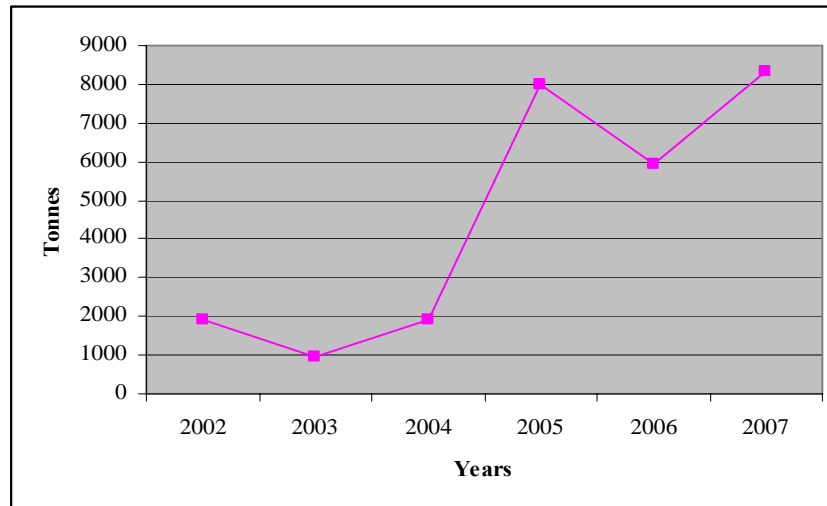
Fish transshipment is not dependent on the existing regular trade shipping routes and the viability of this particular activity is independent from that of regular transshipment⁵³. For fish, specialist

⁵² In fact, rather than Cape Verde developing as a transshipment point for other destinations, Cape Verde exporters have to use other transshipment points to trade for instance with South Africa, or Asia. One particular instance was reported to the DTIS mission when an order obtained from South Africa reached destination after more than three months- being transshipped in various African ports, and was eventually returned by the client.

⁵³ Indeed, as already mentioned, in several statements of Government strategy, the regional fishing centre is presented as a distinct "hub".

reefer vessels (i.e. refrigerated vessels) are used carrying only fish maintained at temperatures well below freezing.

Figure 8.1 Transshipment of fish at Porto Grande, in tonnes, 2002-2007



Source: ENAPOR

Fish transshipments have known a positive trend in recent years (Figure 8.1). The main company associated with the fish transshipment business is Interbase, a state owned company, also part of the harbour infrastructure at Porto Grande. Built in 1982, its total capacity of 6,000 t, consisting of three 1,500t stores and five 300 t rooms. It is equipped with a freeze-dry tunnel, an ice machine, and a brine bath. Interbase is not energy efficient and does not meet EU sanitary requirements and can therefore not be used by the European (mostly Spanish) fishing vessels needing to store their catch before returning to Europe. The investment required to upgrade the facility is estimated at about EUR 4 million. Two privatization efforts through public tenders have failed, but negotiations are reported to be underway with a Spanish company.

The future and extent of fish transshipment at Mindelo depends on two main important factors: (i) The location of fish catches and fishing vessel activity in the region, and (ii) Competition, particularly from the extensive facilities currently operating in Las Palmas, and also competition from Dakar.

Available information on foreign catches and on the number of vessels operating in or nearby the Cape Verdean EEZ suggests that fish transshipment possibilities may be somewhat limited. (Typically long liners transship at sea, and it is only purse seiners that transship in port).

There are for the moment a number of lacunae in the institutional and governance arrangements in Mindelo that puts it at a disadvantage with the competition, notably Las Palmas. In spite of these Cape Verde is reportedly perceived by several partners to be to a potentially desirable location. At least two parties have shown interest in using Mindelo as a base for their fishing activities: CNFC, whose main interest in repairing its regional fishing fleet (see CABNAVE above) and a Spanish group of fishing vessel owners (ORPAGU-Palangreiros de A Guarda,

Galicia), for using Porto Grande as a transshipment centre. A feasibility study is currently being conducted, commissioned by the Cape Verde Government with Spanish co-operation⁵⁴.

8.1.5 OTHER RELATED ACTIVITIES IN MINDELO

One of the main revenue earners in Porto Grande is the **re-exports of bunkers**. Bunkering is Cape Verde's main source of re-exports which amount to about EUR 32 million (gross) in 2007, equivalent to 228% of domestic exports. (This also includes jet fuel at airports). Bunkering sales at Mindelo are estimated at about EUR 20 million for 2007. There is no reliable information on the net benefits derived by Cape Verde from re-exports. According to an unofficial estimate, the gross bunkering sales of EUR 20 million generates some EUR 7 million in total net revenue for Cape Verde through the suppliers' mark-up (10%) and VAT (20%). The current price of gas oil is estimated by ENACOL to be slightly more than in Las Palmas. Porto Grande is only equipped with a single feeder pipe, which contributes to additional costs (The pipe needs to be emptied each time a different fuel is going to be delivered). Fuel storage, close to the port, is estimated at about 60,000t, but only ENACOL has a barge for offshore bunkering.

As regards **training in sea-related careers**, Cape Verde has a distinctive head-start in the West African/mid-Atlantic region with the Higher Institute for Marine Studies (ISECMAR). ISECMAR, established in 1984, enjoys an excellent reputation and offers undergraduate programmes in mechanical engineering, nautical science, marine biology & fishing, electronic and computer science, science and humanities; a total of 438 students were registered for 2005-2006, of whom about 20 from Angola, Guinea Bissau and Angola). ISECMAR has a process ISO 900 for certificating and qualifying the maritime operators and workers. All alumni find suitable employment after graduation.

Although the legal framework for the **registration of foreign vessels** already exists, it hardly exploited, with only one foreign vessel reported.

A new marina for tourist (Mostly sail) boats and yachts has opened in 2008, and is already in use. Cost: over one million dollars. It employs 17 persons.

8.1.6 CONCLUSIONS AND RECOMMENDATIONS ON THE MINDELO PLATFORM

Efforts should continue to be made to develop the Mindelo platform for transshipment for cargo and for fish. A number of factors, independent of Cape Verde, could favorably influence the likelihood that this happens on a larger scale than at present. For instance, there might be congestions in West African ports or political disruption in West African port countries. These countries might find it difficult to meet the increasingly stringent European and US security procedures for containerized imports, limiting imports from African countries to specific "gateway" ports where containers can be reliably screened. However, Cape Verde should not base its policies on eventual problems to be encountered by its competitors. In fact, recent developments point to the rapid improvement of most West African ports (privatization, improved depths and facilities, better management).

The best outcome would be that a suitable financial/operational partner be found for the 300 m euros Transport and Logistics Centre project. However, should this not materialize, Cape Verde should adopt a step by step and more modest approach to improving the Mindelo platform and

⁵⁴ According to the Galicia Fisheries Councillor "Cape Verde has a strategic importance for Galician tuna and marlin fishing fleet" (Xornal Galicia, 25 March 2007)

address some of the constraints to making it more competitive.

Irrespective as to extent to which Mindelo or Cape Verde can develop further as a hub, the efficiency of Cape Verde's ports is important in itself. Port efficiency has a significant effect on the final price of a product in Cape Verde, and is part of any economic strategy of export diversification or import cost cutting. In a context of fierce international competition, today's ports (and airports) need to move from mere static receivers of cargo and passengers and become dynamic searchers of cargo and tourists. There will be many changes over the next decade, in terms of technological advances of cargo handling equipment and transfer of electronic-data. Larger ships will require ports to make higher investments as to infrastructure and dredging. The role that Mindelo could play needs to be guided by an increasing involvement in the logistic business, including by means of strategic alliances, the function of acting as transferring points within the intermodal transport chain will become more important. As elsewhere, the participation of the government in port management activity will need to diminish. Privatization per se is not necessarily the answer. The objective is to obtain gains in efficiency, better services, increased flexibility to respond to clients' requirements, and a reduction of container handling costs. This may be achieved by various types of arrangements with a strategic partner that brings value added in terms of management and technology.

It is important that Cape Verde adopts a multi-modal approach. There needs to be coordination/integration among the maritime, aviation and road modes in order to better coordinate the overall transport system, providing also inter-related time schedules of arrival/departure of passengers and goods which have to utilize different modes of transport. In Mindelo, particularly with the impending certification of the airport for international flights, ENAPOR should develop a coordinated effort with the Municipality of Mindelo in order to harmonize the development/expansion of port activities and the development of the town, through a general transport plan and updated town planning-including shopping/restaurant facilities for day tourists from cruise ships. The objective is to ease and speeding up operations when the user goes from one transport mode to another. The development of multimodal operators (both national and international) -a profession which hardly exists in Cape Verde- should be encouraged. Benchmarking Mindelo against other platforms such as Las Palmas and Dakar is recommended.

Recommendation 8.1 – Improve port management

The search for strategic alliances should be pursued. If the major new Global Logistics Project at Mindelo does not attract a suitable partner at this stage, a number of incremental improvements should be made. Technical assistance should be provided on this process, as well as to assist ENAPOR and other parties in Mindelo develop a multi-modal approach.

Cape Verdean maritime legislation is not in line with modern practice and a process of re-institutionalization and re-organization of the maritime overall legislation is needed together with an updating of cartography and related new technologies.

Recommendation 8.2 - Prepare a modern Maritime Code

So as to put in place the appropriate institutional, legislative and juridical environment in line with international conventions. The assistance of IMO should be sought in this respect.

Re-exports (even in net value) are more significant than domestic exports. Yet there is little information or analysis available in this area. Almost nothing is known of non-bunker re-exports.

Recommendation 8.3 - Undertake a study on re-exports and entrepot trade

This should make recommendations on how to develop further re-exports. It might be found in the country's interest to introduce more competitive pricing, possibly by adapting taxes, to attract vessels operating in the mid-Atlantic. Improvement and modernization of the logistics and facilities for re-supplying fuel should also be considered.

The issue of maritime security is of paramount importance for the control of drug traffic and illegal emigration; it is one area where Cape Verde should attempt to have a comparative advantage with respect to the African continent. The availability of functioning scanners at customs is important. (see chapter 5). ISECMAR should continue to train, qualify and certificate the maritime operators, including in port security. It is also desirable to complete the study of the radar systems along the coasts - the Vessels Traffic Monitoring & Management System - and complete the updating of the ports' cartography and the electronic assistance for traffic monitoring..

Security is an important aspect of the SPA with the EU, being an area of mutual interest. Assistance in this regard is already provided by Spain. This area could form part of the SPA Plan of Action

Ship repair facilities are essential for the success of a maritime (and fishing) hub, at Mindelo. The authorities are pursuing their efforts to modernize Cabnave, in particular by finding a suitable international partner.

Fishing transshipment has seen a positive evolution in recent years. This needs to be consolidated and ancillary activities encouraged.

Recommendation 8.4 - Promote fish transshipment

Technical assistance should be sought in:

- *Negotiations with foreign investors to ensure that Cape Verde gets the appropriate benefits of any future transshipment activities.*
- *Determining the necessary infrastructure improvements*
- *Improving SPS arrangements, and the certification laboratory*

- *Development of a marketing and business plan to increase transshipment activity.*

The marketing plan should be based on and benchmarked against the services/costs at competitor transshipment ports in the region.

Ship registry. It is suggested that a study to assess the development of ship registration be included in the feasibility study of Company registration recommended under Recommendation 9.3⁵⁵.

8.2 AIR SERVICES HUB

8.2.1 SITUATION ANALYSIS

Like in the case of Mindelo, the desire that Cape Verde should develop into a hub for air related services is based on the historic role that Sal Airport has played in air transportation. Two recent reports have been commissioned to evaluate this possibility.⁵⁶

One expectation is about a **passenger hub**. Previous consultants' reports had projected 2 m passengers in 2009. In fact, passenger traffic has stagnated in spite of the increase in tourism. (Table 8.2)

Table 8.2 Passenger traffic in Cape Verde's Airports, 2002-2007

Airports	2002	2003	2004	2005	2006	2007	2006/05	2007/06
AIAC-SAL	781,539	829,716	1,007,561	877,007	772,6	760,018	-11.90%	-1.63%
ADP-PRAIA	248,864	247,538	253,303	269,625	354,1	360,975	31.33%	1.94%
ASP-S.VICENTE	124,952	120,504	125,648	125,497	136,654	143,727	8.89%	5.18%
AD-BOAVISTA	41,42	44,144	39,072	38,467	72,756	57,826	89.14%	-20.52%
AD-FOGO	39,601	39,408	38,485	40,561	41,108	46,328	1.35%	12.70%

Table 8.2 Passenger traffic in Cape Verde's Airports, 2002-2007(continued)

Airports	2002	2003	2004	2005	2006	2007	2006/05	2007/06
AD-S.NICOLAU	25,064	23,885	20,063	18,664	20,556	19,45	10.14%	-5.38%
AD-MAIO	12,543	10,909	11,079	10,692	10,401	5,41	-2.72%	-47.99%

⁵⁵ However, the experience of most SIDS is that this "activity" brings limited value added, and involves great and costly responsibility (e.g. having to organize the trial in a national court of the flag country any crime committed at sea).

⁵⁶ Carlos Robles-Gil, *Air Transport Sector*, Partnership to Mobilize Investment: Phase II Report, IFC, October 17, 2007 and Emery James, Diong Ibrahima, Munyengeterwa, MCC Cape Verde Sector Growth and Investment Program: Phase 1 Report, Annex 4: *Transport Services*, October 2005, IFC. This section draws in part on these reports

TOTAL	1,273,983	1,316,104	1,495,211	1,380,513	1,408,175	1,393,734	2.00%	-1.03%
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Source: AAC, ASA

This is due to the dramatic fall in transit passengers at Sal (down to 31,000 in 2007, from more than 200,000 in 2003-2 2007. (Table 8.3)

Table 8.3 Passengers in-transit at Sal, 2002-2007.

	<i>Passengers</i>						<i>Variation</i>	
	2002	2003	2004	2005	2006	2007	2006/05	2007/06
AIAC-SAL	190,236	206,471	215,421	212,689	126,596	31,157	-40.48%	-75.39%

Source: AAC, ASA

This is essentially the result of the departure of South African Airways from Sal. That airline had a long tradition of using Sal for stop-overs, but decided, for commercial reasons, to consolidate their West African operations in one hub only – and chose Dakar, effective in 2006. One factor was the improvement in services in Dakar, following the privatization of Air Senegal. Dakar also has better 737 feeder services from across West Africa. Finally, there are much more established transatlantic routes from Dakar than from Cape Verde (in 2001 Air Afrique flew 30,000 passengers from Dakar to New York, compared with 3,000 flying directly from Sal). These factors outweighed the superior safety record at Sal.

However, a positive recent development is the proposed use of Sal by the US-based Delta Airlines, which is increasing its routes between the US and Africa, with one of the connections taking place in Sal, with effect from June 2009.

Developing Sal (and/or Praia) Airports as connecting points for passengers traveling along the axes intersecting Cape Verde is constrained by a number of circumstances.

- The low number of frequencies between Cape Verde and the various international destinations. (The great majority are from Europe).
- Operational difficulties of TACV.
- Paradoxically, the policy of opening additional “international” airports at Praia (2005), Boa Vista (2007) and soon San Pedro (2008)⁵⁷ are acting against Sal. Data (Table 8.2; 8.4) show a considerable diversion of Sal’s passenger (and cargo) traffic to Praia. The international certification of Sao Vicente will also have a similar effect. Sal Airport is thus becoming “just another” in the network as it loses its monopoly as the archipelago’s gateway. In other words, it may be difficult to promote Sal as an international passenger hub, when Cape Verde itself is using it less and less as a national hub.

The possibility that Sal Airport be used as a distribution **hub for goods** has been also studied.

⁵⁷ASA’s new business plan 2009-2013 is likely to include a new international airport in Maio.

The goods would need to be of high value, or perishable, to justify the higher transportation costs.

According to the 2005 IMG study there were expectations that that volume of cargo at Sal would rise from 3m in 2003/04 to 5m in a few years.⁵⁸ These expectations have proven far too optimistic. In fact, the number of tons moved in Cape Verde's airports has declined substantially since 2001 (Table 8.4), and in the case of Sal, decreased dramatically, partly due to cargo diversion to Praia Airport.

Table 8.4-Air Cargo Traffic, 2002-2007

Airports	2002	2003	2004	2005	2006	2007	2006/2005	2007/2006
AIAC-SAL	3,204,592	3,145,560	3,219,209	3,185,732	2,391,297	1,990,952	-24.94%	-16.74%
ADP-PRAIA	1,224,418	1,074,453	1,122,001	1,101,008	1,499,562	1,304,476	36.20%	-13.01%
ASP-S.VICENTE	568,11	542,013	503,837	422,291	358,069	375,189	-15.21%	4.78%
AD-BOAVISTA	48,786	46,651	51,586	76,163	96,321	52,402	26.47%	-45.60%
AD-FOGO	95,52	67,246	57,302	61,232	46,666	43,435	-23.79%	-6.92%
AD-S.NICOLAU	34,385	30,756	20,554	13,645	11,308	13,743	-17.13%	21.53%
AD-MAIO	25,431	12,948	15,644	19,152	16,257	9,046	-15.12%	-44.36%
TOTAL	5,201,242	4,919,627	4,990,133	4,879,223	4,419,480	3,789,243	-9.42%	-14.26%

One important service rendered at Sal is that of the *Empresa Nacional de Aeroportos e Segurança Aérea S.A.*, (ASA), which is not only responsible for airport management and development, but for air traffic control. ASA manages the Flight Information Region (FIR) for the huge triangle of the South Atlantic between Cape Verde and Brazil – called the Sal Oceanic, which is at the crossroads of a number of main intercontinental airways. ASA has invested in modern equipment and instrumentation and its services are generating a significant revenue stream (currently about USD30m a year). It is one area where Cape Verde is already using its location advantage to export services.

8.2.2 CONCLUSIONS AND RECOMMENDATIONS ON THE AIR SERVICES HUB

The outlook for developing Cape Verde as an airline hub for passengers is not very favorable. In spite of the declared hub policy- and of the development of tourism- the number of transit passengers has fallen sharply. It remains to be seen to what extent the planned use of Sal by Delta Airlines for one of its connections to Africa can be built upon to generate more transit traffic. Cargo traffic has also diminished and, like for maritime traffic, there are very limited possibilities for export cargoes. In fact, the multiple international domestic airport policy has reduced the critical mass at Sal. However, Cape Verde should continue to improve the efficiency of airport

⁵⁸This optimistic scenario was partly based on the hope that traffic from Africa -and from Cape Verde- to the U.S would develop, as a result of AGOA.

services-which are needed anyway to service tourists, including through the development of shopping centers.

Private participation in the airport industry is now a well-established concept that is bringing real value added to many airports previously managed by government entities. If Cape Verde wants to compete internationally, airport management should not be considered a core public service, but accommodate the possibility of allowing the private sector to play a larger role. The recent (unsuccessful) attempt for ASA to team up with a private Italian investor (*Viaggi del Ventaglio*) to expand Boa Vista Airport shows that the authorities are not against applying the concept of Public Private Partnerships (PPP's).

One possibility for Cape Verde is to consider the participation of private investment in ASA and/or link up with an international partner. This would not only bridge the gap between available and required funding, but also improve mind sets and corporate culture.

TACV has an important role to play. Apart from its carrier role, it is part of the international image of the country. The current restructuring has already led to some improvements in recent months, but much remains to be done⁵⁹, if Cape Verde wants to be on the map as a reputable airline/airport services country. For instance, TACV has exclusivity for handling services for all airlines at airports in CV as well as for the inter-islands air transport; at the present it provides a very poor service (Foreign carriers aim for 45 minute turnaround, which is rarely achieved in Cape Verde).

Air Transportation has been partly liberalized, but TACV has not been able to fill its share of the market between, for instance, the UK and Cape Verde.

Recommendation 8.5 –Undertake a study of air transport related services

This should include handling and air transport services, and both for international flights (and not only for charter flights) and for inter-islands flights. The objective is to develop a balanced but effective competition among different airlines and handling operators. The possibility of the participation of private partners in ASA could also be addressed.

Regarding the air cargo hub, although previous reports as well as recent data are not encouraging, there may be a case for revisiting this issue.

Recommendation 8.6 – Undertake a market study to assess the possibilities of Cape Verde's Airports becoming a distribution point for high value goods

This could include high tech products, flowers, fish, light assembly products, from Europe, South and North America to Africa, as well as examining the possibility of Cape Verde being used as a stable base from which to supply humanitarian relief and prompt intervention into West Africa.

⁵⁹ A frequently expressed view in the diaspora consultations undertaken for the DTIS is that 'TACV is a shame for the country'. Other knowledgeable interlocutors have given the opinion that " TACV is a complete fiasco"

8.3. OVERALL ASSESSMENT OF HUBS AND PLATFORMS

The technical and informational evolution of world logistics has not favored the geographical location of Cape Verde as a hub. Most of the specific reasons that have enabled the country to fulfill this function periodically in the past do not apply any more. In most areas Cape Verde has more competitors than partners. It is more often a terminal point in the logistic chain than a hub serving other destinations. In spite of the considerable technical, commercial, political and diplomatic efforts exerted in recent years, success in attracting the right partners to implement the gateway concept has not yet materialized (Maersk has shelved its plans and South African Airways has been lost). Some qualified Cape Verdean interlocutors have expressed the opinion that the purported advantageous geo-strategic location of Cape Verde “is a myth”, when it comes air traffic.

This being said, Cape Verde is already a modest hub, and there are a number of concrete results to build on, such as the increase in fish transshipment, the traffic control activities of ASA, and the good quality of ISECMAR. Cape Verde should continue to welcome international manufacturers (including from China) to chose this location as a reliable and safe distribution point for servicing their customers in the region. Even if no major partner is found, a modest hub operating around marinas, fish transshipment and processing, cruise ships and perhaps an offshore base for emergency relief to West Africa would be good to have. Some service back up for NATO forces may also be a possibility. One further possibility to be explored may be to capitalize on the good security environment of Cape Verde to make it a centre for “pre-inspection” for passenger aircraft heading for the United States. Even a limited number of gateway activities is likely to bring more value added (if the net value of corresponding re-exports are included) than domestic merchandize exports.

In order to enhance its competitiveness, Cape Verde should continue to upgrade its infrastructure, and improve the work methods, flexibility and mind-sets at in the designated platforms - getting away from the tradition of state-run and bureaucratic institutions. Whether privatized or not, key companies and institutions would greatly benefit from having partnership arrangements with reputable international companies. .

Thus, while the gateway and platform concept should be retained, it would be prudent for Cape Verde not to place too much reliance on, or raise too many expectations about making the “transport hub” (or “the fisheries hub”) as major axes of its transformation agenda.

The eventual contribution of the hubs to value added, employment and poverty alleviation has never been quantified. In fact, even under an optimum scenario, it may be quite modest. The impact of hubs world wide depends to a large extent on the effectiveness of the logistics chain and inter-modal arrangements -in many hubs, with the road and railway system). In Cape Verde, inter-island transport is vital. While this can be improved, it is not easy to effect in Cape Verde, given the fragmentation of the country and the dispersion among the different islands of the limited population in each island.

For the authorities to over stress the “gateway” concept among the priority development objectives may unintentionally lead to perpetuating an inappropriate mind set, pre-empting scarce management and strategic resources, and neglecting other promising avenues (e.g. linkages with the tourist industry, BPO, the cultural industries). For instance, too much focus on the need to develop international traffic may delay the implementation of good, competitive domestic air and

sea links, as well as the domestic intermodal logistics chain- matters which are of the highest importance to the development of tourism and to maximizing its contribution to the economy⁶⁰.

⁶⁰ It may be that the constant reference to the hub idea is partly driving the current questionable strategy of TACV of cross subsidizing losses made on competitive international routes with expensive and protected domestic routes.

OFFSHORE SERVICES

Among the core sectors of the economic transformation strategy of Cape Verde are the development of “offshore services (information technology outsourcing and financial hub)” (See Introduction) .The only offshore interface for which Cape Verde has made known its offer of services is in the financial/ banking area, where specific legislation has been passed. There is no detailed policy statement on the precise contours of the “offshore services” envisaged in Cape Verde.

9.1. OFFSHORE FINANCIAL SERVICES

9.1.1 PRESENT SITUATION

The national legislation which allowed the establishment of international financial institutions in Cape Verde was first adopted in December 1988 (Act # 43-III-1988), then enriched in 2005 (Act # 60-VI- 2005, and statutory orders # 12 of 2005 and # 44 of 2005). The first offshore bank effectively established itself in Cape Verde in 1997, followed by a second one in 2001. It was not until 2002, that several offshore banking license requests were received. About 10 requests were approved by the BCV, and seven offshore banks are operational in 2008.⁶¹ Some are autonomous entities, while others are affiliated to foreign commercial banks, notably Portuguese banks. Cape Verde's legislation does not allow offshore banks to fund development projects in Cape Verde unless an exceptional authorization is granted.

The economic benefits Cape Verde has so far derived from its International Financial Institutions are very limited. In 2008, the total labour force involved in the sector is estimated at about 30 persons, whose main tasks consist of acting as the international department of the parent organization, essentially executing transaction orders on the latter's behalf. The salaries of this staff, which are mainly disbursed from the parent entities abroad, are equivalent to export income. The second direct economic benefit consists in annual license fees (EUR 25,000 per offshore company).

The rationale for maintaining the offshore-onshore banking dichotomy in Cape Verde is being reviewed by the regulatory authorities. A possible alternative being considered is to transform the dual banking legislation into a homogeneous legal and tax-related banking framework, with the offshore banking specialization disappearing as such, or being mainstreamed in the overall banking operations.

In any offshore banking jurisdiction there is the intrinsic risk that the location be used for illicit activities (notably money laundering). If this happens-or is perceived to happen-this tarnishes the reputation of good governance of the country concerned, and dampens its chances of success in other activities. It is this consideration which partly explains that Cape Verde has not aggressively promoted its offshore banking sector. The authorities have been careful to prudently manage and tightly control the country's offshore financial sector- and the offshore banking operations of all banks. It is important that Cape Verde should continue to ensure strict

⁶¹ The BCV Annual Report for 2007 also mentions three offshore fund management companies.

compliance with the 40 recommendations of FATF/GAFI, particularly as regards CDD (customer due diligence) and KYC (know your customer). It is likely, in the context of the reform of the international monetary system being discussed at the end of 2008, that stricter and more restrictive rules will be developed. It will be a special challenge for a young jurisdiction like Cape Verde, with limited expertise in sophisticated offshore banking and financial operations, to effectively supervise the functioning of financial and offshore banking operators, if there were more than, say, 20 or 30 financial institutions were to actively engage in substantial financial transactions from the country. In spite of these constraints, there is considerable interest in Cape Verde to cautiously continue to build up on the start made and develop further the country to offer quality financial services for non-residents.

Recommendation 9.1 – Promote the development and provision of quality financial services for non-residents

While strengthening supervisory arrangements, Cape Verde should cautiously and selectively promote the development of quality financial services for non-residents. The Central Bank, supported by the Comissão Nacional para o Desenvolvimento do Sistema Financeiro (CNDSF) and Núcleo Operativo para o Desenvolvimento do Sistema Financeiro (NOSF) should coordinate all activities related to financial sector development.. Technical assistance from Luxemburg could be requested.

9.1.2 Complementing offshore financial services with formation of international business companies

Can one identify other offshore interfaces that can complement the banking sector with a lesser need for strict supervision and lesser risk of unfortunate incidents compromising the country's image of good governance? One of them is clearly BPO-as commonly defined-, which is discussed below (9.2). The other is to look more broadly within the (related, but distinct) field of **financial, legal, or tax-related services**. (The so called “offshore “jurisdictions”).⁶²

In these offshore jurisdictions services are generally either predominantly legal, or predominantly financial, although legal, financial and accounting skills are often combined.

An **offshore legal service** provides the client with a legal domiciliation away ("offshore") from its main economic base. Offshore company formation and ship registration are the two most common types of offshore legal services. While almost always implying tax exemption in the offshore jurisdiction, offshore legal domiciliation also involves a range of advantages including rapidity and low cost of incorporation, and the easiness of amending corporate statutes. A significant number of small offshore jurisdictions- 80% are in SIDS-offer offshore company formation services, and use the "**International Business Company**"(IBC) concept as their principal offshore vehicle.

An **offshore financial service** aims to facilitate financial movements or financial investment for the benefit of: (i) enterprises that are based away from the offshore centre (Banks, insurance

⁶² What is envisaged here is not legal or tax advice or research on the laws of a foreign country provided from Cape Verde, (which would constitute normal BPO), but services rendered to a company domiciled in Cape Verde, but whose main operations are not in Cape Verde.

companies, multinational corporations with large cash flows requiring complex savings arrangements or foreign exchange); and (ii) affluent individuals in need of private banking services. These services often combine a legal component and a financial component and involve legal offshore vehicles, such as *trusts* or mutual funds. Hedge funds often are legally domiciled in offshore service centres through a trust⁶³.

Cape Verde is not badly placed to meet the conditions for success in offshore company formation services. It has the requirements of political stability and good governance, as well as good telecom connectivity. An important factor would be the availability of the relevant skills. In the case of IBCs, these are mainly in the legal and accounting fields. While the involvement of expatriate professionals has been a common feature of most offshore service centres, the need for native professionals always prevails. Foreign and national registered agents in most offshore centres (law firms, accounting firms, trust companies...) are increasingly keen to recruit local skilled resources at all - including managerial - levels. A related aspect of this important condition is the openness of local professionals to the outside world, and their language skills. There are about 60 law firms and offices in Cape Verde, 70% of which are based in Santiago and 25% in São Vicente and Sal. The profession is organized through an active national bar association (the *Ordem dos Advogados de Cabo Verde*). There are over 20 accounting firms in the country, half of which are based in São Vicente and a third in Santiago. Many of them have international exposure-although in most cases limited to the lusophone sphere. There are indications that the Cape Verdean legal and accounting professions are motivated to accompany, and bring to fruition, the advent of Cape Verde as an offshore company formation centre. However, most of the present participants do not presently possess the language and technical skills to deliver the premium high quality service required. But present personnel and new entrants are “qualifiable” and the support of a relevant training programme will be essential. (See Recommendations 6.2 and 6.3).

Company formation would complement financial services and offer possibilities for expansion. This activity would generate government revenue in the form of registration and annual licence fees paid by offshore companies, well as profit and wages accruing to the registered agents that perform incorporation tasks on behalf of their non-domestic clients (mostly law firms and accounting firms). Certain activities are maintained after incorporation proper (e.g. share transfers, changes in statutes). Some other company secretariat functions may also be added, as well as the possibility of audit in the offshore centre. Some offshore companies also hold board meetings or company seminars in the offshore location. Offshore company formation activities offer the advantage of involving mainly non-financial international operators and not attracting substantial financial movements. The main difference with financial offshore entities is that international clients of registered agents in offshore company formation centers generally operate in the real economy rather than in the financial sphere. Policy makers and regulators in legal offshore centres tend to consider non-financial offshore clients as easier to know and monitor than financial operators, whose operations lean on bank secrecy principles and could hide criminal intentions. In short, offshore company formation and management exposes the offshore service centre to the risk of illicit or uncontrollable transactions far less than offshore financial operations do. Finally, in the area of offshore legal incorporation, there are many possibilities of diversification into related offshore vehicles such as trusts or mutual funds or offshore registration of ships or aircraft⁶⁴.

⁶³ An estimated 68% of all hedge funds are legally incorporated in offshore centres, while the rest are mainly domiciled in the United States (24%) or Europe (7%).

⁶⁴ It may be noted however that shipowners operating under a flag of convenience cannot in principle be based in the same offshore

Recommendation 9.2 - Undertake feasibility study to offer services for offshore company formation

Cape Verde should consider going beyond the offering of purely banking and financial offshore services, and envisage entering the business of offshore company formation services. To this effect it should conduct a thorough feasibility study of offshore legal services (in particular for company incorporation) as a principal component of the offshore pillar of Cape Verde's economic transformation. The study could also cover an assessment of ship and aircraft registration.

This study should include:

- An evaluation of the anticipated economic impact of the sector;
- The main components of relevant draft legislation;
- A road map for implementation, including using double-taxation agreements.
- Development of the necessary skills to offer high quality services

The local legal profession should be closely involved in this exercise. Study tours for selected officials and members of the profession should be provided.

9.2. BUSINESS PROCESS OUTSOURCING

No strategy has been developed on how to set about promoting the “information technology outsourcing” part of the ETS. GPRS II, for instance, only contains very general statements related to this subject, such as “to support ... new (ICT) enterprises catering for the local market and inserted into global networks, which will contribute to the widening of the productive base...” (4.4.5.c) . In fact in no document or official policy statement on or about Cape Verde are terms like “BPO” or “call centers” even mentioned.

9.2.1 BPO IN DEVELOPING COUNTRIES

Since BPO is not widely known in Cape Verde, it appears necessary in this report to briefly define it and to give examples.

Box 9.1 Business Process Outsourcing

BPO is the delegation of one or more IT-intensive business processes to an external provider. It is also referred to as **information technology enabled services** or **ITES**. Most outsourcing is done in the same county, but IT provides endless opportunities for offshore (cross-border) activities.

BPO is often divided into two broad categories:

-back office outsourcing, which includes internal business functions such as billing, accounting or

jurisdiction, a rule that echoes the basic characteristic of ordinary offshore companies.

purchasing, and the HR function.

-front office outsourcing, which includes customer-related services, such as marketing or technical support. This includes call centres, or “contact centres”.

The overall worldwide BPO market is estimated at some USD 140 billion in 2007, of which about USD 24 billion offshore. It is expanding very fast. It may be noted that BPO is one area where (middle level) developing countries are generally better placed than developed countries. Thus in the rankings in AT Kearney Global Services Location Index for 2007, there are no developed countries in the first 20 places (out of 50). India⁶⁵ and China are far ahead, but countries such as Mauritius (25), Tunisia (26), Ghana (27), Morocco (36) and Senegal (39), rank higher than the UK (42), Portugal (46) and France (48).

A few concrete examples are given below to show the rapidity and size of developments and employment creation in some developing countries.

Box 9.2. ITES/BPO in Mauritius –growing at 25% per year

The BPO/ITES sector has grown by 25% p.a. over the past 5 years. In 2004 there were 60 companies employing 2,100 workers and by the end of 2007 some 200 companies (8,000 workers). It is projected that by 2011 the sector will employ 29,000 persons. However, it will not be possible to train more than 16,000 Mauritians over this period. It is planned to recruit the balance from Africa. Interviews are starting in 2008 at Makarere College, Uganda, to recruit 300 specialists. Mauritius has attracted global ICT players from India, US, Europe and China. In 2007, call centres constituted 69% of all companies. 20% of companies are engaged in software development and 8% in multimedia. It is felt that this sector is not sufficiently geared towards high value-added IT services, and concentrates too much on basic telemarketing operations. Increasing emphasis is being laid on both technical IT expertise (graduate IT level) and specialized functional skills (Financial, accounting, legal or graphic design).

Source: Board of Investment; *L'Express*, 4 June 2008.

Closer to Cape Verde, in Senegal, at the end of 2006, there were 4,000 jobs in call centres. One company, Premium Contact Center International (PCCI), which started in 2002 with a staff of 40, was employing 1,300 in 2007. In Morocco, call centres are a major business and expanding fast. It is targeted that 100,000 jobs will have been created by 2015. It is interesting to note that Moroccan call centres operate in French, English and Spanish. *Attento*, the Moroccan subsidiary of Telefonica of Spain, is regarded as one of the best Spanish language call centre operators in the world.

9.2.2 BPO IN CAPE VERDE: A FIRST CALL CENTER IN 2007

There is at present only one enterprise in Cape Verde which could be described as being in the BPO sector. It is «Contact - CV», a subsidiary of «PT Contact – Telemarketing e Serviços de Informação, SA», a Portuguese company, which manages 22 Call / Contact Centers in Portugal

⁶⁵ In 2007, BPO in India generated about US\$ 11 billion in export revenues. The sector employs more than 700,000 people, and accounts for more than 35 percent of the worldwide BPO market. (Source: *NASSCOM-Everest India BPO Study (2008)* (nasscom.in))

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(4,000 clients). «Contact - CV» started operations in 2007. The company initially considered utilizing sub-contractors in Brazil. However, in the end it chose Cape Verde for two reasons:

- The local accent was closer than Brasil's to that of Portugal;
- Cape Verde was closer to Portugal.

“Contact – CV” has two Portuguese managers but employs 190 young Cape Verdeans. These are high school graduates with up to 2 years of further studies. (80% of the staff are students). It will soon reach 200 jobs working 24 hours in shifts. The salaries are EUR 300/month (CVE 33,000). The company has no recruitment problem and is satisfied with the performance of the staff. “PT Contact” has access to optical fiber infrastructure, and its computers are directly linked to the PT server in Lisbon. “CV Telecom” provides working space. The clients serviced are all Portuguese. Services provided consist essentially of answering simple queries, hotline assistance, making appointments, marketing, and processing e-mail orders.

9.2.3 THE POTENTIAL FOR BPO IN CAPE VERDE

Outside decision makers will look for 3 main dimensions for establishing BPO/ITES operations offshore:

- Reliable telecommunications infrastructure and connectivity at a reasonable cost
- Qualified manpower
- Stable political and business climate.

There is reason to believe that Cape Verde (subject to a few improvements) could be competitive in BPO.

Telecommunications infrastructure and Connectivity. Obviously for most BPO activities reliability and cost of connectivity are crucial. Cape Verde is not badly placed in this regard (See chapter 6 above).

Human and institutional resources Cape Verde has a nucleus of engineers and technicians in the ICT sector, trained locally and abroad. Although only one enterprise doing offshore BPO, consultations undertaken in the context of the DTIS mission have identified a number of private companies and institutions in Cape Verde that are working in the areas of outsourcing-or closely related to it- and would provide a good basis for launching international BPO. These enterprises and institutions are listed in Annex B (part I). However, there would be need to develop further these skills and adapt them to the demanding standards of international BPO. In many cases this requires changes in mindsets and practices. For instance, accounting firms generally use Portugal-made Primavera software which is incompatible with most international practices.

As regards **training**, several institutions related to IT and BPO exist which may be drawn upon to provide the necessary skills for this sector.

The main ones are:

- The two independent private higher education schools : IESIG and ISCEE;

- The University Jean Piaget de Cabo Verde (Uni-Piaget).

Since 2007 (Decreto-Lei nº 17/2007-Estatuto do Ensino Superior Privado e Cooperativo), these three establishments are recognized by Government as important partners; public institutions linked (Or potentially linked) to the University of Cape Verde (UNI-CV) : including ISECMAR , INAG (Associate member), and ISE (Instituto Superior de Educação) which could train trainers as well as improve language skills.

These institutions are described in Annex B 2 (Part II).

It should be noted that for the simpler tasks of BPO a high school diploma, complemented by a short training course (For example to improve the accent in Portuguese, French or particular types of English in the case of call-centers) is sufficient. Although the present call centre operation is satisfied with the quality of recruits, these training institutions would themselves be in need of upgrading and reinforcement if BPO operations were to expand. As BPO develops, it would be appropriate to expand recognition and certification of the corresponding skills, accompanied by guidelines on conditions of employment.

As regards ICT, special mention must be made of NOSI (*Núcleo Operacional da Sociedade de Informação*), created in 2004, which plays a central role in building up the Cape Verdean “information society”. It employs 50 engineers and high level technicians, most of them with certification by Microsoft and Oracle. The recently signed agreement with Microsoft is particularly relevant in this regard (See Box 9.4). Outside inputs such as these should be further developed to diversify from merely copying Portuguese practices.

Box 9.3 The Microsoft Agreement

A strategic partnership with Microsoft Corporation has been signed on January 5 2008. This concerns an “Electronic Governancy Innovation Centre” (*Centro de Inovação ao Governação Electronica*) aiming at enhancing the country in ICT. The main Cape Verdean partner of Microsoft is NOSI. Associate partners are the University of Cape Verde (UNI-CV) as well as private parties such as SOPROINF and NT 2000. Microsoft will provide training and support to school and local communities in IT. The centre should be opened in late 2008.

As regards the **political and business climate**, Cape Verde has the necessary political stability. All the general measures for improving the business environment (Chapter 6) will also favor the development of BPO. However some specific improvements are suggested below.

9.2.4 CONCLUSIONS AND RECOMMENDATIONS ON BPO

Although BPO is very competitive business, Cape Verde has made a modest start in call centers, without even trying, and making known its availability for this purpose.

Recommendation 9.3 – Officially target BPO as a desirable activity to be offered by Cape Verde, and establish a focal point

Cape Verde should specifically target BPO among the types of offshore services it would attempt to export. This strategy should be publicly stated by Government Ministers and reflected in all relevant official documentation. CI could be assigned as a focal point to promote this sub-

sector.

However, no report, study or road map is available on the development and organization of the BPO/ITES sector in Cape Verde.

Recommendation 9.4- Undertake a study to develop a strategy for promoting, organizing and supporting BPO

This should include the types of BPO to be targeted, the markets targeted, as well as the development of physical infrastructure and training. It should contain specific recommendations on the three key factors for outsourcing locations

- 1)_ Infrastructure and connectivity,*
- 2)_ Human resources and training and*
- 3)_ Business environment. This study could be done by CPE, with MECC and NOSI. External assistance would be required.*

Pending the completion of this comprehensive study, a number of tentative orientations may already be given-and some actions undertaken. Whereas many of the provisions related to Intellectual Property foreseen in the context of the WTO accession package will help to provide the right environment for BPO, additional legal conditions that are more specific to offshore services and BPO would facilitate the development of this sector. As an illustration, the Mauritius legal environment includes the Copyright Act 1997, the Patent, Industrial Designs and Trademarks Act 2002, the Protection Against Unfair Practices (Industrial Property Rights) Act 2002, the Layout Designs (Topographies) of Integrated Circuits Act 2002, the Geographical Indications Act 2002- which are indirectly relevant to BPO. In addition, the following are directly related to BPO: the Computer Misuse and Cybercrime Act of 2003, the Information and Communications Technologies Act of 2001, the Electronic Transactions Act of 2000 and the Data Protection Act of 2004. Cape Verde should avoid being in a situation like that of Nigeria, where internet abuse has negatively affected that country's image and credibility, making serious BPO Nigerian entrepreneurs prefer to operate from Ghana.

Recommendation 9.5 - Set up the appropriate BPO legal environment

Adapting that used in successful BPO countries.

The present call-centre developed spontaneously, but some formal arrangements for attracting BPO in Cape Verde would need to be put in place, as soon as possible.

Several institutions could be considered for taking leadership and acting as a focal point for this purpose: CI, ADEI and NOSI. As argued in chapter 5, it might be preferable to have the promotion of Cape Verde and all the key sectors in one institution (namely a reorganized and refocused CI). The selected institution should have a special offshore unit for ITES and

outsourcing. In any case, the MECC should include monitoring and supporting BPO activities (trade in services) in its work program. A steering committee of some of the main outsourcing potential companies should provide guidance to the work of the lead agency.

Whether or not it is designated as lead agency, NOSI should play a supporting role. However, NOSI should not itself undertake BPO activities. In general NOSI should play the role of catalyst and provide institutional support, and incubate new activities, but not itself compete with the private sector in ICT matters. On the contrary, NOSI should subcontract and outsource to enterprises. Government itself should give leadership and not give exclusivity for all its work to NOSI.

As regards the type of BPO to be promoted, it seems obvious that Cape Verde cannot aim in the first instance to enter the more strategic forms of BPO such as knowledge process outsourcing, which require demanding high quality skills and standards which Cape Verde will not be able to develop in the near future. However, call-centers, data entry and parts of HR BPO could already be targeted. HR BPO is the largest segment of the total BPO worldwide –and nearly three-fourths of the market-consist of **payroll services and benefits administration services**. These sectors are relatively easier to enter, require relatively less sophisticated skills which may be acquired through short-term training and are often the first area that small and medium companies look for outsourcing.

Recommendation. 9.6 - Start BPO promotional activities.

The lead institution assigned for this purpose should initiate promotion activities. Cape Verde should aim in the first instance at the promotion of call centres, as well as part of the more routine parts of HR business process outsourcing (HR BPO) and data entry.

Among the promotional activities to be undertaken, is the organization of study tours in selected BPO locations for practitioners and policy makers; for example in Rabat Technopolis, Casa Nearshore, Dakar, Mauritius Cybercity. A starting point to promote BPO could be Portugal. The DTIS mission has identified a list of 167 Portuguese enterprises that are interested in doing BPO overseas⁶⁶.

Finally, if Cape Verde decides to target BPO, it is recommended to anticipate demand as regards availability of physical facilities, as some potential partners may be put off by the lack of adequate physical accommodation. Plans could already be made to have a dedicated complex for BPO, for instance near Praia, to be built in stages. In Mindelo, the facilities of the underutilized industrial park may be adapted for this purpose. In the meantime some temporary facilities (Wired) could be identified.

The improvement of high speed and reliable connectivity at a reasonable cost is also essential. (See chapter 6.2.3 .Telecommunications).

⁶⁶ A list of these 167 enterprises is available from AICEP Portugal Global (octavio.santos@portugalglobal.pt) or from consultant Michel Lesourd (Michel.Lesourd@univ-rouen.fr).

CHAPTER 10

THE CULTURAL INDUSTRIES: A NEW AREA TO BE EXPLORED

Cape Verdean Creole culture has been produced by the country's long history of blending styles and traditions from Africa, Europe and Latin America. There is universal recognition that it is particularly rich and unique, with music is its most important affirmation. Cape Verdean music has already made its mark on the world stage. "When our groups tour in Europe and America, people who have never even heard the music before they get up and dance as if they were born in Africa." (Gugas, quoted in the Financial Times, 13 November 2007). There is also undoubtedly some potential in other cultural areas, such as painting and dancing. There is however at present little grasp in Cape Verde of the value chain in the cultural industries, and what these could contribute to the national economy, as they do elsewhere in the world.

10.1. CULTURAL INDUSTRIES IN THE WORLD

Traditionally, there has been reluctance in some quarters-including among "pure" artists and many Ministries of Culture- to promote the commercialization of culture. Yet cultural industries (the term "creative industries" is sometimes used) have become one the world major industries. Cultural products (CDs, books) or services (MP3, broadcasting) are easily traded across borders. In 2005, total exports of all creative-industry products (goods and services) reached \$424.4 billion, with a growth rate of 6.4 per cent over the period 1996-2005⁶⁷.

The total amount of royalties collected by the member societies of CISAC, the International Confederation of Societies of Authors and Composers (members in 115 countries), on their own national collection territories, amounted in 2005 to more than EUR 6.7 billion (Music currently represents almost 90% of all revenue). As a practical illustration of the economic impact of a different segment of the cultural industry, some indicators regarding the Carnival in Bahia, Brazil, are given below.

BOX 10.1 Indicators of the Bahian carnival, 2007	
Duration	6 days
Estimated audience	900,000 people
Occupied urban space	25 km of streets/squares, 30,000 sq m of other spaces
Number of carnival groups	227 groups
Artists involved	11,750 people
Casual employment	131,000 jobs (97,000 from the private sector and 34,000 from the public sector)
Number of tourists	360,307 people (national); 96,401 (foreign)
Hotel occupancy	100%
Accredited press	2,531 professionals
Income generated by tourists	\$94 million
Income turnover	\$168 million
Public income from taxation	\$3.2 million

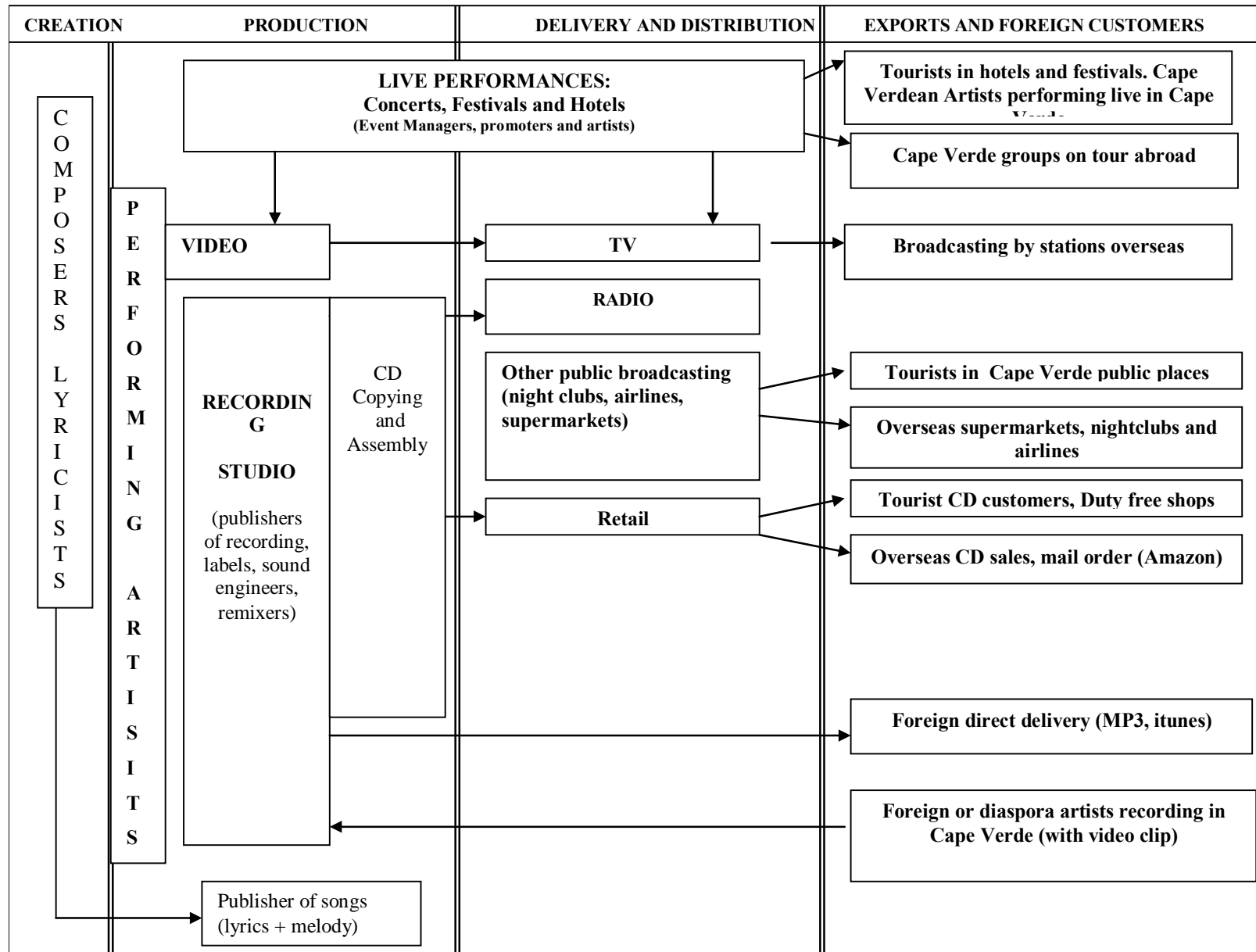
Source: *Emtursa, Relatório, 2006; Infocultura 2007.*

⁶⁷ See UNCTAD and UNDP, *The Creative Economy Report, 2008*

There is considerable synergy between the cultural industry and the tourist industry. Figure 10.1 illustrates how music and the tourist industry are linked and can contribute to exports.

The development of tourism can thus be used as a springboard for the development of cultural industries, and, as discussed in chapter 7, there are good prospects for cultural tourism in Cape Verde. However, but it would inappropriate to regard cultural industries as being a mere appendix or sub-set of the tourism sector.

Figure 10.1 Music Industry export and tourist model



10.2. CAPE VERDE SITUATION

Although no practical steps seem to have been taken so far by the authorities to make this sector an active contributor to the economy, there is general agreement in late 2008 that the cultural industries should have their place as a potential fifth pillar of the Transformation Strategy. The Prime Minister has been quoted as saying “*As indústrias da Cultura têm vastas perspectivas de desenvolvimento em Cabo Verde. Alias, urge aprofundar o binómio Cultura vs Turismo...*” However, mention of the cultural industry is not yet reflected in any formal policy document or presentation of the ETS- alongside the four other pillars. GPRS II, although it discusses at some length the important role of culture in Cape Verdean society, does not envisage concrete measures to develop cultural *industries*. In fact, there are no studies or data on Cape Verde’s cultural industries and their contribution to employment, incomes or exports. It is understood that the Ministry of Culture is only now planning to establish a focal point (National Directorate of Culture) which will be responsible for cultural industries.

Under the circumstances now prevailing-and taking the example of music- Cape Verdean musicians and singers have mostly had to travel to Paris, Lisbon or Boston to make their albums. CD manufacturing and distribution is outsourced to European and US companies. Things have begun to change recently when a number of modest recording studios have spontaneously been established, including *Kapital* in Praia and one in Mindelo, owned by Lusafrica,-the dynamic label producing many Cape Verdean artists, including Cesaria Evora.

Importantly, there is at present no mechanism in Cape Verde for providing artists and other stakeholders with royalties from their CD sales and public broadcasting of their work nationally or internationally. A modest start has been made the creation of SOCA - *Sociedade Cabo-verdiana de Autores* - in 2005, with 187 members. Its tiny budget (less than EUR 16,000 in 2008) is entirely funded by Government and can only support the expenses of a small office and a secretary. It has yet to create a register of authors.

Another major constraint is the fact that there is no adequate copyright law. The present legislation on the protection, defense of the national cultural patrimony (law no102/III of 29 November 1990) is not in line with modern international practice.

10.3. RECOMMENDATIONS

In almost all countries where cultural industries are succeeding, this is done through considerable public support. This “national preference” is permitted by the WTO system under the “exception culturelle”- to avoid complete domination by foreign cultures (essentially US-and to a lesser extent Indian- cultural products). One commonly used source of revenue is a levy on the imports (sales) of blank CDs or DVDs- the majority of which are used for pirating purposes-depriving artists of income. Other schemes are a tax on public contracts (e.g. in France) or the proceeds of lotteries (e.g. Ireland). Cape Verde may have a good potential, but if it wants to develop an internationally competitive creative industry, it cannot adopt a *laissez-faire* attitude and merely rely on the “market”.

It is thus necessary that the decision to make cultural industries as one of the axes of the Economic Transformation Strategy should be made and proclaimed in all relevant official documentation. The link with tourism needs to be exploited, but many aspects of the cultural industries (copyright, internet sales, live performances abroad) go beyond the tourism aspects.

However, in order to maintain credibility, the affirmation of this decision should not remain at the level a mere intention but needs to be backed up by the corresponding allocation of resources and the implementation of the enabling environment. It is understood that it is planned to assign responsibility for the designing, implementation and monitoring the cultural industries is to a National Directorate of Culture, soon to be created. This focal point should be adequately staffed and resourced. It needs to have a business and marketing approach., something that Ministries of Culture often do not have. The designated focal point should work very closely with CI, ADEI, DG Tourism and UNOTUR.

A national seminar took place in November 2008 to define a strategy for the cultural industries. This is a useful first step, but it needs to be followed up by the preparing of action oriented proposals and a concrete road map.

Recommendation 10.1 - Prepare an action-oriented road-map for cultural industries.

This may be undertaken in the context of the Nairobi Plan of Action for Cultural Industries in Africa⁶⁸. This roadmap should address not only music, but other creative industries, including the possibility of promoting Cape Verde as a film making and videoclip destination. The assistance of UNESCO, UNCTAD and ITC may be requested for this purpose. The well known artists (Césaria, Gugas, etc) and their producers (e.g. Lusafrica) should be associated with this exercise.

A sine qua non for the development of creative industries is a modern Copyright forms part of the work programme under the WTO accession package (discussed in Chapter 5. This should be accelerated. The law should take into account WIPO's Internet Treaties. The assistance of WIPO should be requested. An operational mechanism for enforcement is necessary. This requires establishing an anti piracy unit-probably at the Police, and training its staff, as well as training magistrates.

⁶⁸ Adopted by the African Union in December 2005. Document AUCMC/MIN/PROG (1). (ocpa.irmo.hr/resources/docs/AU_POA_Industries_2005-en.pdf)

The need for modern copyright legislation and implementation concerns all intellectual production and goes beyond the requirements of the cultural industries. As discussed in chapter 9, it is necessary for the ICT sector and the development of BPO.

Copyrights give rise to royalties. The collection and distribution of these royalties should be started as soon as possible in Cape Verde. The embryonic authors' society-SOCA-should be considerably strengthened and should make collection and distribution of royalties its priority. The co-operation of CISAC, the International Confederation of Societies of Authors and Composers, should be requested. It may be appropriate in the first instance to delegate collection rights to one of the European authors' societies, such as SPA - Sociedade Portuguesa de Autores- or the French SACEM..

Pending the implementation of fully effective institutional measures, a number of steps may be taken. For instance, temporary arrangements could be made for the payment of royalties for public performances by hotels, TACV, radio and TV, organizers of concerts etc..

More research and professional training in the performing and plastic arts is needed. Training and information should include the business side of the cultural industries (including providing model contracts between artists and producers/editors, and use of new distribution channels such as MP3) The incentive system for businesses should target recording studios, designers of inlays (CD covers), art galleries. Business and technical training (e.g. attachments, scholarships) should be provided for producers, event managers, sound and video technicians and other ancillary skills. Cape Verde should consider opening a small desk at the MIDEM and WOMAD exhibitions to "sell" its products abroad.

Cape Verde has a long festival tradition in most islands. The best known are those of Mindelo - January Carnival and the festival of Bahia das Gatas (in August). However, these individual island-based festivals do not give the Archipelago the international recognition it deserves. Cape Verde is well placed to develop into a "hub" or "platform" for West-African, Latin-American and other European cultures. For instance there could be at least one major flagship Mid-Atlantic festival. A festival policy should be put in place. DG Tourism and UNOTUR and the relevant municipalities should be associated. Brazilian partnerships and cooperation could be sought.

To complement outdoor events, a concert hall accommodating more than 1000 persons should be built to accommodate live performances.

**Figure 11.4 Market share of Western Union
2005–2007, Percent**

Recommendation 10.3 – Consider building a performance arts complex, including a music conservatory

Such a complex should be designed as a multipurpose structure, which would also be suitable for hosting international conferences.

Cape Verde artists already go on tours overseas, where they are well appreciated. This constitutes an export of services (Mode 4). There is a great demand for live world music in developed countries. With the tightening of visa regulations in Europe, the difficulty for African music and dance groups in obtaining visas to go on tours or even attend festivals has become an issue. Cape Verde is much better placed in the context of the facilities afforded by the *Mobility Partnership*.

Cape Verde should have a scheme to promote and facilitate national artists overseas. This should not only be for music (and dance) groups to go on concert tours, play in hotels and at festivals. It should also include painters and sculptors to attend biennales. Beneficiaries should be selected on the basis of national competitions assessed by an independent process.

CHAPTER 11

THE DIASPORA AND MOBILITY: SIGNIFICANT OPPORTUNITIES FOR DEVELOPMENT AND INSERTION IN THE GLOBAL ECONOMY

In Cape Verde, perhaps more than in any other country, the diaspora plays a major role. It is simultaneously part of the nation and an important national resource. Before the recent development of tourism, migration and working abroad have been the main way in which Cape Verde has integrated in the world economy. The heritage of low-skilled emigration, the (proportionately) large diaspora, the social and economic commitment of Cape Verdeans abroad to their country of origin, the growth of tourism and the stability and relative prosperity of the country represent a mix of opportunities that should be exploited in a holistic way.

As noted in Chapter 4, the important role of the diaspora is well recognized in Cape Verdean representation in Parliament, Ministry of Foreign Affairs and of the *Comunidades*, highlighted in the Conclusion of the 2003 Forum on the Transformation of Cape Verde, reaffirmed in the T Declaration of June 2007⁶⁹.

11.1. SIZE AND DISTRIBUTION OF THE DIASPORA

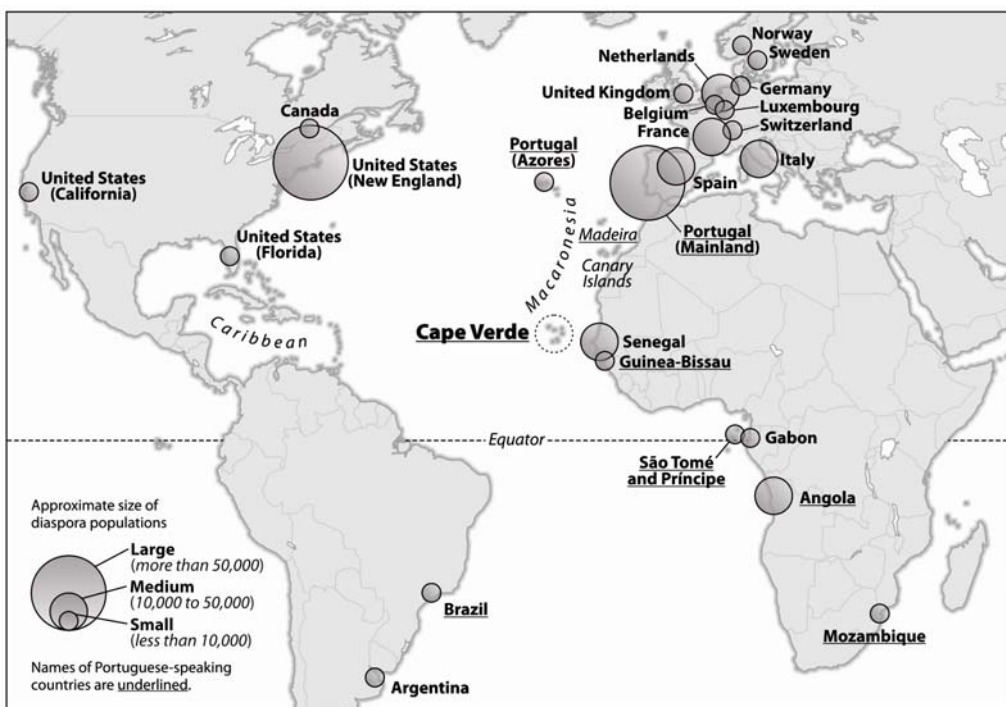
Figure 11.1 shows the estimated distribution of the Cape Verdean diaspora. One frequently hears that there are more Cape Verdeans abroad (sometimes even ‘twice as many’ is mentioned) as on the islands, but there is no scientific research to support such assumptions.

In fact, there is a lack of information on the size and location of the diaspora.⁷⁰ Diaspora population estimates are relatively accurate for certain European countries, such as the Netherlands, where government statistics based on parental nativity broadly overlap with self-declared Cape Verdean ethnicity. However, the situation is more complicated in countries where government statistics are based on citizenship and/or country of birth only (e.g. Germany and the UK), in countries with substantial numbers of undocumented Cape Verdean immigrants (e.g.

ugal and the United States), and in countries with a long history of emigration from Cape Verde (e.g. the United States and Senegal). Since most Cape Verdean diaspora populations were established during Portuguese colonialism, it has been difficult to single out people of Cape Verdean origin in demographic statistics.

The case of the United States is illustrative of the lack of reliable information. Frequently heard estimates of the Cape Verdean population in the United States range from several hundred thousand to one million. The *Instituto das Comunidades* (IC) uses an estimate of 265,000 Cape Verdeans in the United States. However, less than 80,000 people classified themselves as being (fully or partly) of Cape Verdean ancestry in the 2000 Census⁷¹. The enormous discrepancy illustrates the general lack of information about Cape Verde's diaspora.

Figure 11.1 Estimated size and distribution of the Cape Verdean diaspora



Source: Based on estimates from the *Instituto das Comunidades*. © Jørgen Carling

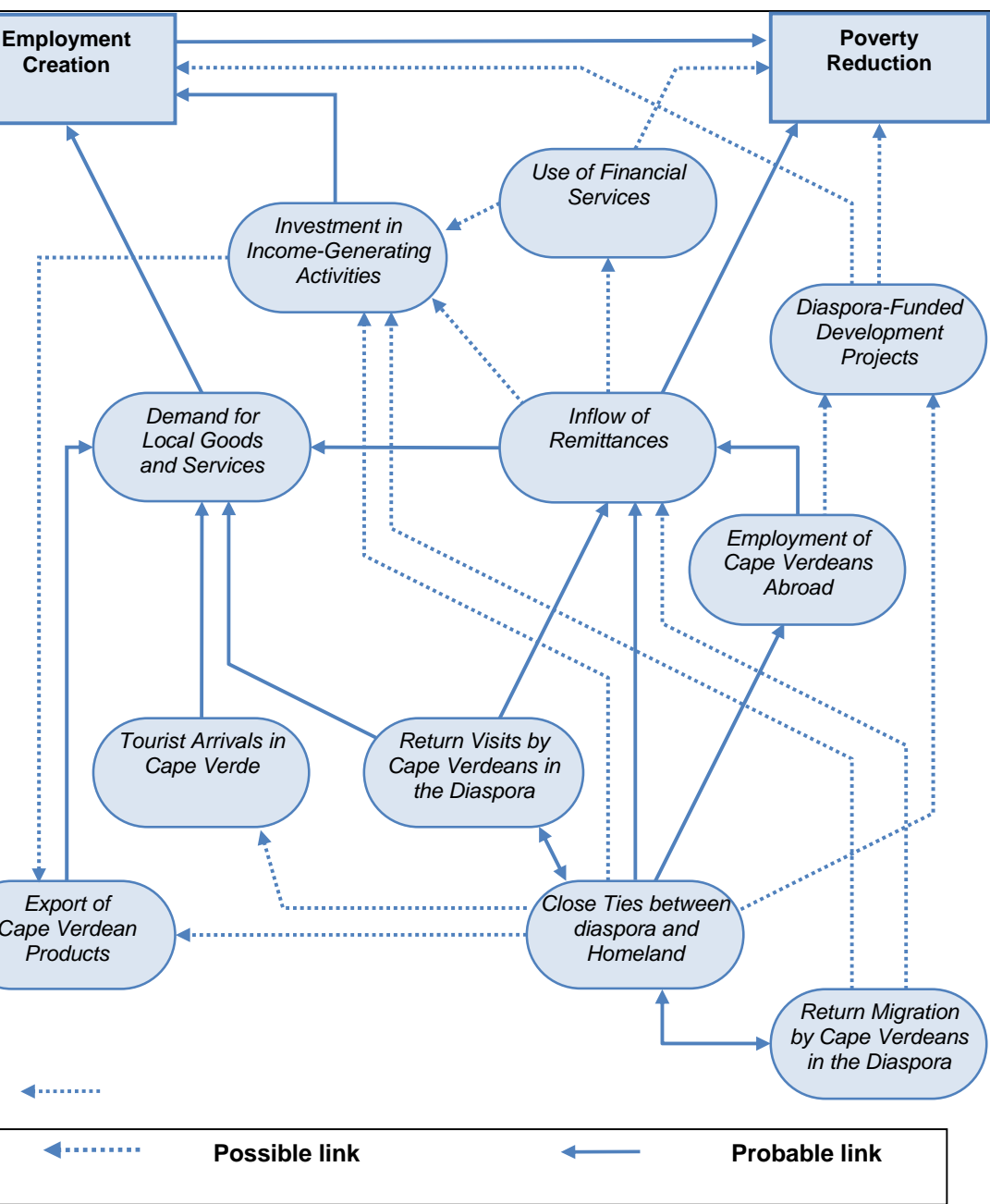
11.2 MIGRATION-DEVELOPMENT LINKS AND INTERVENTION OPPORTUNITIES

The relationship between migration and development in Cape Verde is now very different from what it was only a few decades ago. The classical emigrant, who left Cape Verde as a young adult, accumulated savings abroad, sends remittances, contemplates (part-time) return, and who might be encouraged to invest, still exists. However, a number of other types of international mobility have grown in relative importance. This includes residents going abroad to work for short periods, exchanges in both directions for higher education and professional training, Cape Verdeans in the diaspora returning temporarily to work on the islands, and tourists with Cape Verdean ancestry spending holidays in Cape Verde. There are also differences between various diaspora communities, as well as between persons, according to their gender, age profile, sectors of

...ation, professions, etc. The approach to the migration-development interaction in Cape Verde needs therefore to disaggregate the various sub/groups and be based on a vision of mobility in various forms.

There are many ways in which past and current migration, temporary work or study abroad and interaction with the diaspora can influence the processes of resource mobilization, poverty reduction and employment formation in Cape Verde, and help meet the objectives of the transformation agenda. Figure 11.2 shows a model of migration-development links. It identifies links between the various phenomena and distinguishes between two degrees of likelihood (labeled “probable” and “possible”). For instance, it is virtually certain that employment of Cape Verdeans abroad leads to flow of remittances, but far less likely that it leads to diaspora-funded development projects.

Figure 11.2 Model of Migration-Development links



distinction between possible and probable links in the model may be useful for designing policy. Some policy measures aim to strengthen processes that are already occurring on a large scale (e.g. remittances). Other policy measures aim to boost links that are currently weak or non-existent. For instance, the large diaspora could possibly support larger exports of Cape Verdean products, either directed towards the ethnic market itself, or by Cape Verdean emigrants assuming an intermediary role. Whereas boosting weak links may be harder to achieve in the first place, but policies may play a decisive role. A coherent policy environment for the migration-development nexus should combine both approaches.

not possible to cover here all the links identified in Figure 11.2. However, some of the main links are addressed in the following sections of this chapter.

Before moving to specific links, it is important to repeat the main general recommendation already made in Chapter 4) to the effect that **diaspora and mobility policies should be mainstreamed and should use synergies.**

Mainstreaming refers to the integration of migration and diaspora concerns in public administration and development planning, rather than treating them as separate issues, seen as the domain of dedicated agencies.

Synergies refer to the need to build strategic links between migration and other development dimensions, such as the growth of tourism or the expansion of professional training and higher education. Migration and ties with the diaspora have limited potential as development engines on their own, but may serve as catalysts for increased development impacts of government investment and/or private sector growth.

11.3. MOBILIZING THE MIGRANTS' FINANCIAL RESOURCES

Remittances, which appear at the centre of Figure 11.2, constitute one of the principal links between migration and development. Data on that part of remittances which are recorded, their distribution and on their origin by country of migration, as well as an assessment of their weight in the economy have been presented in chapter 3.

11.3.1 LINK BETWEEN RETURN MIGRATION AND REMITTANCES

Elderly return migrants are those who come back at or near retirement. Many receive old-age pensions in Cape Verde. From the Netherlands, for instance, pensions have constituted more than 50 percent of total registered remittances in recent years⁷². Policies in this area should address the following issues: (i) Expanding the entitlement of migrants to receive pensions in Cape Verde, as has been achieved through bilateral agreement with a number of countries; (ii) assisting migrants in identifying the pensions to which they are entitled; and (iii) facilitating return migration of the elderly.

A principal concern for many elderly Cape Verdeans in the diaspora is health care, which may be a decisive factor in deciding whether to return or not. This is another area with potential overlaps between migration and tourism issues. Improvement in health services (both public and private), public safety, and other issues of concern to the elderly may simultaneously make return a more viable option for Cape Verdeans in the diaspora and prepare the ground for long-term stays for the elderly.

11.3.2 ASSOCIATION BETWEEN REMITTANCES AND RETURN VISITS TO CAPE VERDE

Similarly there is a strong association between remittances and return visits to Cape Verde. Return visits are a fundamental aspect of Cape Verde's ties with the diaspora and play a central part in migration-development linkages. Migrants spend, and possibly invest, money during visits. Visits are also likely to inform decisions about future return and/or investment in Cape Verde. A significant proportion of Cape Verdeans in the diaspora have never lived on the islands as adults, and return visits are therefore important to sustaining the idea of a global Cape Verdean nation. Migrants who have recently visited their country of origin are more likely to be sending remittances because visits act to sustain ties with recipients. Furthermore, migrants may be motivated to remit

use they foresee future visits. The financial importance of visits from the diaspora therefore exceeds migrants' spending during their sojourn.

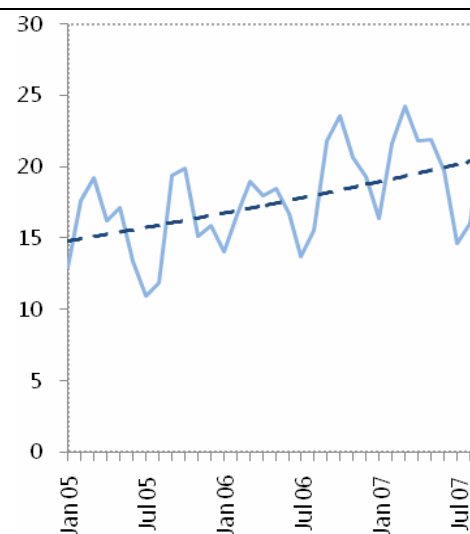
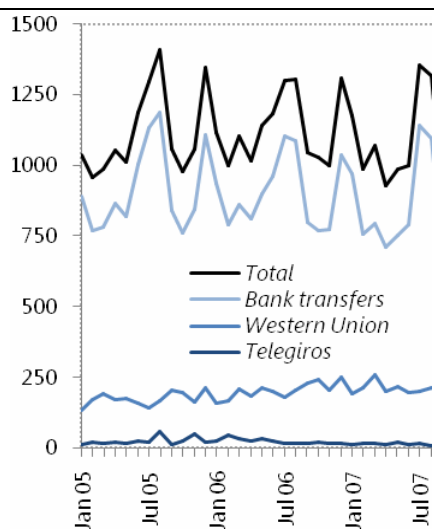
In addition to the influence of visits on subsequent remittance patterns, transfers tend to increase in the context of specific visits. This includes transfers of funds to be spent during holidays as well as shipment of goods to be distributed as gifts. The seasonality of remittances partly reflects migrants' holidays. Data from the BCV show total remittances peaking in July/August and September every year.

Return visits may have yet another impact on remittances in the sense that migrants' presence in Cape Verde is an opportunity to divulge information about transfer mechanisms and remittance-related services.

11.3.3 REDUCING TRANSACTION COSTS OF REMITTANCES

Most of the formal remittance inflow to Cape Verde is transferred through the banking system, and Western Union is increasing its market share. Western Union is represented in Cape Verde by major banks and most transfers are collected in banks. The convenience and speed of Western Union is widely appreciated by customers. Nevertheless, high transfer costs are a frustration for individual users and represent a loss to the national economy of Cape Verde. The total cost of sending transfers to Cape Verde with Western Union can exceed 20 percent of the transfer amount.⁷³ The fee paid by the sender in the region is typically of 10 percent for small amounts (USD 9.99 for sending USD 100 from the United States) but may be as large as 17–19 percent (e.g. EUR 17 for sending EUR 100 from the Netherlands, or SEK 190 for sending SEK 1000 from Sweden). The exchange rate used by Western Union adds an additional cost that varies according to the currency used. This is zero for Euro and low for USD (about 1 percent), but can reach 5 percent for other European currencies. When a Cape Verdean emigrant in Sweden sends SEK 1000, the recipient in Cape Verde can collect CVE 11,301, but the total amount paid by the sender, including the fee, is the equivalent of CVE 13,966, or 24 percent more.⁷⁴

Figure 11.3 Remittances by transfer mechanism, 2005–2007, Million CVE



Data Source:- Banco de Cabo Verde. The dashed line in Figure 11.4 shows an exponential trend

The consultations with members of the diaspora conducted as part of the DTIS confirm that remittance-senders lack information about the various options, and feel frustrated over the high costs. The suggested renewed handbook for emigrants (see Recommendation 11.7 below) should play an important role in this regard. The focus should be on assisting migrants in making the best choices for themselves and their families, not on promoting specific transfer mechanisms.

Several countries, including the United Kingdom, the Netherlands, Norway and Spain have dedicated web sites through which remittance-senders can compare services. The handbook for emigrants should refer specifically to such web sites. Increased awareness about new services such as card-based transfers should also be promoted. Not all such services require a bank account, nor do they imply the high costs and sometimes slow delivery of account-to-account transfers.⁷⁵

As already mentioned⁷⁶ emigrant deposits in Cape Verdean banks are very large. Banks offer favorable conditions in such accounts, provided that the account holders have an emigrant's certificate and the money be deposited in foreign currency. The large banks invest heavily in the relationship with emigrants and regularly send delegations to meet with diaspora communities.

11.3.4 PROMOTING DIRECT INVESTMENT IN INCOME-GENERATING ACTIVITIES

All measures to improve the investment climate will also encourage investment from the diaspora. It is worth noting that in 2007, emigrant investment constituted CVE 3,672 million, or 35 % of total foreign direct investment.

It is thus important that this particular source be specially targeted by investment promotion efforts. In particular, the renewed handbook for emigrants (see Recommendation 11.7) should contain a chapter on investment opportunities that is carefully formulated on the basis of the actual information needs and prerequisites of Cape Verdeans in the diaspora. This would include basic information about taxation etc, but also advice to help emigrants develop their own business plans with respect to their entrepreneurial activities in the country. It is important also to broaden the scope of potential diaspora investors beyond those who are willing to settle in Cape Verde. Investing in the Cape Verdean stock exchange is an obvious form of absentee investment that is gaining popularity in the diaspora.

11.3.5 CHANNELLING REMITTANCES INTO INCOME-GENERATING ACTIVITIES

As already noted, in Cape Verdean statistics, remittances and investment are separated. Transfers of less than CVE 1,000,000 (EUR 9,069) are classified as remittances.

As in all countries with diasporas, there is a desire to put in place policies to use the potential of remittances to finance investment in income-generating activities. The primary obstacle is that the persons in charge of remittance expenditure - be they non-migrant remittance recipients or migrants themselves - often lack entrepreneurial skills. A large proportion of remittances go directly to consumption in low-income families, and it is difficult to encourage diversion of the funds into long-term investment.

In Cape Verde, there is excess liquidity in the banking sector, so that increased savings would do

little to improve access to credit. Current limitations of credit have more to do with the quality of business plans and the availability of collateral on the part of prospective debtors.

Unlike commercial banks, many microfinance organizations are characterized by insufficient liquidity. Several respondents in the diaspora consultations made in the context of the DTIS cited the lack of banking infrastructure in rural areas as a problem for their relatives.

Microfinance is growing in Cape Verde, but the sector is still poorly developed. Activities are almost entirely limited to micro-credit. Microfinance organizations in Cape Verde are overwhelmingly NGOs with an insufficient level of professionalization. The 2006 employment survey of the *Instituto de Emprego e Formação Profissional* (IEFP) showed that less than a quarter of the unemployed know of organizations that provide micro-credit. Of the 7 percent who had actually used micro-credit services, more than half regarded it an unsuccessful experience. It should however be borne in mind that a large proportion of micro-entrepreneurs in Cape Verde are self employed out of necessity rather than choice.⁷⁷ Legislation regulating the microfinance sector is being introduced. In order to shield commercial banks from competition, there are restrictions on the rights of microfinance organizations to attract savings from the public.

Despite the shortcomings of microfinance in Cape Verde, the sector represents an important potential for improving links between migration and development. There are two possible connections:

(i) Emigrants could be encouraged to place their savings in microfinance institutions, and thereby support micro-entrepreneurs. This could be appealing for the many emigrants who wish to 'do something' for development in Cape Verde but are not sure how to address the issue. If there are visible results in the form of poor Cape Verdeans who have managed to construct sustainable livelihoods, emigrant account holders could be willing to accept lower levels of interest and convenience than in commercial banks.

(ii) Transfers could be made through microfinance institutions. This would allow for remittances to be collected in recipients' local communities. Attachment to a microfinance organization could also help receivers in managing their remittance income and accessing credit for investments that could expand their livelihood base. Such connections between remittances and microfinance are increasingly being used in other countries, especially in Latin America. (The Haitian organization *Fonkozé* is among the most advanced in this respect).

In implementing this proposal it would be important to ensure that (i) a higher level of professionalization be achieved before innovative solutions can be explored and (ii) sustainability for debtors be carefully monitored and improved.

Recommendation 11.1 – Study models and best practice to link microfinance and remittances

This should lead to technical assistance to the micro-finance sector aiming at establishing innovative connections between micro-entrepreneurship in Cape Verde, inflow of remittances, and the savings of the diaspora.

11.4. MOBILIZING THE SKILLS OF RETURN MIGRANTS

11.4.1 ASSISTANCE IN BECOMING ENTREPRENEURS

Given the availability of capital in Cape Verde, emigrants' contribution to investment in productive activities could lie in their expertise, cultural and social capital and personal networks more than in their savings. Continued attachment to their country of residence could therefore be important to the success of their investments. Whether one resides in Cape Verde and travels regularly abroad or resides abroad and travels regularly to Cape Verde might be a matter of personal preference. In both cases, a transnational lifestyle-part of the circular migration concept-with a high level of mobility benefits the business and satisfies personal desires. Policies to support investment as well as regulations regarding taxation, etc must take into account the increasing incidence of such in-between positions between being a resident, an emigrant and a returnee. In terms of access to credit, migrants often belong to the so-called 'missing middle' between corporate financing and micro-credit. There is widespread agreement that the investment promotion agency *Cabo Verde Investimentos* is not successful in facilitating small-scale migrant investment.

Many return migrants invest in Cape Verde, mostly in residential property (for renting out or for sale) and in small owner-operated businesses such as taxis and shops. But there are a number of examples of returnees who are successful as entrepreneurs in other sectors such as transport or telecommunications. The tourism sector is particularly attracting investment by Cape Verdean emigrants and return migrants. This should be encouraged to avoid the risk that the growth in tourism becomes dominated by large, foreign-owned companies, and that local communities see limited benefits. Emigrant entrepreneurs would be ideal for fostering community-based tourism. The greatest potential for community-based tourism exists on the islands of Santo Antão and Fogo, and to a lesser extent on Santiago and São Nicolau. These are islands with significant opportunities for hiking and other rural activities which appeal to certain sectors of the market. One possible sector is the development of private clinics and care centres for the elderly –both foreign and returnees.

Recommendation 11.2 - Training and advice to migrant entrepreneurs

The ambition of many migrants to invest in their country of origin is an important resource for Cape Verde. Poorly developed business plans and insufficient awareness of appropriate investment opportunities are constraints on the use of this resource – to the detriment of individuals, communities and the country as a whole. A structure for providing training and advice to migrant entrepreneurs should be developed.

Designing an appropriate support structure for migrant entrepreneurs requires careful planning. It may be possible to build upon existing incubator initiatives, to use the network of emigrant support officers in the local municipalities, or the central coordination capacity of the "Instituto das Comunidades". In designing the support structure, one should be open to the possibility of advisors or mentors being other than government-employed bureaucrats.

11.4.2 ATTRACTING SKILLED WORKERS

Some returnees or potential returnees may be looking for salaried employment rather than setting up their own business and have skills and professions that would be useful in the public service, in research and teaching or in the businesses sector.

These constitute a great potential asset for Cape Verde, and the attracting of suitable returnees is already part of the official policy and efforts. The employment centers play a role in matching supply and demand through a local database. A web site for training and employment, *Bolsa de Qualificação e Emprego* is currently being developed by the *Instituto de Emprego e Formação Profissional*. (IEFP). There is a case for setting up one online portal for all, dispensing with the need to pre-determine which opportunities are suitable for emigrants.

Recommendation 11.3 – Set up an online recruitment centre for residents and diaspora alike

Steps should be taken to develop an online recruitment centre through which positions could be advertised to the entire Cape Verdean nation, resident or in the diaspora. This should preferably be the portal for employment in Cape Verde, and supplement the use of newspapers to announce vacancies. Opportunities for training, internships, etc could be advertised within the same portal.

The position of the online recruitment centre could be strengthened by making it the default place of announcement for vacancies in public administration which by law must be filled through an open competition, complementing advertisement in newspapers. A high-quality widely-used portal could also improve the culture of transparent merit-based recruitment in Cape Verde more generally. Promoting fair and transparent practices is particularly important in the context of attracting expertise from the diaspora. Highly qualified emigrants depend on this not only to guarantee their own employment, but also to ensure a professional work environment where colleagues are hired for their qualifications.

11.5. EMPLOYMENT OF CAPE VERDEANS ABROAD - CIRCULAR MIGRATION

11.5.1 RECENT AND CURRENT MIGRATION

The active ties of past emigrants with Cape Verde weaken over time and the attachments of descendants of Cape Verdeans are difficult to maintain. Consequently, continued migration, or work temporarily abroad, are fundamental to the social and economic equilibrium and development of the country. This includes not only the quantifiable aspects, such as the flow of remittances and the level of migrant deposits and investments, but the other linkages outlined in Figure 11.2.

As already mentioned, Cape Verde is among the few countries in the world that has regarded emigration levels as “too low”, and there is still and will remain for some time substantial pressure for working abroad.

Actual emigration levels are unknown, as entry and exit forms were then abolished for Cape Verdean nationals in 1996. The 2000 Census contained questions about the emigration of household members in the previous five-year period. (See Table 11.1)

Table 11.1 Migration by country of destination, 1995–2000

Destination	N	%
Portugal	6490	53.2
United States	2242	18.4
France	958	7.8
Netherlands	605	5.0
Italy	342	2.8
Luxembourg	227	1.9
Spain	207	1.7
Switzerland	115	0.9
Others	643	5.3
Unknown	377	3.1
<i>Total</i>	12206	100.0

Source: INE, 2000 Census

Current emigration or work abroad primarily occurs through family reunification provisions rather than explicitly as labor migration, or organized under Mode 4 of GATS. Securing Cape Verdeans employment overseas is facilitated by close ties between Cape Verde and the diaspora, leading to family-related chain migration. Marriages between Cape Verdeans on the islands and Cape Verdeans in the diaspora, for instance, are responsible for a substantial part of emigration and persons obtaining work abroad.

Organized labor migration, or temporary work abroad, has taken place on a very small scale, and with mixed experience. In 2000, the local office of the *Instituto de Emprego and Formação Profissional* in São Vicente organized the recruitment of workers for a construction company on the Azores. The company had the intention of recruiting workers in Cape Verde as a long-term strategy, and chartered a plane to collect the first group. After arrival, however, the workers expressed dissatisfaction with the conditions, and many abandoned the company before completion of the contract. This negative experience led to the shelving of plans for continued labor recruitment in Cape Verde.

A principal obstacle to trade in services under Mode 4 worldwide has been the issue of ‘temporariness’. The movement of “natural persons” on a temporary basis foreseen by this Mode is related to migration policy, and most destination countries have been reluctant to regard it purely as a trade issue.

Employment of Cape Verdeans abroad is likely to continue to take place, whether or it is not formalized as Mode 4, or called “circular migration”.

11.5.2 MOBILITY PARTNERSHIP WITH EUROPE

The designation of Cape Verde as a pilot country in the development of Mobility Partnerships between the European Union and selected third countries (Moldova is the other pilot country) represents a decisive opportunity for Cape Verde—particularly at a time when the EU is tightening its immigration rules for other countries. The Mobility Partnership is based essentially on the concept of circular migration, and offers Cape Verde a unique opportunity to develop new migration–development links. This partnership comes under the European Council initiatives on “Mobility Partnerships and Circular Migration”. It involves a number of possibilities including “temporary, legal movement of people ...whereby third country nationals take up legal

employment opportunities in the EU” (in other words the implementation of Mode 4 of GATS), “or persons legally resident in the EU go to their country of origin.”(In other words “return migration”).

The mobility partnership is between Cape Verde and the European Union, but implementation will take place through bilateral agreements with individual member states. Four European countries have entered the partnership: Portugal, Spain, France and Luxembourg.

The content of the partnership is currently being negotiated. Table 11.2 provides a summary of the issues presently on the table.

Table 11.2 Proposals at the Mobility Partnership first meeting, 2008

Proposals for action	Country/organization
<u>1. Monitoring and enhanced knowledge of migratory movements</u>	
Support the establishment of an Observatory of migrations	Portugal is already involved; Spain ready to support
<u>2. Employment, management and facilitation of lawful migrations</u>	
Based on experience of CAMPO78, development of an information center and support to migrants	Portugal, with other countries and EU
To continue to facilitate entrance of certain categories of workers, in particular for temporary work, conformed to circular migration	Portugal
To support educative structures for training apprentices, taking into account needs of Cape Verde and in Spain	Spain
Initiative for developing circular migrations, including a component for bringing families together	Luxemburg
Proposal for opening certain sectors of activities to migrants	France (a bilateral agreement should attached to the partnership)
Support to develop and strengthen existing partnerships between the university of Cape Verde and similar institutions in the European Union	All countries and EU
Proposal of Cape Verde to develop, in existing fora, a dialogue on integration issues	Cape Verde
<u>3. Mobility and short term visa</u>	
To submit to the EU Council a proposal for a facilitation agreement concerning issuance of short term visa	EC proposal
To set up a counselor section in Embassy of Spain in Cap Verde to improve delivery modalities of delivery short term visas	Spain
<u>4. Linkages between diaspora, development and remittances</u>	
To continue support to the <i>Instituto das Comunidades</i> in view of supporting circular migrations	Portugal; Spain readiness to participate
To improve cooperation between hospitals and medical institutes in EU states with a view of strengthening of CV medical infrastructures	All signatory countries
To strengthen CV medical capacities to diminish sanitary evacuations	Spain

Table 11.2 Proposals at the Mobility Partnership first meeting, 2008(continued)

Proposals for action	Country/organization
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Proposal for a multi faceted co-development project	France
<u>5. Asylum</u>	
Assistance to establish a system conform to international norms	Portugal
<u>6. Management of borders and repression of clandestine migration and human trafficking</u>	
Proposal for management of transborders cooperation (exchange of information, training, increasing assistance given to CV par FRONTEX	Cape Verde & European Agency FRONTEX
To facilitate cooperation between CV and EUROPOL	EU & countries interested
Proposal for an agreement for re-admission of persons in irregular situation	EC
Request from CV in areas of recording systems of entrances and departures; establish control at the borders, introduction of biometry in travel documents, training of trainers in areas of control at the borders, repression of fraud, criminal investigation	
Proposal of a project to support the Red Cross in case of humanitarian crisis, e.g. massive arrival of illegal migrants	Spain
Proposal for a program to strengthen CV capacities to monitor and inspect sea vessels; will also strengthen capacities in telecoms	Spain
Propose to strengthen cooperation with FRONTEX	France

Source: Summary of proposals made by the DTIS mission

Cape Verde has expressed the wish to be exempted from visa requirements to the European Union. Currently, Cape Verdeans who enter Europe with a Schengen visa (a short-term visitor's visa) can circulate within the Schengen area. Visas for work and study, by contrast are country-specific and do not allow entry into other member states. One possible European concession under the mobility partnership—a smaller step than visa exemption—would be to allow Cape Verdeans to circulate between the four participating countries, even if they are in possession of national visas.

There are several concessions that Cape Verde could make:

- First, the current visa requirement for entering Cape Verde could be abandoned. These visas are presently granted automatically, and their main justification is to raise revenue. They can be replaced by a tourist tax levied as part of the aircraft landing fees or collected by the hotels.
- Second, long-term residence by Europeans could be facilitated. Apart from retirees, attracting selected foreign professionals with an enterprising spirit, or who can provide much needed technical skills is in Cape Verde's interest. After a suitable period of residence, citizenship may be granted.
- Third, Cape Verde could co-operate closely with European countries in the fight against unauthorized immigration and trafficking of narcotics.

All three points are also in Cape Verde's interest, but nevertheless represent potential gains for Europe.

Countries of destination can also adapt their policies to ease the lives of migrants and families that are divided by migration. Recent initiatives by Portugal and Luxembourg, which preceded the Mobility Partnership, provide positive examples.

The Portuguese immigration law of 2007 creates new opportunities for return migration by letting permanent residents retain residence rights for up to ten years outside the country. Return migration is typically an uncertain undertaking, and this provision enables migrants to return for some time without making an irrevocable decision. Until 2007, residence rights were lost after six months of unjustified absence from Portugal. This is exactly that type of policy change that may allow for migration-development links to be strengthened. In Cape Verde, Portugal has also opened a centre to assist and inform prospective migrants in their country of origin, modeled on the 73 such centers that already exist to assist migrants in Portugal.

Luxemburg has appointed an agent in Cape Verde to work closely with families through the family reunification process in order to facilitate the transition to life in Luxemburg. There are about 100 cases of family-based migration from Cape Verde to Luxembourg every year. Luxemburg ensures that children and their parents are prepared for the transition, and that the migration of the children is timed so as to minimize disruption to their schooling. By offering guidance to the children and their families, the embassy ensures that the integration starts well before departure from Cape Verde.

This approach differs markedly from that of the Netherlands, where a test of Dutch language and knowledge of Dutch society (to be taken in Dakar) is used as a screening mechanism for allowing or denying family reunification.

It is not in the interest of Cape Verde to do like some countries and invest heavily in education that is solely geared towards emigration. However, by expanding professional training in key professions, there is a potential for synergies between domestic development and migration-related development. Short-term employment abroad is more beneficial to all parties when the migrant performs a job for which he or she is formally qualified. The same qualifications may facilitate reintegration in the Cape Verdean labor market after return, and increase the potential benefits of on-the-job training abroad. This win-win situation is precisely what is envisaged in the Mobility Partnership with the EU.

In chapter 6, five broad sectors have been suggested for expanded professional training: (i) tourism, (ii) construction (iii) IT and (iv) personal services and professional care. (v) Sea related careers.

Expanded training in these areas will meet demand in Cape Verde, while at the same time may offer opportunities for temporary emigration.

Personal services and professional care-which cover a range of semi-skilled professions such as auxiliary nursing and domestic service-are particularly suited to circular migration. With the ageing of the population in Southern Europe, a growing proportion of domestic workers, including Cape Verdeans, are caring for the elderly. Many Cape Verdeans throughout Europe work in homes for the elderly. The growing demand for such services may be met not only in Europe, but also through the development and diversification of Cape Verdean tourist industry. Specialized services for the elderly constitute a growing niche for the Cape Verde tourist industry, as well for attending to the needs retired returnees. Experience with care for the elderly in European homes and institutions can be valuable expertise for Cape Verde.

Vocational training in all the five areas identified in chapter 6 will be of interest to circular migration. Among those, training of care workers-where the demand in Cape Verde itself is at present less strong, and training programs relatively less intensive - would be particularly relevant and cost effective under the Mobility Partnership. This area is also of special interest in order to

ensure gender balance.

Recommendation 11.4 – Organize professional training for care workers

Among the other priority areas for vocational training mentioned, a special program for training in personal care should be developed. The organization and funding of training in this area should be an important part of the Mobility Partnership.

If, in the context of the Mobility Partnership, Cape Verdean authorities are given the power to allocate slots for labor migration, it is essential that transparent and professional management is ensured. Senegal's negative experience with temporary work visas to Spain should be avoided, since this risks to have many undesirable effects including putting in peril the effective implementation of the Partnership. This may be achieved by the supervision of a joint mechanism with the European countries concerned.

11.6. IMPROVING INFORMATION ON THE DIASPORA AND COMMUNICATION WITH ITS MEMBERS

11.6.1 FILLING THE INFORMATION GAP

Strengthening the development benefits arising from of the links with the diaspora requires an understanding of existing links as well as the potential of dormant ties. This is necessary in order to enable the elaboration of a coherent policy as regards the migration-development interaction and to allow the design of targeted policies and optimal use of resources. Regrettably, as mentioned above (11.1), Cape Verdean authorities lack fundamental information about migration and the diaspora. The current levels and composition of emigration flows are unknown; the approximate size of diaspora populations is unknown for most countries; knowledge about residents' ties with emigrant relatives is rudimentary at best.

There is also a need to know more about current emigration flows from Cape Verde, and about the nature and distribution of interaction between residents and the diaspora. For instance, it is difficult to assess the current and potential role of remittances in poverty reduction without information about how the transfers are distributed across socio-economic groups, and more information about informal mechanisms used. Similarly, the gender composition of migrants is also an important societal factor that needs to be specifically taken into account. An *Observatório da Emigração*, has been envisaged but has not yet been put in place.

Recommendation 11.5 - Establish a national migration research fund and undertake a national survey on migration

The need for accurate and policy-relevant information on migration and the diaspora should be met by setting up a national research fund. One of its first activities should be an national survey on migration and transnationalism to establish a baseline and a common frame of reference for future policies and research.

Coordination and dissemination of knowledge would be required on a regular basis-a function which would be located within IC. Furthermore, the coordination should entail a compilation of existing research and making it available. An online library should be established, which would have beneficial synergies in terms of nurturing active ties between the IC, the diaspora and the research community.

11.6.2 IMPROVING COMMUNICATIONS WITH THE DIASPORA

At present relations with emigrants are mostly conceptualized and organized in a hierarchical way in which embassies/consulates and migrant associations act as intermediaries between the central government and the diaspora. There is also direct communication between the IC and migrant associations, independent of embassies or consulates. For instance, during the summer holidays, most municipalities, in collaboration with the IC organize all-day meetings with emigrants, enabling direct encounters.

However, it is probably the case that most members of the diaspora are not organized through associations. In fact, many associations consist mostly of their committees and have few, if any, rank-and-file members. Furthermore, Cape Verdean associations in several countries have been marred by internal conflicts. Consequently, while it is important to support and maintain links with Cape Verdean associations abroad, it is at least as equally important to develop better communication with migrants who, for whatever reason, chose not to be part of an association. The Internet is important in this respect.

Since the 1990s, Cape Verde has had a handbook for emigrants, *Manual do Emigrante*, published in its third edition in 2006. This is potentially a very important tool in relation with the diaspora, regardless of development online. Many emigrants are still not computer literate, or have limited access to the internet. Furthermore, a written book may be more accessible and demand less initiative on the part of migrants than actively seeking information on the Internet.

The current edition of the *Manual do Emigrante* is produced with the limitations of a small budget and without specialized expertise. Developing a renewed handbook for emigrants requires the participation of experts in areas such as business development, public relations, and graphic design. A renewed handbook should have the user at the centre from the outset, rather than the Cape Verdean government or bureaucracy. It should also build upon experiences and best practice from other countries, such as Mexico's *Guía Paisano*-which contains for instance thorough information about how to address corruption or misconduct on the part of government officials, including a complaints form.

Recommendation 11.6 – Prepare a renewed handbook for emigrants

The existing “Manual do Emigrante” should be fully reworked. A new handbook should contain more carefully researched information, be written in a more user-friendly style, and be made widely available in Portuguese and English. In particular, information about investment in Cape Verde should be improved.

As discussed above, the Handbook should contain practical information on investment in Cape Verde and on remittance transfer mechanisms.

Finally, it may be noted that most of the recommendations made in this chapter would require a considerable strengthening of the IC and the MNECC. Provided it is adequately resourced, the IC could act as a one-stop (“balcao unico”) to provide orientation to the diaspora.

Recommendation 11.7 – Re-inforce MNECC and the IC to enable them to deal with diaspora issues and the new partnerships with the EU.

The departments of MNECC in charge of servicing the SPA and the Mobility Partnership will need to be strengthened and their level in the Ministry raised. An urgent effort is needed in order to build a cadre of Cap Verde experts who will be in charge of negotiating with their EU partners. Similarly, the IC needs support to prioritize its activities and assist in mainstreaming the Mobility Partnership and build relations with other Ministries, municipalities and NGOs.

CHAPTER 12

FISHERIES, AGRO PRODUCTS AND EXPORT ORIENTED LIGHT INDUSTRY

This chapter deals with selected activities which are not among the main focus of the Economic Transformation Agenda and of GPRS II. They include those which have provided the very limited domestic merchandise exports, and made positive contributions to employment and poverty alleviation. However, it is beyond the scope of this Chapter (and of the DTIS) to provide a comprehensive review of the fisheries, agricultural, livestock and industrial sectors of Cape Verde.

12.1. FISHERIES

12.1.1 SECTOR OVERVIEW

Fishing resources have traditionally been considered as one of few modest natural resources available to Cape Verde. However, in spite of enjoying some 750 thousand km² Exclusive Economic Zone (EEZ), Cape Verde's total fishing potential is subject to considerable uncertainty. The estimate in GPRS II (Par. 2.4.2.2) suggesting that sustainable catches may total 36,000 t per year is probably too high, as it assumes a total biomass substantially exceeding current levels. The average actual total catch during the end of the 20th century by Cape Verdean and foreign fishermen in the EEZ was approximately 10,000 t per annum, over half of which are small pelagics (Mackerel, big-eye scad, sardines). The total average lobster catch is stable (Between 30 and 40 t/year in the 2000s). Evidence shows that the limited near shore fish resources of Cape Verde are generally fully or over-exploited (demersal and lobster), with catches having been at or below current levels since 1990, while fishing efforts have substantially increased, notably in artisanal fisheries. Oceanic tuna resources appear highly seasonal, and are also considered fully or over-exploited. Some increase in catches may be possible from skipjack tuna stocks, subject to commercial feasibility.

The performance of the fishing sector has been disappointing, in spite of the fact that it has been heavily supported by foreign aid, to the tune USD 200 million over 1978- 2005, which is estimated to be more than the total gross domestic landed value over the same period. The contribution of the fishing sector to GDP, which was 2% in 2000, has fallen to less than 1% of GDP in 2007, of which 60% is generated by small-scale fishermen. Unofficial estimates suggest that this sector represented in 2007 between 5-7 % of the total active population, and some 10 % of those employed. In 2001/2002 it was estimated that there were some 4,300 small-scale fishermen, to whom can be added 2,000, mostly female, fishmongers and 800 seasonal workers employed in industrial fishing and canning. It was estimated that, in 2002, the value-added per fisherman was USD 780 and USD 1,250 per fishmonger, i.e. less than the country's average per capita GDP of USD 1,420.

12.1.2 FISHERIES EXPORTS

Although limited, exports of fish and fish products have in most years been the main domestic exports. Exports were banned (For phyto-sanitary reasons) by the EU from 2000 to 2003, but have recovered since then. In fact, in 2005 and particularly in 2006 (15,700 t) they have suddenly

reached levels far beyond historical performances (Which was of the order of 2,000-3,000 t in the 1990's). This is probably due to catches from foreign fisheries being transhipped in Mindelo and re-exported - misreported as Cape Verde exports. It has been reported that such "exports" had been attempted under AGOA, but eventually detected and banned by the US authorities. In 2007, fisheries exports have fallen substantially with respect to the peak of 2006, but still remain the main domestic export of Cape Verde, slightly ahead of clothing (Table 3.3).

Table 12.1 Fisheries Exports, 2002-2007, Million CVE

Products	2002	2003	2004	2005	2006	2007
Total fish and fish products:	59.0	46.7	109.0	634.9	888.1	564.2
of which						
Fresh and frozen fish	16.1	0.8	31.9	595.6	854.4	518.6
Lobster	38.7	39.1	67.4	34.4	-	31.0
Canned fish	4.2	6.8	9.7	4.9	34.7	14.6

Source: INE

Only two canneries are reported to be operating in 2008: the main one in S. Vicente and a small unit in S. Nicolau. The first, FRESCOMAR, a Cape Verde-Portuguese joint venture established in 2000, employs 80 full time workers. The company lost EU market share during the embargo imposed by the EU, but maintained exports to other (US) markets. Raw material for the cannery is supplied by Cape Verdean vessels, (which reportedly only land 150t/month during the season), well below the unit's capacity of 750 t. Additional raw material is imported. A Spanish group is expected to take over FRESCOMAR in 2008 and invest in new deep-freeze and storage capacity, which could lead to upgrading the processing and export potential and employ a total of 240 workers canning 24t/day. The cannery would be supplied by Spanish industrial fishing vessels. The global canned tuna market is very competitive, and – on account of increasing raw material prices and rapidly increasing energy costs, while markets are mostly stagnant or declining – is facing serious capacity and profitability issues. The EU markets are complex, and each country's different products and marketing models dominate. While it will be a challenge even for an experienced Spanish operator to compete in the rest of the EU with the large existing canneries in Ghana, Ivory Coast, Seychelles and Thailand, Spanish canners and distributors have been highly effective in maintaining their dominant share in the Spanish canned tuna market.

(Issues related to fish transshipment and the cold-storage facility INTERBASE have been addressed under the Mindelo platform section in Chapter 8.1.3).

12.1.3 THE EEZ AND FISHING AGREEMENTS

Cape Verde has a number of international fisheries agreements with international bodies and with the EU, Japan and a number of African countries. The most remunerative agreement, covering the period 2006-2011, is with the EU. The fishing licenses issued to EU flag vessels in 2008 are expected to yield EUR 325,000. Under the Japanese agreement, licenses yielded USD 80,000 in 2006, USD 144,000 in 2007, and USD 164,000 are forecast for 2008.

Illicit fishing is a problem. Cape Verde has a very limited surveillance capacity for its large EEZ. This is understandable in view of the high costs of Monitoring, Control and Surveillance (MCS), the very large area under surveillance, and the modest fish resources remaining in the area. Efforts are being made to improve the national ability to monitor foreign fishing fleets by linking-

up to existing Vessel Monitoring Systems (VMS) which are cheaper to operate. The World Bank has plans to support a regional fisheries program that would strengthen national and regional MCS efforts, including those of Cape Verde.

12.1.4 CONCLUSIONS AND RECOMMENDATIONS

Without being a leading sector, fisheries are important in economic and social terms. (It is estimated that each fisherman supports 5 persons). It is also the main source of domestic exports.

Under the precautionary principle, it is widely accepted that the total fishing effort will need to be reduced substantially in selected locations on selected species to maintain economically and biologically viable fisheries. However, a stronger scientific basis targeting specific local areas and stocks will be critical for future resources management action to define new management regulations, target future research programs and design support programs to alleviate the negative impact of loss of sector employment. The restrictive policy as regards increases in catches implies that additional benefits from the sector should be obtained through an effort to add-value through the value chain. (And also that alternative employment for the redundant fishermen should be found).

Recommendation 12.1 – Improve research on and management_ of local fish resources and the marine environment

INDP should be supported through provision of training and equipment. Expert advice on the priorities and design of the research program is also desirable.

One particular critical aspect of resource management is the need to strengthen MCS, not only to provide a more credible deterrence against illicit fishing in Cape Verde’s EEZ, but also to control human and drug trafficking. Enhancing MCS capacity to control fisheries may involve linking-up to existing Vessel Monitoring Systems (VMS), notably of the EU.

Recommendation 12.2 - Reinforce the Monitoring Control and Surveillance (MCS) program

Link-up with existing VMS, provide technical assistance and support financing of capital costs, and particularly of operational costs. Ensure cost-effectiveness of MCS operations.

Since fisheries surveillance and controlling the more serious human and drug trafficking in the archipelago and EEZ have overlapping use of equipment and activities, there appears a mutual interest for the EU and Cape Verde to develop a cost-effective MCS system. Assistance in this area should be included in the Special Partnership Agreement with the EU under component (ii) “security and stability”.

As regards **markets and product forms** needed to provide this increased value added, the **rapidly increasing domestic and tourist markets** provide a ready outlet for local fisheries. Demand by tourists is likely to be focused on:

- Yellowfin tuna steaks, providing opportunities for enterprises to process and sell to restaurants in loin form;
- Fillets of white/demersal fish, providing opportunities for local small-scale processing by artisanal communities into fillets for sale to restaurants and retail outlets, along perhaps with demand levels for whole small plate-sized demersal fish;
- Lobster, squid and cuttlefish, which could be sold in whole unprocessed form to retail and food service outlets, or directly to hotels, at remunerative prices.

Canned tuna, on the other hand, may be less appreciated by tourists.

If local markets cannot absorb domestic landings, there would be possibilities for **exports of any surplus yellowfin catches**. As for the domestic market, it is preferable to concentrate on whole fresh or frozen tuna or loins and steaks rather than to put tuna in a can. In terms of global markets, demand for yellowfin for direct consumption has been growing rapidly in recent years. The main markets for Cape Verde would be the USA and Europe. Demand for fresh/chilled or frozen product, in either whole or loin form (as opposed to for canning) will always have a market, the price being dependent on the reliability of the supply and quality. Frozen tuna is usually lower value. Whole, gilled and gutted fish, loins and steaks should be frozen only when no fresh sales are available. Due to quality and rules of origin requirements of the EU the fish would need to be caught by the Cape Verdean vessels.

For fisheries operations, it is generally agreed that improvement the effectiveness of **artisanal and semi-industrial** activities (ensuring financially and biologically sustainable activities) should be prioritized (reducing and replacing rather than expanding the size of the fleet). Public support for the domestic industrial tuna fleet, including recent additions, and fuel subsidies are being reconsidered⁷⁹. It is realized that fuel subsidies support mostly industrial fisheries and may favor continuation of energy intensive fishing methods that may no longer be competitive if high energy prices prevail. Interest subsidies tend to encourage the use of capital intensive methods, while Cape Verde small- and intermediate size fisheries appear most effective in satisfying the country needs for labor intensive appropriate technology. Current subsidies for ice, fuel and vessel credits – through FDP- do not generally reach those fishermen most in need, Public support for the restructuring of fisheries may focus on alleviating social costs and targeted investment subsidies to support the introduction of new, proven, small- and intermediate fisheries technologies and equipment to catch and handle fish for quality conscious markets.

To strengthen effective **artisanal and semi industrial fisheries, fisheries extension and technology development and testing** should receive more attention. In this regard, a general recommended principle is that before engaging in potentially expensive transport of fish between islands, efforts should first be made to improve the handling and quality of products being landed on each island and sold, as a priority, in that island - including for the tourist market. The organization of landing sites and local fisheries associations is critical to reach a quality conscious domestic tourist market and target foreign markets for fresh and frozen fish.

As regards **commercial industrial development**, it is important to ensure optimal future benefits from the existing productive industrial infrastructure and vessels, and their effective commercial operation (including an evaluation of the proposed takeover of the tuna cannery by Spanish interests). Cape Verde, like many small island nations, does not have the capacity to negotiate with large foreign tuna companies, and has limited understanding of the complex commercial arrangements prevailing in many EU markets. The suggestion has been made that Cape Verde

operators should invest in one or more vessels geared for industrial fishing, i.e. with a minimum size of 500 t, capacity to stay at sea for 2 months and on-board deep-freeze facilities. But this needs careful evaluation.

Recommendation 12.3 – Evaluate options for industrial fishing and canning

Technical assistance to evaluate the strategic options for the fleet and the cannery

An opportunity sometimes mentioned is the development of **aquaculture**. However, the most recent study (Poseidon report) confirms that the technical and financial feasibility of fish culture (shrimp, bream and sea-bass culture) in Cape Verde is not promising. Lobster is even more problematic⁸⁰.

In many countries **seaweed farming, harvesting** and pre-processing (drying) is generative of employment for the poor and women (who do not go deep sea fishing). The technical, financial and social feasibility of farming of selected seaweeds may be explored for Cape Verde.

Recommendation 12.4 – Undertake a feasibility of seaweed farming

Japan and China are among the countries with experience in this area

12.2. NICHE AGRO-BASED PRODUCTS

The constraints to agricultural and food production in Cape Verde are well-known. Yet, some 50% of the population depends on some sort of farming and agriculture, which accounts for some 90% of GDP. As already noted the DTIS does not claim to examine the whole of the agricultural sector-but only addresses selected niche products.

As indicated in Chapter 7, there is potential for improving supplies to the expanding domestic and tourist markets.. Some niche products, are already marketed, and could be internationally competitive. A few examples are given below.

Fogo vineyards are probably the only ones in the world growing on a caldera, a distinctive feature which could make the wine attractive to connoisseurs. Wine is produced by a cooperative (82 members), which has also started distilling to produce grappa and even ice wine. When storage capacity is insufficient, grape juice is produced. There has been a marked effort to improve the quality of wine and grape-based drinks, with the assistance of the Italian NGO, COSPE, supported by Italian and EU funding. Fogo wine have a ready market in Cape Verde, and restaurants and hotels are often out of stock. Although production is expanding fast (The vineyard area is being doubled to 80 ha in 2008/09), it will always be limited, since the possibility of irrigation is not available on the high slopes of the volcano, where water has to be carried uphill by cisterns and donkey.

Other distilled drinks are **grogue**, from sugarcane, and fruit- or honey-based liquors (**ponch**) are already exported, mainly to the diaspora, and offered at duty free-shops. Recently, Grogue has lost some of its characteristic flavor because of the replacement of sugarcane by cheaper crystal

sugar. On the other hand, labeling has improved.

The lower slopes of Fogo's volcano also produce **coffee** which is reported to be of high quality and is consumed as a gourmet item in Lisbon. The producers have an association (Associação ProCafé), consisting of 40 members (including 12 emigrants), but it is less dynamic than the wine co-operative. From 8 ha in 2000, the plantation area is expected to reach 10 ha in 2008 and 15 ha in 2009. The availability of water resources limits expansion and leads to yearly fluctuations of output; 100 t were produced in 2007. 80% of the coffee is roasted locally and distributed through wholesalers. The remaining 20% are sold un-processed to a Portuguese firm in Praia which blends it with imported coffees. If processing and marketing are improved, Fogo coffee could become a high value-added niche market product. A possible model is the Jamaica Blue Mountain coffee which fetches very high prices in Japan (But is difficult to obtain in Jamaica itself).

Other worth while products niche products include cheese (especially goat cheese), fruits, jathropa (juba-juba) and "barbosa".

Recommendation 12.5-Support to the development of selected agro-based products

This support should address both the supply and demand end of the supply chains, from pre-production, production and distribution all the way to the dinner table. Special attention should be paid to niche products for the tourist and international markets. The work already done by the Millennium Challenge Fund in this area and others under the umbrella of "product transformation" should be built upon. Producer associations should be encouraged and supported.

A particular aspect concerns standards and quality control. SPS standards exist in Cape Verde, but the capacity to implement them needs to be strengthened. (see Recommendations 5.6 and 7.4). The production of typical regional specialties is not regulated or protected, so that traditionally made products cannot command premium prices.

Recommendation 12.6 – Support for the standardization and certification of niche agro-niche products

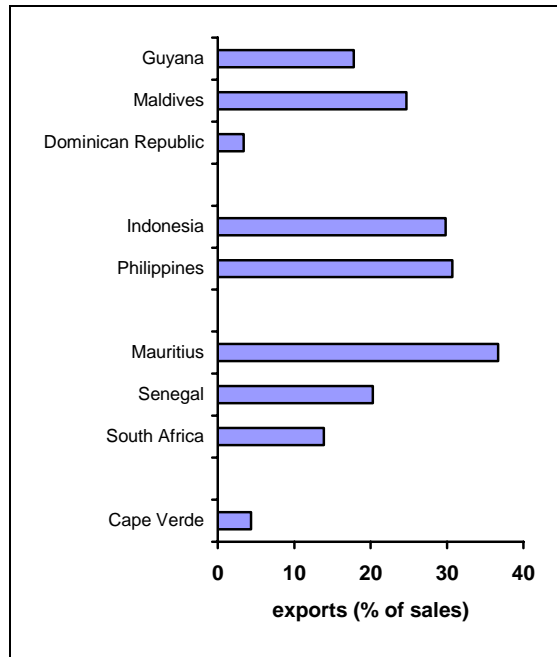
The regulation and protection of the production of traditional regional products, including growing and processing standards, labeling and certification needs to be put in place to improve product image.

This certification and quality control should combine standardized, internationally recognized scientific capacity with a (rigorous) indigenous certification system reflecting unique Cape Verdean characteristics.

12.3. EXPORT ORIENTED LIGHT MANUFACTURING

According to the ICA report, manufacturing firms in Cape Verde export 6% of their total sales- a ratio well below that of comparator countries (Figure 12.1). This may even be an overestimate, given the country's export performance in manufactures. In Mauritius, Indonesia and the Philippines the export-to-sales ratio is in the order of 30 to 40%. This is mostly due to natural and factor cost constraints rather than to the regulatory framework, as evidenced by the "cost of trading across borders" component of the Cost of Doing Business, where Cape Verde, is the lowest of the comparator countries: about 45% less than in Mauritius and 50% less than in Spain (See Table 6.2).

Figure 12.1 .Cape Verde and comparator countries: Share of exports in total enterprise sales, 2005



Source: IFC, Cape Verde Investment Climate Assessment

The main manufacturing exporters (Garments and shoe manufacturing) have not met with success in Cape Verde, confirming that geo-economic conditions and relatively high factor costs are not favorable to manufacturing for export on a large scale. This should not, however, totally exclude the possibility of selected light manufacturing or assembly industries working, e.g. on a sub-contracting basis, for foreign companies. It would be pointless to list the potential in this respect, since anything from fly-fishing hooks to sophisticated watch pieces can be envisaged-so long as they are not intensive users of electricity and water. The development of such activities requires competitive wages, adequate logistics and a favorable regulatory framework. Cape Verde is not far from meeting these requirements. With the expected improvements in international airline connections –in particular the opening of Sao Vicente to international traffic- Cape Verde’s competitive advantages could become more visible in the near future.

The Lazareto industrial zone (S. Vicente) on 27 ha, i.e. 54 lots of 2,500 to 5,000 m² with an expansion area of 10 ha (16 lots and green spaces) is presently almost unutilized (In 2008, by only 2 companies employing a total of 300 workers).

Industrial lots could be made available for free, or for a nominal fee, to foreign and domestic operators, e.g. through a long (or indefinite) lease arrangement. The present industrial zone legislation listing “authorized” activities is unnecessarily restrictive, as this may put off some potential operators who do not see their activity listed. This should be replaced by a provision allowing all activities, except those specifically prohibited (E.g. dangerous chemicals, weapons, etc.).

Now that CI’s role is being refocused it should play its role as promoting Cape Verde as a location for light industry.

Recommendation 12.7 – Promote light industry sub-contracting and assembly for exports

Cape Verde should be promoted as a destination for international sub-contracting of light manufacturing and assembly activities. The industrial park legislation should make it more attractive to prospective operators and foreign partners willing to subcontract certain activities to Cape Verde.

ANNEX A - IMPACT OF THE ECOWAS CET AND OF THE EPA ON CAPE VERDE: A PRELIMINARY ASSESSMENT

1. THE CET AND ITS IMPACT

The implementation of the ECOWAS Common External Tariff (CET) would have a major impact on Cape Verde's economy. This impact would be on fiscal revenues, on the competitiveness of industrial and agricultural activities, and on consumer prices. These effects are caused by two factors: the use of a different product classifications and changes in the rates applied to the products (see Table A. 1). It is difficult to give a precise estimation of this impact on Cape Verde due to two main reasons:

1. Some of the ECOWAS CET tariff lines are not categorized yet and are still under negotiation;
2. Cape Verde has not submitted its list of B-type exceptions.

The purpose of this brief impact study is to outline the main trends and provide a basis for further analysis.

Table A.1. Tariff modifications caused by the implementation of the ECOWAS CET (WAEMU)

CET Category	Number of tariff lines of the ECOWAS CET Category presently		
	< to the CET rate	= to the CET rate	> to the CET rate
in Cape Verde's tariff			
0 (0 % rate)			5
1 (5 % rate)	555	150	154
2 (10 % rate)	404	10	203
3 (20 % rate)	641	505	665
Total	1,600	665	1,027

Source: ASYCUDA, DTIS mission's calculations.

Note: only for tariff lines applied to products imported in 2007.

Table A.1 should be read as follows: among ECOWAS CET Category 1 tariff lines (5% rate), 555 lines currently have a rate inferior to 5% in Cape Verde, 150 have a 5% rate and 154 have a rate superior to 5%. Overall (Row 5 in Table A.1), the implementation of the ECOWAS CET in Cape Verde would reduce the tariff rate of 1,600 tariff lines, maintain 665 lines at the same rate and increase the tariff rate of 1,027 lines.

It must be noted that the creation of the EPA would greatly reduce the impact of the ECOWAS CET on Cape Verdean economy, as it would only be applied to slightly over 20% of imports (i.e.

those that are not of EU or ECOWAS origin). The following simulations assume that the Customs Union (CU) is achieved *ceteris paribus* (i.e., **the EPA is not signed**).

1.1. RELATIVELY NEUTRAL IMPACT ON TAX INCOME

In order to measure the impact on fiscal revenues, the following hypotheses are made:

- The ECOWAS CET is identical to the current WAEMU CET (without taking into account the list of B-type exceptions);
- The tariff modification does not alter the structure and volume of trade (price elasticity is assumed to be 0);
- The application of the ECOWAS CET does not affect the regional tax (contribution of 1% to ECOWAS on non-ECOWAS trade) or excise duties.
- The calculation is only done for fully taxed imports. Since there are many exemptions schemes in Cape Verde (with partial and full exemptions, an analysis of the customs declarations would be necessary to obtain a precise estimate).

The impact of the implementation of the ECOWAS CET on fiscal revenues depends on the combination of two elements: the new classification of goods and the rates applied for each category. The highest ECOWAS CET rate applied (which should be of 20%) remains much lower than the 50% rate currently applied in Cape Verde.

However, Cape Verde should not be reluctant to apply the ECOWAS CET on account of its effect on fiscal revenues. As calculated in Table A.2, the new product classification and the rates applied would contribute to generate a tax income surplus estimated at about 800 million CVE, representing a 3.1% increase in fiscal revenues.

Table A.2. Impact of the implementation of the ECOWAS CET (WAEMU) on tax income, million CVE

CET Category	Value of imports	Duties and taxes presently collected		Duties and taxes collected assuming implementation of the ECOWAS CET	
		Customs duties	VAT	Customs duties	VAT
0	930	3	8	0	8
1	6,042	223	626	302	634
2	10,998	660	1,611	1,100	1,672
3	23,169	4,467	3,269	4,634	3,288
Total	41,139	5,352	5,514	6,036	5,603
Total customs duties and VAT		10,866		11,639	

Source: Customs data (ASYCUDA), CET (WAEMU) and DTIS mission's calculations.

Note: The impact is calculated only for fully taxed imports which represent over 2/3 of total 2007 imports.

1.2. A POTENTIALLY SIGNIFICANT IMPACT ON THE COMPETITIVENESS OF FIRMS AND CONSUMER PRICES

The impact of the ECOWAS CET on competitiveness depends on the specificity of each sector considered and may even depend on the particular characteristics of a firm (Production and cost functions). It is therefore impossible to conduct a comprehensive impact study. The implementation of the ECOWAS CET will certainly negatively affect local production - Since local products would lose benefits proceeding from protective mechanisms. It would imply an Effective Protection Rate inferior to that obtained with the tariff presently applied in Cape Verde (See Table 4.2 in Chapter 4 of this report).

To summarize, if the EPA was not signed, the implementation of the ECOWAS CET would most likely have a limited impact on fiscal revenues, while the impact on competitiveness of local production could be more significant. Although this only affects very few firms, it could become an obstacle to the development of processing activities in the future, which might have opportunities to expand to supply the local and tourist markets.

As for the effect on consumer prices, the classification of goods and especially the potential existence of a 5th band set at 50% (not yet agreed) could increase the prices of certain daily consumer goods, such as corn or rice. This would particularly affect the poorest groups of the population and might be quite severe considering the current increase of foodstuff prices.

2. IMPACT OF THE WEST AFRICA EPA ON CAPE VERDE

2.1. A SEVERE REDUCTION IN FISCAL REVENUE

As for the ECOWAS CET impact, it is only possible to outline the main trends. In what follows, the following hypotheses are made:

- The ECOWAS CET (identical to the WAEMU CET) is applied;
- Trade inside ECOWAS is completely free;
- During an initial period, the tariff modification does not alter the structure and volume of trade (price elasticity is 0); a sensitivity analysis of the results is done on the variation of imports of EU origin;
- Excise duties are not affected by the EPA: the consumption tax is eliminated on imports of ECOWAS and EU origin;
- The calculation is only done for fully taxed imports- which represent over 2/3 of total imports;
- In the absence of an implementation calendar for the EPA and of a list of sensitive products means that the result shows the impact of the EPA in a full year and in case of a complete liberalization.

Table A.3 presents the results of these simulations. Without changes in the trade structure, the impact on fiscal revenues would be significant. It represents a loss of revenues estimated in over 4.5 billion CVE, which is equivalent to an 18.2% decrease of fiscal revenues (Representing 4% of the GDP). This loss is mostly concentrated on customs duties and, to a lesser extent, on VAT⁸¹.

The increase of imports of EU origin- eventually caused by the decreased tariff, and a wider taxable basis for VAT could limit the loss of VAT revenues (And could even increase it if imports of EU origin were to increase by 30%). The loss of fiscal revenues would then be reduced and represent between 13.7 and 16% of fiscal revenues (Between 3 and 3.5% of GDP - See table A.3, rows 3 and 4).

Table A.3. Impact of the West Africa EPA on fiscal revenues

	Current revenues	EPA revenues Structure of unchanged trade	EPA revenues 15% increase of imports of EU origin	EPA revenues 30% increase of imports of EU origin
Revenues in millions of CVE				
Customs duties	5,555	1,547	1,547	1,547
VAT revenues	5,514	4,879	5,458	6,040
Total	11,069	6,426	7,005	7,587
Δ of revenues in millions of CVE				
Customs duties		-4,008	-4,008	-4,008
VAT revenues		-635	-56	526
Total		-4,643	-4,064	-3,482
Δ of revenues in % of tax revenues				
Customs duties		-15.7	-15.7	-15.7
VAT revenues		-2.5	-0.2	2.1
Total		-18.2	-16.0	-13.7
Δ of revenues in % of GDP				
Customs duties		-3.5	-3.5	-3.5
VAT revenues		-0.5	0.0	0.5
Total		-4.0	-3.5	-3.0

Source: Customs (ASYCUDA), ECOWAS CET (WAEMU) and DTIS mission's calculations.

2.2. IMPACT ON COMPETITIVENESS OF FIRMS AND ON CONSUMER PRICES

Removing customs duties on goods of EU origin (which represent over $\frac{3}{4}$ of 2007 imports) will bring the EPR closer to 0. The EPR could be negative for local activities produced with inputs coming from the rest of the world (which would be taxed), while the competitor finished product of EU origin would freely enter Cape Verde. This could negatively affect the production of goods intended for the tourism industry and of those directed to satisfy the population's growing demand. On the other hand, the service sector (especially the tourism industry) would stand to benefit from the price decrease of many of these inputs.

If the commercial system is competitive enough⁸² so that the elimination of customs duties were to reflect on consumer prices instead of increasing profit margins, the import of European products without charging customs duties should reduce consumer prices.

ANNEX B - ORGANIZATIONAL AND HUMAN RESOURCE CAPABILITY IN IT AND BPO IN CAPE VERDE

PART I – INSTITUTIONS AND COMPANIES

A number of companies and institutions in Cape Verde are working in the field of outsourcing (or in an area closely related to it). They would provide a good basis for the launching of a dynamic BPO sector.

Table B.1 Institutions and companies which could be involved in offshore BPO

Type of activity	No. of	Main companies or institutions units
National Support Structure (ICT hardware, software and services)	1	NOSI
National Support Structure (to be inaugurated in late 2008). ICT innovation	1	Electronic Governance Innovation Center (<i>Centro de Inovação ao Governação Electronica</i>). Partnership between Microsoft, the University of Cape Verde (UNI-CV) and private companies (e.g. SOPROINF, NT 2000).
Audit	5	PriceWaterHouseCoopers, ADA, Confira, BDO
Consultants with expertise in: engineering (hydro, electronic), architecture, land planning, urban planning, tourism zones.	12	GDP, Gepro, Sinergia, Tecnica LDA, TERA, CESE
Consulting in: financial audit, management audit, accounting, company services, marketing, human resources management.	22	BDO, BD Contact, Fiducial CV, 4 Consultores Lda, Mundiserviços, CGE, Leadership Business Consulting.
Financial investments	5	Promotora, INCO, SDE, MGF
Accounting and financial management. Services and systems	13	BMT, CONTAGEST, FINACONTA, GLOBAL Soluções, MFR, Confer Lda,
Information Systems (ITES)	17	Cabo Sys, Logicab, Micromat, Multidata, Soproinf
Marketing and communication	5	MGF, CLIMAR, EME, Mundiserviços
Advertizing, marketing (of which 5 use ICT for web design, multimedia)	13	OPAL, CRIADURA, GRP, CATCHUPA Design, BZN, PC Arte, Imagens LDA, Directel
IT services (BPO/ITES)	32	Cabosoft, Infotel, Infos@1, IRIS, NT 2000, Sopromat, Vilu, Tudo directo
Telecommunications	11	Contact-CV already has a call centre (Gigatel, ITEL)

Cybercentres (including cyber-café) 200 (?) Widespread.

Table B.1 Institutions and companies which could be involved in offshore BPO(continued)

Type of activity	No. of Main companies or institutions units	
Diaspora members working in ICT or consulting companies abroad	?	For example: Kristine Allen, member of the Cape Verdean American Business Association, is CEO of the Partner Group, which provides outsourcing consulting; Elisabeth Sanches Moreno, president of the Cape Verdean Business Club, works for Dell in Paris.
Diaspora SMEs in ICT	?	Example: Brava Telecom, founded by migrant descendants from Brava in the US, created the website of <i>Caixa Economica</i> and Cape Verdean websites such as <i>CaboverdeOnline</i> or <i>VisaOnline</i> .

Source: *Paginas Amarelas Directel* 2007-2008, *MGF Anuario* 2007-2008; and DTIS mission.

Operational Nucleus for Information Society - NOSI (*Núcleo Operacional da Sociedade de Informação*): created in 2004, it plays a crucial role in the construction of the Cape Verdean information society. NOSI reports directly dependent to the Prime Minister and is the main actor behind two national programs launched in 2005: the Electronic Governance Action Plan (*Plano de Acção para a Governação Electronica - PAGE*), and the Information Society Strategic Program (*Programa Estratégico para a Sociedade de Informação - PESI*). It employs 50 engineers and high-level technicians, most of them certified by Microsoft and Oracle. NOSI is a hardware and software supplier to the House of the Citizen Initiative (*Casa do Cidadão*) launched in 2007. It is also responsible for the National Initiative to Develop the Internet, Accessibility and Broadband (*L'Iniciativa Nacional para a Internet, Acessibilidade e Banda Larga - INIABL*). NOSI has obtained contracts in Angola, Mozambique, Burkina Faso, Guinea and Ghana and has received funding from the World Bank and the European Union. Only an estimated 6% of NOSI's work is allocated to local private enterprises. These enterprises would welcome more work from NOSI and from Government.

In the **private sector**, although all companies are small and work mostly for the local market, several, like CABONET (web site creation and information diffusion), Infotel, Logicab, NT 2000 (computer management material, websites), *ADA Soluções* have international ambitions and are in contact with the diaspora and certain PALOP markets.

The following are examples of companies that have a strong international network and could potentially play a significant role in the offshore BPO sector.

- **PriceWaterHouseCoopers - Cabo Verde** (audit, company organization and management consulting, accounting). As part of the world-wide PwC network, it is responsible for activities outside of Cape Verde: in Guinea Bissau, Angola and Sao Tomé.
- **MundiServiços Cabo Verde:** Subsidiary of *MundiServiços, Cia Portuguesa de Serviços e Gestao, Lda*. This company is specialized in economic development and management consulting and training. MundiServiços has been working on projects in Cape Verde since 1993, and has an office in Praia since 2003. MundiServiços is closely linked to the **Espirito Santo Bank**⁸³, assisting the bank in carrying out projects in the South Atlantic region in areas such as e-learning.

- **MGF, Investimentos, Estudos e Gestao, SA:** located in Mindelo, the company works on two sectors: studies and investigations on one side (market studies, surveys, new products), and outsourcing on the other (company creation, marketing plan, advertising, cadastral organization, company organization consulting, databases). It creates Web pages, logos and commercials.

As potential partners, some Portuguese companies are interested in doing BPO overseas. A list of 167 interested companies was collected during the DTIS mission and is available from AICEP Portugal Global (octavio.santos@portugalglobal.pt) or from consultant Michel Lesourd (Michel.Lesourd@univ-rouen.fr).

PART II – EDUCATIONAL INSTITUTIONS RELATED TO IT AND BPO

The main relevant training institutions concerning IT and BPO and their expertise are listed in Table B.2. The ISE (*Instituto Superior de Educaçao*) could also have a potential role to play.

Table B.2 ICT, BOP/ITES Training Institutions

Institution	IESIG	ISCEE	Uni-Piaget	UNI-CV ISE	UNI-CV INAG	UNI-CV ISECMAR
Location	Mindelo	Mindelo, Praia	Praia, Mindelo	Praia, Mindelo	Praia	Mindelo
Academic Training: Bachelors Degree (4 years)	Finance, Management of Information Systems	Applied Economics, Business Administration and Accounting	Finance, Management, Engineering, Systems and Computer Science, Communication Sciences	Computer Science	Business, Public Administration	Computer Science, Electronics, Telecommunications
Academic Training: Master Degree	Computer Science, International Financial Management	Business Administration and Accounting	Tourism, Marketing and International Business	Computer Science (training of trainers)	No	No
MBA	No	Partnership with ISCTE Lisbon	Yes	No	No	No
Finance/Banking Academic Training	Yes	Yes	Yes	No	No	No

Table B.2 ICT, BOP/ITES Training Institutions (continued)

Institution	IESIG	ISCEE	Uni-Piaget	UNI-CV ISE	UNI-CV INAG	UNI-CV ISECMAR
Location	Mindelo	Mindelo, Praia	Praia, Mindelo	Praia, Mindelo	Praia	Mindelo

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Academic Training in Computer Engineering (Hardware/ Software)	Yes	No	Yes	No	No	Yes
Languages	English Portuguese	English Portuguese	English Portuguese Mandarin	English Portuguese	English Portuguese	English Portuguese
Start-up companies Business incubator	No	Yes: "Company Creation" Program	Yes, CDE (Business Development Center - <i>Centro de Desenvolvimento Empresarial</i>)	No	No	No
Partnership and/or Label Training	No	Yes: Microsoft	Yes: CISCO Academy, Microsoft	Yes: Microsoft	Yes: Microsoft	Yes: Microsoft
International partnerships	Several in Europe, and Cuba	Portugal (ISCTE), Europe, United-States	Portugal and others: Piaget network, Portuguese Universities and PALOPs	Brazilian, French and Portuguese Universities	Portugal, France	Master and Doctorate. Portugal, Belgium, France
Computer equipment	***	***	****	**	**	****
Relations with the Cape Verdean private sector	No	Yes	Yes	No	State and Territorial Civil Service	Yes
Short term projects	2 new Programs: Telecommunications Engineering, Computer Engineering	<ul style="list-style-type: none"> •International Development, Accounting, Management, Tax system, English •Development of relations with the African private sector 	<ul style="list-style-type: none"> -Consolidating the relationship with the Piaget network, PALOPs and Francophone African countries -Creation of a sub-regional business school network (ECOWAS) 	?	?	Course updating: Electronic Engineering and Telecommunications

ISIDORO DE GRAÇA INSTITUTE OF HIGHER LEARNING (*INSTITUTO DE ESTUDOS SUPERIORES ISIDORO DE GRAÇA - IESIG*)

IESIG is an independent private institution founded in 2002 and based in Mindelo. The institute is specialized in social sciences and technology. It has also developed two Programs with a strong management component geared towards tourism, hotel and IT management. Presently, about 700 students are enrolled in its different programs. The vast majority of lecturers have are employed part-time. IESIG is the only institution in Cape Verde that offers a general 4 year-University Degree in Law (Bachelor's Degree).

It would be strategic to develop a Masters in Law specialized in Commercial Law or Transportation Law.

HIGHER INSTITUTE OF ECONOMICS AND BUSINESS (*INSTITUTO SUPERIOR DE CIÊNCIAS ECONÓMICAS E EMPRESARIAS-ISCEE*)

Founded in 1992, the ISCEE is a State-owned institution managed by a private group. Its headquarters are in Mindelo, and its secondary campus is in Praia. Its academic focus is applied economics, business administration and accounting. The ISCEE has earned a good reputation and developed a strong partnership with one of Portugal's top 3 business schools (ISTCE-Lisbon). ISCEE pays special attention to motivate and develop a sense of entrepreneurship among youth. For that purpose, the institute has created a company-simulation contest, which prepares students to look for efficiency and excellence in an internationally competitive context.

JEAN PIAGET UNIVERSITY OF CAPE VERDE (*UNI-PIAGET*)

Jean Piaget University of Cape Verde is part of a network (*Instituto Piaget*, a non-profit cooperative) established in Portugal 31 years ago. There are currently 11 campuses in Portugal and 5 in Africa. In Cape Verde, JPU was established in 2001. This University offers extensive e-learning courses, although it usually requires the attendance of students at the University for 50% of the time. Uni-Piaget works in collaboration with the CISCO Academy (certification in computer techniques), as well as with Microsoft (it has obtained certification). Some of the graduate courses (after the four-year long Bachelor's Degree) include: "Economics and Management" and "Systems Engineering and Computer Science." JPU offers a post-graduate degree (Masters) in association with the **MBA Business School in the Canary Islands** (member of the European Foundation for Management Development- EFMD): a Master in Business Administration (MBA) specialized in tourism e-marketing and e-business (these two Programs are offered by the Canary Islands platform but in Portuguese). The University has received EU certification. The **Business Development Center (*Centro de Desenvolvimento Empresarial-CDE*)** was created in 2005. Its aim is to promote entrepreneurship spirit, creativity and to help create micro and small innovative companies, as well as to support existing small and medium-sized companies. The Center works in partnership with the Portuguese company **Ges Entrepreneur** and the **CG International** network. There is also a consulting activity. Three hundred and fifty students are currently enrolled in the CDE's Program, which is one year long. Some of Uni-Piaget CV's Programs are taught through e-learning: a multimedia platform for education and online academic training has been established at the University (in Praia). The Praia branch is coordinating e-learning Programs with the Piaget Institutes of Lisbon, Angola and Mozambique. Part of Uni-Piaget's academic training is accessible online. The University also offers short courses, especially in accounting/management, business English, French, Introduction to interpreting to Mandarin (with the Chinese Embassy in Cape Verde), Creole (for the Chinese and other foreigners living in Cape Verde), training of trainers, tourism and financial

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risk management. Uni-Piaget CV enjoys excellent computer facilities: a total of 150 workstations (for 1,614 students enrolled in 2008) are distributed among 6 rooms (5 in Praia, 1 in Mindelo), as well as high quality audiovisual and educational material.

CAPE VERDE UNIVERSITY (UNI-CV)

The University of Cape Verde, officially established in 2006, consists of various institutions that were formerly independent. Membership arrangements are still under discussion. The University has many connections to foreign universities: for example, it is part of the PALOP's network of Universities and observer at the Universities Council of the peripheral areas of the EU.

SUPERIOR INSTITUTE OF ENGINEERING AND SCIENCES OF THE SEA (INSTITUTO SUPERIOR DE ENGENHARIA E CIÊNCIAS DO MAR - ISECMAR)

The ISECMAR offers a Bachelor's Program (4 year-long) focused on sciences of the sea and which includes two academic trainings on: Computer Science and Automatic Engineering; Telecommunications Engineering. The Institute is well equipped, as it has a Telecommunications lab as well as a Computer Science one. ISECMAR has received a grant from Luxembourg that has enabled the modernization of its facilities and equipment. New graduate Programs (Masters Level) are presently being designed.

National Institute of Management (Instituto Nacional de Administração e Gestão - INAG)

INAG is a public institution strongly linked to the Ministry of Education and the Ministry of Public Administration Reforms, and was created as the "training branch of the State". Its emphasis is on public administration. INAG would gain by establishing ties with the private sector.

THE ROLE OF NOSI (OPERATIONAL NUCLEUS FOR INFORMATION SOCIETY)

Although its main purpose is not to provide training, NOSI plays an important support role education, in particular through its program: "ICT in Higher Education" (*TIC no Ensino Superior*). It is also responsible for the development of a national e-learning platform, which is coordinated with the one of the Uni-Piaget.

ANNEX C - THE IMPACT OF TOURISM ON THE ECONOMY AND ON THE POOR IN CAPE VERDE

1. TOURISM SATELLITE ACCOUNTS

In order to determine the effects of tourism, it is necessary to take into account the immediate impact of tourism, but also to trace these impacts back into the host economy – essentially to allow a comparison of ‘before’ and ‘after’ tourism scenarios.

Given the paucity of actual data in Cape Verde – including such basic indicators as the number of tourist arrivals and their spending behavior - the analysis in this report is based on estimates generated by the World Travel and Tourism Council, Oxford Economics and Accenture. The framework used is that of tourism satellite accounts (TSA), which is the currently available tool used to reveal the linkages between narrowly-defined ‘tourism’ as reflected in countries national accounts and the rest of the non-tourist economy.

Figure C 1: Estimate of Tourism Satellite Account for Cape Verde in 2007

<p>Personal Travel and Tourism</p> <p>Travel and Tourism expenditures on good and services by local residents including portions spent on outbound travel CVE 7.7 bn</p>	<p>Travel and Tourism Industry GDP (Direct)</p> <p>Travel and tourism industry supply-side contribution to GDP can be compared directly with other industries in the economy CVE 12 bn</p>
<p>Business Travel</p> <p>Spending by government and businesses on goods and services for employees and business travel purposes CVE 2.3 bn</p>	
<p>Government Expenditures (Individual)</p> <p>Government expenditure to provide services to visitors (e.g. museums, customs & immigration, parks, etc.) CVE 0.4 bn</p>	<p>Travel and Tourism Industry GDP (Indirect)</p> <p>Upstream resident GDP contribution from suppliers to the travel and tourism industry CVE 7.2 bn</p>
<p>Visitors Expenses</p> <p>Expenditures on goods and services by foreign visitors in the resident community CVE 19.4 bn</p>	
<p>Government Expenditures (Collective)</p> <p>To provide services for the community at large, e.g. destination markets CVE 1 bn</p>	<p>Travel and Tourism in ports</p> <p>Goods imported by direct and indirect travel and tourism industry CVE 10,7 bn</p>
<p>Capital Investment</p> <p>By government and private sector to provide travel & tourism goods & services to visitors CVE 1.1 bn</p>	<p>Other Industries Indirect Travel & Tourism GDP</p> <p>Broadest measure of economic impact of travel & tourism CVE 1.9 bn</p>
<p>Exports (Non visitors)</p> <p>Goods exported for ultimate sale to visitors or for use by travel & tourism CVE 0.3 bn</p>	<p>Indirect Travel & Tourism Imports</p> <p>Goods imported indirectly for the travel and tourism industry CVE 0.2 bn</p>
<p>Travel and Tourism Consumption</p> <p>CVE 29.8 billion</p>	<p>Travel and Tourism Industry Supply</p> <p>CVE 29.8 billion</p>
<p>Travel and Tourism demand</p> <p>CVE 32.1 billion</p>	<p>Travel and Tourism Economy Supply</p> <p>CVE 32.1 billion</p>

Travel and tourism demand in Cape Verde in 2007 was estimated to be CVE 32.1 bn (or EUR 290 m). 93% of this total demand is comprised of consumption spending. About two-thirds of this total is made up of by foreign tourists buying goods and services in Cape Verde – spending an average of about EUR 700 per trip. However, over a quarter of total tourist consumption is tourist spending by local residents-an impressive amount. This includes significant spending on business tourism by Cape Verdeans visiting other islands in the Archipelago. In addition, when Cape Verdeans book an overseas holiday a proportion of their spending remains in Cape Verde (For instance, to pay travel agents fess and TACV flights). Government spending is more limited - about 5% of tourist total demand- through support to visitor facilities (Like museums, immigration, etc) and investments in destination marketing.

The supply-side effect of this CVE 32.2bn (or EUR 290 m) worth of tourist demand on the economy is revealing. The aggregate effect of tourism on Cape Verdean GDP is estimated at CVE 21.2 bn (EUR 192 m) – the difference between tourist demand and what the Cape Verde economy can supply is made up of imports to a value of CVE 10.9 bn or EUR 99 m. The two-thirds of tourist demand supplied locally equates to 19.1% of GDP or CVE 49,000 (EUR 446) per person resident in Cape Verde. Cape Verde spends up to 40% of GDP on imports, and a finding is that the estimated 34% ‘leakage’ rate for tourism is actually lower than for the non-tourist economy.

The satellite account analysis suggests that only a little over half of the total local supply meeting tourist demand is direct from the tourist industry itself (the hotels, restaurants, bars, excursions and transport services normally associated with the tourism). The rest of the local benefit derived from tourism is through indirect impacts – suppliers to the tourist industry (such as food, crafts, etc). In terms of jobs, INE estimates 3,450 people worked in hotels in 2007 – yet the tourism satellite accounts suggest there are 9,200 tourism jobs created by tourism.

The extent of linkage between the tourist and non-tourist economy demonstrated by Cape Verde is a fairly typical multiplier for a developing country⁸⁴. This is a surprise finding, since one would expect that Cape Verde would have a very low figure, compared to bigger, richer and more diversified destinations⁸⁵.

As regards food and beverages-a very large element of the cost structure of most hotels- almost all hotels purchase their inputs from wholesalers in Cape Verde. So, even if the item was imported, there is a significant capture of local benefits from importation duties and wholesalers mark-up.

It is important that policy makers should focus on increasing the scale of local benefits from tourism - and making sure the poor benefit - something which has not yet been fully considered so far. However, direct intervention to reduce ‘leakages’ by protecting local suppliers is often an ill-conceived strategy that proves counter-productive. For instance, it is doubtful if it is in the interest of Cape Verde to fight to retain market share of TACV (while recouping losses incurred from the domestic market). Recent work at the World Bank has shown that the best way to reduce ‘leakages’ is to increase linkages and this is a function of factors such as: improving the business environment; enhancing human capital; increasing the participation of women in economic activities; and, a safe environment⁸⁶.

2. IMPACT ON THE POOR

In Cape Verde as in many countries, there is much interest in pro-poor tourism- a concept that focuses upon the net flow of benefits from tourism to poor people. It was developed to broaden

the application of tourism as a tool of development beyond the traditional domain of community-based tourism and eco-tourism to more mainstream types of tourism.

A number of empirical studies have been undertaken recently by organizations such as the International Finance Corporation (IFC), World Bank (WB), SNV (The Netherlands Development Organization) and the Overseas Development Institute (ODI) in this area. Although there is much to be done to strengthen the empirical foundation of findings, it appears that the following hypotheses are robust for a broad variety of tourist destinations⁸⁷.

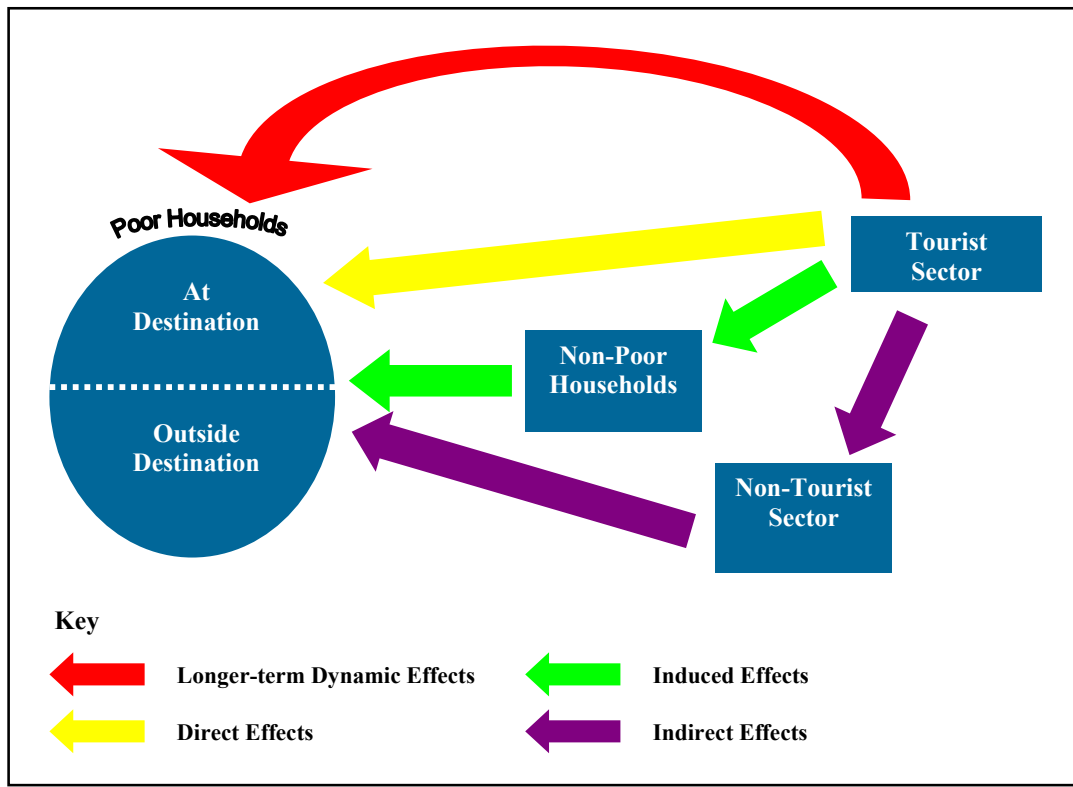
- Tourism can be pro-poor;
- Through deliberate interventions, tourism can be made more pro-poor; and
- Any kind of tourism can be pro-poor.

Tourism can reduce poverty in several different ways – or via several different pathways – as Figure C. 2 represents.

The most obvious linkage between tourism and the poor are direct links – such as when poor people find jobs in hotels and restaurants in the tourist sector. Indirect links concern the network of links to the non-tourism (i.e. Craft and food) economy. Another form of indirect linkage between tourism and the poor is induced links, where non-poor people that derive their earnings from tourism spend these wages in a way that brings benefits to the poor.

Finally, the dynamic effects of tourism are the longer-term effects. For example, raising additional tax from tourism can benefit the poor through government expenditure. Other benefits are the facilitation of the diversification of the economy through tourist contacts and the psychological effect of assisting Cape Verdeans, including the poor ones, to change their mind sets by participating in a competitive service sector economy.

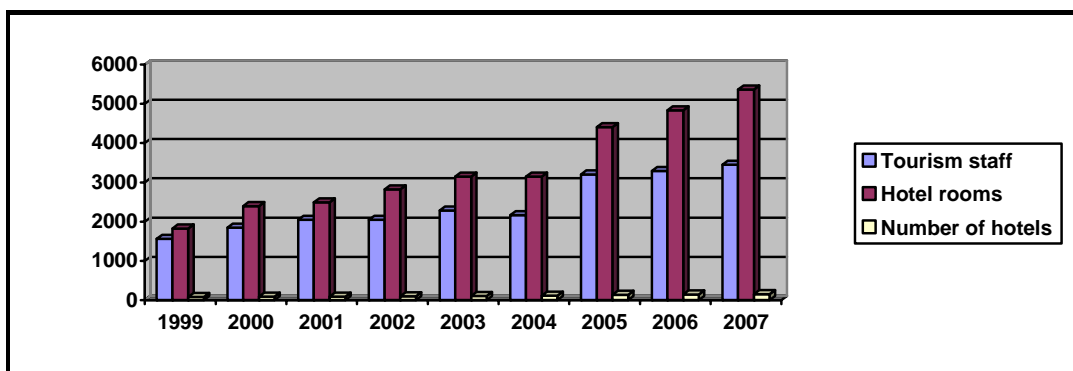
Figure C. 2: How the benefits of tourism reach poor people



The rest of this Annex analyses different specific aspects of the tourism linkages and in particular its impact on the poor.

3. DIRECT JOBS IN TOURIST SECTOR

Figure C.3: Number of hotel staff, rooms and establishments, 1999 to 2007



Source: INE(2008)

The number of hotel staff in Cape Verde has more than doubled from 1,561 in 1999 to 3,450 in 2007, at the same time that the number of hotels has increased from 79 to 150 and the number of rooms has almost tripled from 1,825 to 5,368 over the same time period. Larger hotels require

fewer staff per room than smaller hotels. In 1999 the average hotel in Cape Verde had 23 rooms and 0.86 staff per room. By 2007 the average hotel size had increased to 35 rooms with 0.64 staff per room.

Clearly there are many more people working within the tourist sector than just in the hotel sector. The incomes of staff working in tour operators, shops, taxi drivers, excursion providers, restaurants outside hotels, transportation services, tourist authority workers are entirely dependent upon tourist demand for their livelihoods. The tourism satellite account exercise suggests that 9,200 work in the broadly-defined travel and tourism sector in Cape Verde.

Hotel surveys conducted by the DTIS mission indicate that average non-managerial wages with a weighted average of EUR 289 per month with the highest wages paid in Sal, then Boa Vista, then Santiago and the lowest in St. Vincente. In addition, the employers pay a 15% social security levy. Since wages are relatively high in the tourist sector and virtually all tourist workers are Cape Verdean, these direct linkages do explain a significant element of the 'local capture' of the benefits of tourist demand.

The tourism sector workforce is seasonally stable. Almost all hotels employed the great majority of their staff on permanent contracts.

Estimating the pro-poor impact of this employment is challenging. The DTIS survey suggested that a high proportion (some 98%) of hotel workers are Cape Verdean and 95% of staff are non-management grades. This would amount to a minimum of some 8,500 non-management Cape Verdeans working in the tourist sector. Discussions with employers suggested that a very high proportion of non-management staff in the tourist sector is from poor backgrounds.

Applying the average monthly non-management income of EUR 289 from the hotel surveys this suggests an annual pro-poor benefit from the wages of non-managerial Cape Verdeans working in the tourist sector of about EUR 29.5m – or about 11% of the total tourist expenditure in Cape Verde of EUR 270 m in 2007. This is a cautious estimate because interviews with tourist stakeholders in the non-accommodation suggested that tourism workers generally earn more from jobs outside the hotel sector. It also excludes earnings from tips of hotel workers.

Another indication comes from the DTIS hotel survey which gained detailed information about the cost structure of hotels in Cape Verde. Staff cost make up a weighted average of 22% of total hotel costs. Assuming gross margins of 35% in the accommodation sector, this proportion of costs would equate to about 14% of hotel turnover – again suggesting that the estimate of direct pro-poor impacts at 11% of tourist turnover is a cautious estimate.

It is clear that much more needs to be done to train the tourist sector labour force. If the number of tourist arrivals each year is planned to increase to over one million in 2015 as per the strategic plan, there will be a need to train about 2,000 workers a year simply to avoid the current capacity backlog not getting worse.

Every effort should be made to avoid the emerging situation whereby at senior levels the international market will continue to provide the management of tourism infrastructure, and at junior levels, the ability of migrant workers from ECOWAS to move into semi-skilled occupations in large numbers, putting downward pressure on wages and therefore encouraging an exodus of Cape Verdean labour, as has been demonstrated in the construction sector. The tourism labour market is one of the few supply chains in Cape Verde that is overwhelmingly indigenous and pro-poor. Failing to capitalize on this will not only reduce one of the major benefits of

tourism to Cape Verde but will also encourage the kind of low quality and low wage tourist economy that stakeholders in the tourist industry fear.

4. CONSTRUCTION

Tourist development has precipitated a construction boom in Cape Verde. Although no precise data is available, it is likely that the construction sector, alone, accounts for at least half the total links with the non-tourist sector.

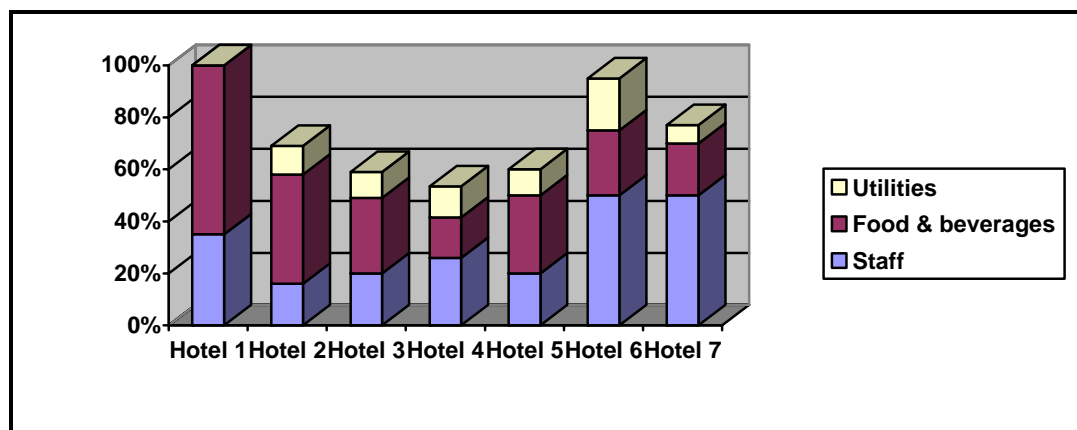
Interviews with construction companies indicated that labour comprises about 50% of total construction costs. Despite buoyant demand, average daily wage rates in the construction sector have dropped from EUR 9 to EUR 5 a day⁸⁸ as immigrants from ECOWAS countries have found work in the tourist industry with fewer barriers to entry than formal sector jobs in hotels and restaurants. At these wage rates and assuming 35% gross margins in the construction sector, this suggests that some 18,000 full-time equivalent construction workers are active building tourism assets in Cape Verde with earnings of some EUR 35m a year. This strongly suggests that the construction sector is providing very significant pro-poor benefits in Cape Verde as almost all construction workers are from poor backgrounds.

Even if only half the construction workforce is from Cape Verde, this EUR 17.5 m flow of indirect benefits from the tourist sector to poor Cape Verdeans is a very significant pro-poor flow, equivalent to about 6% of annual tourist expenditure of EUR 270 m.

5. AGRICULTURAL SUPPLIES

The high level of spending on food and beverages by hotels is striking. As Figure 2 illustrates, hotels are spending a weighted average of 32% of their total operating costs on F&B. Little of this is sourced locally.

Figure 1: Cost structure of hotels in 2008



Source: DTIS hotel survey

This is partly due to hotel management decisions for operational reasons. For example two large hotels interviewed directly import almost all their inputs from Europe to ensure quality of supply and the health and safety standards of the food. However, this is not standard practice in the hotel sector in Cape Verde.

A much more significant constraint to the procurement of local food and beverages is to be found on the supply side – despite a quarter of the labour force working in agriculture and fisheries, Cape Verde does not produce much food on a commercial basis. Most hotels purchase their food and beverages from wholesalers in Santiago and Sao Vicente – and therefore only consume imported goods because this is where wholesalers source their supplies. Locally-sourced foods include some fruit (bananas, papaya, mango), some fish, some vegetables from Sao Antoa, the interior of Santiago and Fogo and some red meat from Santiago. The problem is aggravated by the fact that the main tourist island of Sal and rapidly-growing Boa Vista are virtually devoid of agriculture.

In broad terms, the tourist industry is likely to spend at least EUR 15 m a year on food and beverage supplies (1.4 m total tourist bed-nights in 2007 multiplied by EUR 11 per guest per day as an average unit cost). If 80% of this volume is imported, this implies local food purchases of some EUR 3 m a year. In Cape Verde some 44,000 agricultural and fisheries workers produce about 8% of GDP (some EUR 80 m output per year) – or EUR 1,800 output per worker per year. Assuming a 100% mark-up in prices from the farm gate to the hotel, EUR 3 m hotel purchases from wholesalers would support 800 average-sized farmers with EUR 1.5 m of agricultural sales. To summarize, this analysis suggests that agriculture is not currently a strong linkage between the tourist sector and Cape Verde – or poor people within the country.

6. TAXATION

Finally, an important mechanism for transferring resources from tourists to poor people is taxation. The tax take from tourism in Cape Verde is not known and is limited as a result of the 5 year exemption from corporate tax and 2 year exemption from importation duties granted to most foreign investors. However, through:

- Visa payments of EUR 25 per entry for about 250,000 foreign visitors (total of about EUR 6 m a year); and
- Income tax incidence of about 6% on a total tourist wage bill of about EUR 31 m (9,200 workers earning an average of EUR 280 per month) – suggests income tax yield of about EUR 1.8m a year.

Taxation in Cape Verde has a pro-poor impact – but there is very considerable scope to increase this impact. Even a very modest tax take from the tourist sector could have a dramatic influence on government finances. (See Recommendation 6.x)

7. LONG TERM DYNAMIC EFFECTS

Finally, some of the longer-term dynamic effects of tourism on the economy and in particular on the poor are difficult to quantify. For instance, tourism is likely to be having a positive impact on economic diversification in Cape Verde. One is the recent finding that the interaction between international visitors and indigenous entrepreneurs in tourist destinations reduces the costs and risks of entrepreneurs understanding the international market and can be a spur to discovering new export markets⁸⁹. Another potential benefit of international tourism in assisting Cape Verdeans, including the poor ones, realise their compelling national vision of moving from an economy of subsistence primary producers dependent on handouts from outsiders, and emigration possibilities, to a globally competitive service sector economy.

8. LOCATIONAL ASPECTS

As noted in the body of this report, locational aspects are important when considering the impact of tourism, since in general tourism does not take place where poor people live. Not only are the main tourist centres - Sal and Boa Vista - comparatively affluent they also have a very small population to interact with the tourist sector. The direct flights serving the new international airports in Santiago and scheduled for opening at the end of 2008 in Sao Vicente will increase also the accessibility of the neighbouring islands of Santo Antao, Fogo and Maio. However, tourism is almost completely bypassing the remaining five inhabited islands of the Archipelago. The most significant ways these islands will benefit from tourism is by providing workers for the industry in Sal and Boa Vista and from the redistribution of tax revenue collected from the tourist industry. However, seeking to divert even a small proportion of existing tourist flows from Sal, Boa Vista, Santiago or Sao Vicente to another island for an 'add on' excursion could have an important impact on these marginalised islands.

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