

Rev. January 15th, 2008

**The Integrated Framework's
contribution to the economic
transformation of Cape Verde**

**DRAFT CONCEPT NOTE
for the
DIAGNOSTIC TRADE INTEGRATION STUDY**

The Integrated Framework's contribution to the economic transformation of Cape Verde

Table of Contents

I. INTRODUCTION	4
II. OVERALL ECONOMIC AND SOCIAL SITUATION	5
II.1 POLITICAL CONTEXT	5
II.2 GEOPOLITICAL STANCE	5
II.3 MACROECONOMIC AND SOCIAL SITUATION	6
II.4 NATIONAL STRATEGIES AND PLANS.	7
III. EXTERNAL SECTOR PERFORMANCE, POLICIES AND INSTITUTIONS	9
III.1 BALANCE OF PAYMENTS	9
III.2 OFFICIAL DEVELOPMENT ASSISTANCE (ODA)	9
III.3 MIGRANT REMITTANCES	10
III.4 FOREIGN INVESTMENT	10
III.5 TRADE IN SERVICES	10
III.6 MERCHANDISE EXPORTS	10
III.7 TRADE POLICIES	11
III.8 INSTITUTIONS RELATED TO INTERNATIONAL ECONOMIC RELATIONS	14
IV. KEY INTERNATIONALLY ORIENTED SECTORS	15
IV.1 TOURISM: THE BACKBONE OF THE ECONOMY	16
IV.2 MARINE RESOURCES, THE EXCLUSIVE ECONOMIC ZONE (EEZ) AND REGIONAL FISHERIES CENTRE	17
IV.3 THE GATEWAY CONCEPT, HUBS, PASSENGER AND CARGO TRANSSHIPMENT, RE-EXPORTS	19
IV.4 OFFSHORE SERVICES, IT AND BUSINESS PROCESS OUTSOURCING	20
IV.5 THE DIASPORA, REMITTANCES, AND WORKING ABROAD.	22
IV.6 AGRICULTURE AND INDUSTRY?	24

<u>V. CROSS-CUTTING ISSUES AND OBSTACLES TO ACHIEVING COMPETITIVENESS.</u>	25
<u>VI. THE DTIS AND POVERTY REDUCTION</u>	27
<u>VII. IMPLEMENTING THE IF</u>	27
<u>ANNEXES</u>	
ANNEX 1. IF INSTITUTIONAL ARRANGEMENTS	28
ANNEX 2. DRAFT CALENDAR FOR DTIS IN CAPE VERDE.	29

ACRONYMS

ACIAB: Associação Comercial, Industrial e Agrícola de Barlavento
ACVPI: Agência Cabo-verdiana de Promoção do Investimento
ACS: Associação Comercial de Sotavento de Cabo Verde
AGOA: American Growth and Opportunity Act
ASYCUDA: Automated System for Customs Data
AU: African Union
BCV: Banco de Cabo Verde (Central Bank)
BPO: Business Process Outsourcing
CET: Common External Tariff
CP: Concept Paper
CILSS: Permanent Interstate Committee for Drought Control in the Sahel
CPLP : Comunidade dos Países de Língua Portuguesa
CVT: Cabo Verde Telecom
DTIS: Diagnostic Trade Integration Study
ECOWAS: Economic Community of West African States
EEZ: Economic Exclusive Zone
EPA: Economic Partnership Agreement
ETS: Economic Transformation Strategy
FDI: Foreign Direct Investment
GAT : Groupe d'Appui à la Transition. (*Forum between donors and the Government to accompany a smooth transition out of LDC status*)
GATS: General Agreement on Trade in Service
GDP: Gross Domestic Product
GPRS: Growth and Poverty Reduction Strategy
ICCAT: International Commission for the Conservation of Atlantic Tunas
IMF: International Monetary Fund
INE: Instituto Nacional de Estatística
IF: Integrated Framework
ITES: Information Technology Enabled Services
LDCs: Least Developed Countries
MAAP: Ministry of Environment, Agriculture and Fisheries
MCA: Millennium Challenge Account
MCS: Monitoring, Control and Surveillance
MEEC: Ministry of Economy, Growth and Competitiveness
MDGs: Millennium Development Goals
ODA: Official Development Assistance
PALOP : Países Africanos de Língua Oficial Portuguesa
PSI: Policy Support Instrument
PTI: Portugal Telecom Internacional
PRSP: Poverty Reduction Strategy Paper
UNOTUR: União Nacional dos Operadores Turísticos de Cabo Verde
VAT: Value Added Tax

I. INTRODUCTION

1. Cape Verde has requested to participate in the Integrated Framework (IF)¹ for Trade Related Technical Assistance to Least Developed Countries before it leaves the LDC category in January 2008. This has been accepted. The United Nations Development Programme (UNDP) has been designated as lead agency and an aide-mémoire was signed between the Government and UNDP on 25th September 2007 to launch the IF. The first important step in the IF process is a diagnostic study (Diagnostic Trade Integration Study-DTIS).

2. **Objectives of the DTIS.** 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.

3. The DTIS will pay particular attention to the integration of its recommendations into the new Growth and Poverty Reduction Strategy (GPRS II) for the period 2008-2011 which is expected to be finalized by February 2008. It will build upon the extensive literature and information available and not duplicate existing studies. It will recommend a practical capacity building programme. This programme will take into account the implementation capacity of the country, which has to undertake simultaneously a number of transformational reforms in the context rapidly changing on international economic and geopolitical scene. In some areas, inadequacy or lack of data may constitute a constraint.

4. **How the IF will help the poor.** The development of trade and international exchange is not an objective in itself. The ultimate objective of the country is to achieve sustainable human development and eradicate poverty, and the IF's purpose is to support this overall objective. In line with the approach of GPRS (2004-2007), and even more with that expected in the forthcoming GPRS II, the DTIS will propose strategies and practical measures that would promote externally driven growth. This growth will itself raise income and tend to create employment while enabling an increase of resources for Government to undertake redistributive and social programmes. However, since not all growth automatically brings employment and reduces poverty, the DTIS will pay special attention to ensuring that the proposed policies and programme have maximum impacts on the country's poverty and gender profile. In particular, the DTIS proposed programme will constantly keep in mind the need to enable the disadvantaged groups to participate effectively in the economy, to become "producers" of goods and services.

As required by the IF programme, the DTIS is preceded by a Concept Note aimed at providing an agenda and the focus for the DTIS, and its subsequent programme.

¹ For information on the Integrated Framework see www.integratedframework.org.

II. OVERALL ECONOMIC AND SOCIAL SITUATION

II.1 POLITICAL CONTEXT

5. 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. Since 1990, Cape Verde has been a parliamentary democracy, with two main parties competing for power at general elections, the latest one held in 2006. Cape Verde is generally recognized for its good record of human rights and low level of corruption.

II.2 GEOPOLITICAL STANCE

6. Cape Verde's geopolitical positioning at the end of 2007 is complex, multifaceted and evolving. The Prime Minister expressed it in these terms: "Cape Verde has always been an entry point of the Americas, Africa, and Europe. We are working on a special partnership with the European Union². We are also working on a strategic relationship with the United States... We want to make a strong contribution to the development of the Atlantic corridor by giving businesses all the right conditions for utilizing Cape Verde as a platform to the continents."

7. Cape Verde has, for a number of years, been cooperating with the Canary Islands (part of Spain) and Madeira Islands and Azores (part of Portugal), the four archipelagos together forming Macaronesia. At the same time, Cape Verde is a member of the African Union (AU), the Economic Community of West African States (ECOWAS), the Permanent Interstate Committee for Drought Control in the Sahel (CILSS), the lusophone cooperation organizations: Paises Africanos de Lingua Oficial Portuguesa (PALOP) and Comunidade dos Paises de Lingua Portuguesa (CPLP), as well as the Organisation Internationale de la Francophonie. In 2007, on separate trips, both the President and the Prime Minister, as well as several senior Ministers, visited China in an effort to further diversify strategic networks.

8. Key Issues and Implications for the DTIS

➤ The DTIS should be guided by the trade and international economic relations dimensions of Government's geopolitical strategy as it unfolds.

² A "Special Relationship" Agreement between Cape Verde and the EU was concluded in November 2007.

II.3 MACROECONOMIC AND SOCIAL SITUATION³

9. Cape Verde has experienced robust growth over the last years. GDP growth averaged 5.7 per cent over 2000-2005, reaching 10.7 per cent in 2006⁴, and is expected to be around 7 per cent in 2007. This has allowed for a significant improvement in the average standard of living. At the same time, consumer inflation has been consistently below 2 per cent per year in 2002-2005 (with an exceptional temporary spurt in 2006). The external current account deficit has narrowed substantially from an average of 11.6 per cent of GDP between 2000 and 2004 to 4.9 per cent in 2005-2006. External debt (from 53.1 per cent of GDP in 2005 to 43.7 per cent in 2006) is considered sustainable.

10. Cape Verde is not among the countries that require financial assistance from the International Monetary Fund (IMF). However, it has voluntarily sought IMF's advice, monitoring and endorsement of its policies through a Policy Support Instrument (PSI) for 3 years (2006-2009). Monitoring by the IMF (2007) indicates that fiscal performance was strong in 2006, with fiscal deficit at about 3.8 per cent (well below the voluntarily agreed target). Strengthened tax administration has contributed to the mobilization of higher-than-projected tax revenues⁵. It may be noted that Cape Verde has a long-standing Social Protection System, which includes a non-contributing regime that aims at providing for the basic needs of the poorest and most vulnerable strata of the population.

11. Cape Verde is on target to achieve most of the Millennium Development Goals (MDGs) before 2015. In fact some of the MDGs have already been reached. Evaluations in progress indicate that all social indicators continue to improve and that poverty in 2007 would have declined substantially from the 37 per cent of 2001. Estimates are that, if GDP continues to grow at the same robust pace, poverty may be reduced to half of its 1990 value by 2015. This sustained progress with regards to social and economic indicators over a number of years has led to the graduation of Cape Verde from the group of least developed countries (LDCs), to take effect in 2008.

12. Despite the substantial increases in average incomes over the past several years, poverty remains a problem for some specific vulnerable groups of the population. The low growth in job creation and high unemployment among the youth and women makes the poverty problem more difficult for these cohorts of the population. Although the unemployment rate has declined from a high of 25 per cent in the 1990s, it remains at around 18 per cent. For the rural population, low levels of skills and the lack of access to credit reduce their capacity to invest and finance viable projects to increase their revenues and income. Livelihoods among the poorest often depend on the non-contributing regime of the Social Protection System as well as on remittances.

³ This draws from International Monetary Fund, "Cape Verde: Second Review under the Policy Support Instrument", *Country Report* No. 07/223, June 2007, the Economist Intelligence Unit, the websites of the BCV and INE, as well as the Concept Paper "Towards the Preparation of Cape Verde's GPRS II", 16th April 2007.

⁴ From the latest estimate by the Central Bank of Cape Verde and IMF, in November 2007.

⁵ However, problems remain as regards of arrears to the electricity company, Electra, as well as higher than expected domestic borrowing.

13. While the country continues to record progress on many fronts, the vulnerability of Cape Verde and its exposure to external shocks remain. The main aspects of this vulnerability are : a) small and undiversified economy, depending on Official Development Assistance (ODA) and migrant remittances; (b) environmental vulnerability, with irregular and limited rainfall, leading to a high structural food deficit and dependency on imports; (c) absence of natural resources; (d) territorial fragmentation into several islands, most of which have mountainous terrain, leading to high infrastructure costs; (e) the emerging vulnerability to trade in narcotics and illicit drugs over a scattered archipelago with a large Exclusive Economic Zone. This last issue has come to the forefront and appears to be one of the primary motivations, alongside “stepping stone” illegal migration, behind the Special Relationship Agreement with the EU.

II.4 NATIONAL STRATEGIES AND PLANS.

14. Since 1982, Cape Verde has had National Development Plans. Early attempts at development based on import substitution did not bear fruit and since 1986 the intention of aiming at “a better insertion in the international division of labour” has been proclaimed. The new Government elected in 2001 has embarked on a series of strategic reflections to develop a national agenda for economic transformation and poverty reduction. 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 formulated between 2002 and 2003. This ETS was widely discussed nationally, and validated in a “Forum for the construction of a national consensus for the Transformation of Cape Verde” (9-11 April 2003). As part of its efforts to produce the ‘Grand Options of the Plan’, the Government also undertook the preparation of an iPRSP (interim Poverty Reduction Strategy Paper, 2002-2004), which was followed by the preparation of a Growth and Poverty Reduction Strategy (GPRS). The GPRS covers the period 2004-2007. The GPRS document placed emphasis on enhancing the capability of the poor to increase their incomes, and aimed at economic growth that would end poverty in the near future and create a self-sustaining economy with an expanded base of economic production.

15. The same political party obtained a majority in the 2006 general elections, partly on the basis of an economic transformation platform. In 2007, a GPRS II, covering the period 2008-2011, is under preparation and is due to be finalized by February 2008. In preparation for GPRS II, Government has prepared a well focused Concept Paper (CP)⁶ which reviews the experience of GPRS and provides an agenda for the main thrust of GPRS II. In a preliminary assessment of GPRS, the CP considers 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 (...)” The CP goes on to state that “The way forward for the Cape Verde is the ETS. It provides a vision for economic transformation, the core sectors that will provide the anchor and specifics on approaches.” At this time, the ETS and the closely aligned expected GPRS II may be regarded as the major overall frameworks of Government’s social and economic policy.

⁶ Towards the Preparation of Cape Verde’s GPRS II, A Concept Paper, 16 April 2007.

16. Cape Verde has a tradition of maintaining a close dialogue with its development partners. A Round Table was organized in 2003, which led to positive results, including the endorsing of the budget support modality. With the impending graduation from LDC status, and the fear of a potential decline in ODA, Government and its development partners developed a strategy for smooth transition. In addition 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". This is the first example in the world of such a process. The latest solemn Declaration of the GAT⁷ 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 policies, in line with the ETS and the approach of the GPRS II Concept Paper. The Policy Support Instrument (PSI) with the IMF (2006-2009), which seeks to reduce macroeconomic risks, provide a margin of safety against shocks and prepare for a possible longer-term decline in access to concessional external financing, acts a re-assurance to all partners.

17. An important dimension not sufficiently addressed or elaborated in any of the Government Frameworks (or consultant reports) available so far is the time frame required for Cape Verde to achieve the desired transformation strategy. Apart from tourism, whose evolution is very positive, the development of other sectors mentioned in the ETS will take time, even under favourable conditions. Clearly a "transition period" is inevitable, when the country will have to continue to rely on the traditional sources of revenue, such as ODA, migrant remittances and perhaps continued net out- migration. There are at present no quantified projections about when Cape Verde would become 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.

18. Key issues and implications for the DTIS.

➤ The DTIS will be based on Government strategies and plans mentioned above. Every effort will be made to ensure that the substantive contents and format of the DTIS will be consistent with GPRS II. The integration of the IF in GPRS II will represent a challenge, since the GPRS II process will be completed before the DTIS mission takes place.

➤ The DTIS will have to take into account the fact that the transformation strategy will take time to be implemented. Given the physical and institutional constraints facing the country, the DTIS will contain some interim and transition measures using the existing capacities, while proposing capacity building measures which would bear fruit in the longer run.

➤ The DTIS will review the national economic decision making process with a view to achieving increased coherence between the different initiatives and strategies.

⁷ Declaration sur la sortie effective et durable du Cap Vert, 12th June 2007.

III. EXTERNAL SECTOR PERFORMANCE, POLICIES AND INSTITUTIONS

19. Some of the main external sector items expressed as a percentage of GDP are presented in Table 1 below.

Table 1. Selected External Sector Items as % of GDP, 2005-2006

	2005	2006
Official Development Assistance	10.2+	9.6
Migrant Remittances	12.9*	11.0*
Tourism receipts	11.8	18.3
Domestic merchandize exports	1.7	1.7
Re-exports	6.6	5.1
Foreign Direct Investment	7.3	10.7
Imports of goods	42.6	46.8
Imports of goods and services	61.5	67.7
Exports of goods and services	36.1	42.5
External Debt	48.9	45.0

Source: BCV, INE.

+ The OECD *Development Cooperation Report* 2006 indicates a higher figure. (See footnote 8)

* Revised figures from BCV (Banco de Cabo Verde), Boletim de Estatísticas, 2nd quarter 2007

III.1 BALANCE OF PAYMENTS

20. Exports of goods (including re-exports) covered some 17 per cent of merchandize imports in 2006. However, the balance of services is increasingly positive, due to the increases in tourism related receipts. The contributions of ODA, of private transfers, and more recently of foreign direct investment, have resulted in a satisfactory overall balance. International reserves are equivalent to 3 months of imports of goods and services in 2006-2007, and the convertibility with the euro has been maintained.

III.2 OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

21. According to national sources, ODA in current US dollars has fluctuated around an average of slightly less than USD 90 million over the period 1990-2006. Expressed as a

percentage of GDP, it was around 11 per cent in early 2000s, falling to 9.6 per cent in 2006, as compared to some 22 per cent in the 1990's⁸. 55 per cent of the aid was bilateral and 45 per cent multilateral in 2006. With the approach of graduation from LDC status a few donors have scaled down their programme, but most have maintained, and some increased, their cooperation.

III.3 MIGRANT REMITTANCES

22. Migrant transfers, together with ODA have traditionally been the two main sources of financing of the economy since Independence. Over the period 2000-2006 migrant remittances have been fairly stable at slightly above USD 130 million per annum, representing 11 per cent of GDP in 2006.

23. Financial transfers from migrants contribute to the equilibrium of the balance of payments as well as to raising the standard of living of recipient families. When returning to Cape Verde, the migrants usually invest their savings. Their investments, mainly in construction, transport and tourism, play an important role in the occupation of the labour force, particularly in the rural regions of the islands of Santiago, Santo Antão and Fogo.⁹

24. Finally, deposits by migrants, which represent more than 40 per cent of the total of bank deposits, have a major weight in the country's external reserves.

III.4 FOREIGN INVESTMENT

25. FDI has known a spectacular increase in recent years. The stock of foreign investments, which was less than USD 50 million in 2000-2003, reached USD 250 million in 2005 and USD 323.5 million in 2006. Some 95 per cent of this investment in 2005-2006 is related to tourism, although partial data for 2007 show some diversification, particularly in financial services.

III.5 TRADE IN SERVICES

26. More than 75 per cent of Cape Verde's exports are in the form of services. Exports of services have increased significantly since 2001, due to the take off of tourism. Apart from tourism which represents three-quarters of total exports of services, the main services exported are linked to international transport, including air traffic control.

III.6 MERCHANDIZE EXPORTS

27. Compared to exports of services (and migrant remittances and foreign aid), merchandize exports, play a very limited role in Cape Verde (Table 1). Merchandize exports, even counting the gross value of re-exports, cover less than 20 per cent of the value of merchandize imports.

⁸ However, the OECD Development Cooperation Report indicates that ODA to Cap Verde increased from USD 77 millions in 2001 to USD 143 millions in 2003 and USD 161millions in 2005, representing 17.05 per cent in the latter year.

⁹ For a detailed survey see Yves Bourdet and Hans Falk, *Emigrant Remittances and Dutch Disease in Cape Verde*, 2006.

28. **Re-exports.** The main component of exports is re-exports, which amount to more than two-thirds of the total¹⁰. These are mainly petroleum products bought by airplanes and sea vessels at airports and ports. As from 2006, this component is being greatly reduced due to the cessation of the bulk of the South African Airways hub activities at Sal airport.

29. **Domestic merchandize exports.** Traditional exports like bananas and salt have ceased. The main goods currently exported are fisheries products (fresh and canned), clothing and shoes. Performance has been mediocre and uneven. Non conformity with quality and SPS standards has been often a problem.

30. **Direction of trade.** The EU is the main trading partner receiving some 80 per cent of Cape Verde merchandize exports. Exports to the US, mostly under AGOA, which were almost 20 per cent in 2004, have collapsed (1.4 per cent in 2006). The EU is also by far the main source of imports (more than 60 per cent) with the United States and Brazil being significant. On the other hand, merchandize trade with ECOWAS partners is very limited (averaging less than 2 per cent of imports or exports).

III.7 TRADE POLICIES

31. **Exchange Rate.** According to a 1998 Agreement with Portugal the CV escudo is convertible at a fixed rate into the Portuguese escudo (replaced by the euro since 2000). This situation does not allow the use of a flexible exchange rate as a trade and economic policy. However, it presents important advantages in terms of stability such as control of the budget deficit and of inflation. This stability and confidence in the currency are important, in particular to ensure the continuation of migrant deposits. Cape Verde is not envisaging a change in the exchange rate regime.

32. **WTO Accession.** Negotiations for the accession of Cape Verde to WTO started in 2000. In this process, the Cape Verdian delegation has been faced by a very extensive negotiation, straining its limited negotiating capacity. Cape Verde has showed itself eager to become a full fledged member of the world trading community while still a LDC. On 18th December, the General Council of WTO approved the membership of Cape Verde as the 152nd member of the organization. The accession package (WT/ACC/CPV/30 and its Addendums), which outlines certain necessary adjustments to the country's trading regime, remains to be ratified by Cape Verde.

33. **The Economic Partnership Agreement (EPA) with the European Union.** Cape Verde is expected to sign an EPA with the EU- by far its main trading partner- as part of a configuration with ECOWAS, of which it is a member. However, it is doubtful that many EPAs involving the various ACP groupings will be signed by the 31st December 2007 deadline. In October 2007, the ECOWAS region rejected the EU proposal to sign by the end of the year a « light » agreement and has requested to the EU an additional delay beyond 31st December 2007.

¹⁰ However, the value added in the country is only a fraction of the gross figures reported in the data.

Furthermore, in view of its specificity as the only island country of ECOWAS, Cape Verde has been reluctant to be part of the ECOWAS collective EPA. However, it is unlikely that Cape Verde would be invited to sign a separate EPA (whose substantive content has never been discussed). The “special relationship” agreement signed between Cape Verde and the EU in November 2007 is not a substitute for the EPA.

34. **AGOA.** Cape Verde is a beneficiary of the American Growth and Opportunity Act (AGOA) of the United States and a number of GSP schemes. Exports under AGOA made a promising start but have fallen significantly in 2006, reportedly because of problems in meeting quality standards.

35. **Tariffs.** Import duties in Cape Verde accounted for 19.7 per cent of current Government receipts in 2006, slightly down from 20.6 per cent in 2004 (compared to 28 per cent from income taxes), whereas VAT, introduced in 2004, has increased from 30 per cent in that year to 34 per cent in 2006. The main objective of tariffs has been revenue raising, and protection of domestic “industry”, which was never extensive, has diminished gradually over time.

36. The tariff policy of Cape Verde is undergoing a period of change, partly in the light of negotiations for accession to WTO. A new Customs Code based upon the Harmonized System is due for implementation at the end of 2007, and an Action Plan for Implementation of Customs Valuation is being submitted to WTO. The terms of accession to the WTO have not been analysed. There may be implications for the few (tariff and non-tariff) measures remaining to protect local industry. The (probable) signing of an EPA (whether jointly with ECOWAS or not) with the EU would almost certainly also involve the liberalization of “substantially all trade”. The trade implications, if any, of the recently concluded “Special Relationship Agreement” between Cape Verde and the EU, are not yet known. The Cape Verde authorities, with IMF technical assistance, are also planning to rationalize tax incentives -most of which are in the form of import duty exemptions- while reforming the existing tax code. Finally, a comprehensive study is being undertaken at the initiative of ECOWAS on the implications for Cape Verde applying the Common External Tariff (CET) of ECOWAS.¹¹

37. **Bad Trade.** It is a paradox of Cape Verde that, while it is trying with great difficulty to develop its trade and situation as a hub, it is becoming, against its will, a centre for drug trafficking. This is becoming a growing concern in Cape Verde (as in West Africa generally) and, if nothing is done, it could lead to the same corrosive effect that is being observed in the Caribbean, affecting the whole structure of society, including the possibility of corrupting the political and governance process. Addressing this problem is one of the main motivations behind the special relationship with the EU. For the moment Cape Verde has no effective means of monitoring its shores or territorial waters.

¹¹ Relations with ECOWAS are further complicated by the increasing problem caused by ECOWAS nationals overstaying in Cape Verde, which has led Government to signal its intention to “re-discuss” at least this aspect of the ECOWAS membership.

38. **Key trade policy issues and implications for the DTIS**

The DTIS will be addressing a moving target, since numerous important trade policy developments and reforms are taking place in late 2007 and in 2008 (WTO accession, EPA, Action Plan of the special relationship agreement with the EU, relationship with ECOWAS, changes in the Customs Code, review of the import duty exemptions, possible loss of preferences related to LDC status). Consequently, it may be difficult for the mid-2008 version¹² of the DTIS to make concrete proposals in certain areas at a time when the geo-political stance is evolving and is, in the implications of recent agreements are not fully clarified. The DTIS will however:

- Propose measures to strengthen the capacity of Cape Verde to formulate trade policy, to negotiate trade agreements, to implement them, as well as to take advantage of preferential market access schemes. Given WTO accession (and the probable signing of an EPA), the DTIS will make proposals for assistance be required to ensure full conformity.
- Review the evolution of the effective exchange rate and its implications as regards competitiveness of the economy.¹³
- Consider the desirability of having a list of sensitive products which could be subject to some kind of protection or safeguards (particularly with respect to trade with the EU).
- Outline the pros and cons of the EPA with the EU (and its implications, if already signed), the ECOWAS CET, and potential alternatives.
- Take into account the fiscal implications of alternative trade policies. It will attempt to evaluate the result (or probable result) and impact of the EPA, of WTO accession, and of any loss of preference linked to the graduation from LDC status. To the extent that the level of remaining protection function of duties is found to be minimal, the DTIS may recommend that an option (among others) to be explored could be the feasibility of removing all (or almost all) customs duties and replacing them by “equivalent” internal taxes (VAT, sales tax, excise tax)¹⁴. These taxes would be so designed as to maintain fiscal revenue, while also taking into account the implications of any changes in fiscal policy on income distribution and on gender.
- Address the question of controlling the illicit trade in drugs.

¹² The DTIS may be regarded as an evolving document which should be updated regularly and thus should take into account the latest developments in the Cape Verde's trade policy.

¹³ The credibility of the present system is described in Macedo, Jorge Braga de & Pereira, Luis Brites, "The Credibility of Cabo Verde's Currency Peg," FEUNL Working Paper Series 494, Universidade Nova de Lisboa, Faculdade de Economia (2006). Alternatives are considered by Weber, R., "Cape Verde's exchange rate policy and its alternatives," BCL working papers cahier_etude16, Central Bank of LuxemburgR.(2005).

¹⁴ In principle, domestic taxes are preferable to border taxes as instruments for raising revenues because they are trade-neutral and nondiscriminatory. The experience of other countries (e.g. Seychelles, Djibouti) that have addressed the problem of reducing or abolishing customs duties and mostly replaced them by domestic taxes might be of interest. This scenario would have trade facilitation advantages, help to ensure compliance with most WTO and EPA requirements, and would give a strong signal to support the desired status of Cape Verde as an intercontinental platform/hub.

III.8 INSTITUTIONS RELATED TO INTERNATIONAL ECONOMIC RELATIONS

39. **Government.** The main Ministries concerned with trade and international economic relations are:

➤ The Ministry of Economy, Growth and Competitiveness (MECC), which covers Trade, Industry, Energy, Tourism and entrepreneurial development. This Ministry has limited resources to fulfill its very wide mandate. It is being restructured, with a view to making it a more dynamic entity.

➤ The Ministry of Finance and Public Administration. This Ministry has overall planning responsibility, and takes the lead in the GPRS.

➤ The Ministry of Foreign Affairs and the Communities, which coordinates relations with development partners. (The Minister chairs the GAT). It is also responsible for relations with the overseas communities.

40. Several other Ministries, for example those dealing with infrastructure and fishing (MITP) or education and the Ministry of Environment and Agriculture (MAA) also have much relevance to trade and competitiveness of the economy. The Prime Minister's office has a leadership and overall coordination role, including in information technology-an area which reports directly to the Prime Minister.

41. **Customs.** Since 2003, Customs have adopted the Automated System for Customs Data (ASYCUDA++), a computerized customs management system. As in many countries, some complaints are made about the perceived slowness and insufficient transparency of Customs.

42. **Banco de Cabo Verde.** The Central Bank exercises the usual supervisory and monitoring role. It publishes research and analysis of a good standard. In addition, it has been proactive in the creation of the Stock Exchange and in the development of the emerging international financial institutions sector.

43. **Business Organizations.** It should be noted that the great majority of enterprises operating in Cape Verde are small; only very few may be regarded as medium-sized. There are two Chambers of Commerce covering Sotavento (southern islands) and Barlavento (northern islands), respectively. Similarly there are the Associação Comercial de Sotavento de Cabo Verde (ACS) as well as the Associação Comercial, Industrial e Agrícola de Barlavento (ACIAB). Among the few professional associations are the two Associações de Armadores da Pesca Industrial (Barlavento, Sotavento). A new professional association, the União Nacional dos Operadores Turísticos de Cabo Verde (UNOTUR), has been created, and is already making its mark. The relationship and coordination among these bodies is not clear. It is recognized that "the private sector needs to be supported with novel instruments to be able to compete in the global marketplace." (CP, p.2)

44. **Agência Cabo-verdiana de Promoção do Investimento. (ACVPI).** This is a one stop shop, with a mandate to promote both FDI and exports. It reports to MECC.

45. **Key institutional issues and implications for the DTIS**

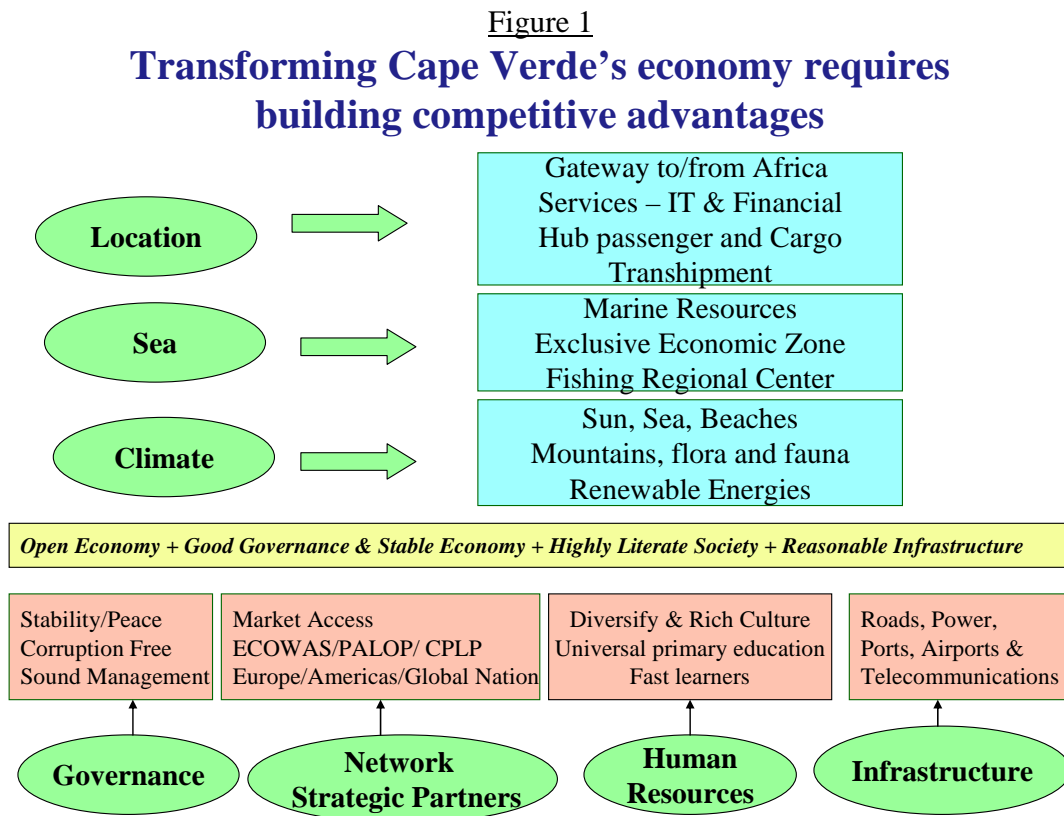
➤ Many of the institutions dealing with international economic relations are not fully geared to address the new challenges of the Economic Transformation Strategy and of global competition. The DTIS could make a contribution by reviewing the mission, functioning, and resources of the main organizations and the interaction between them, and make proposals to address the problems identified. It will suggest a concrete approach of mainstreaming trade (of goods and services) within the national development plan. The mandate and functions of each of the institutions and ministries should together provide a clear vision of trade's impact on national development.

➤ The DTIS will also address the related issue of government/business sector coordination as regards trade and economic policy. Although there is a regular interaction (also with an active NGO platform), it is considered that “Coordination also among Government institutions and with the civil society and private sector needs to be improved.” (CP, p 2).

IV. KEY INTERNATIONALLY ORIENTED SECTORS

46. Cape Verde has very limited natural resources. It has no comparative advantage in agriculture and manufacturing, where costs of water and energy will always act as constraints. The key economic sector presently driving the economy is tourism. However, it is desirable to diversify the export base and protect as much as possible against external shocks. Non-tourist based services constitute an opportunity. This is well understood by national policy makers, as reflected in the ETS and put forward in the GRSP II Concept Paper.

47. The expected approach of GRSP II, may be illustrated by Figure 1 below (lifted from the Concept Paper).



48. Key issues and Implications for the DTIS

- The DTIS will follow (with some adaptations) the existing approach, sectoral characterizations and template that has been adopted in Cape Verde, as put forward in the GRSP II Concept Paper. This approach, which amounts to making Cape Verde into a competitive service economy, is well articulated and very relevant to the development problematique of Cape Verde, and moreover is grounded on a national consensus achieved in the course of the ETS validation process. To proceed in this way will also facilitate integration of IF activities into what the GPRS II is likely to contain.
- The DTIS will however take into account the fact that ETS will take time to come into effect, even under the most favourable scenarios.
- For each of the sectors identified below in this concept note, international and local specialists on the DTIS mission will review the main constraints and opportunities, and propose policies and concrete measures to move forward, bearing in mind implementation capacity. In line with the approach expected to be followed in GPRS II, the DTIS will consider the four intervention areas (governance, network and strategic partnerships, human resources, and infrastructure) appearing in Figure 1.

Specifically,

- What should be done to improve governance, including institutional culture in relation to the trade and productive sectors.
- How to build and exploit Cape Verde's network and strategic relationships.
- How to generate the human resources and technological skills that are needed. This will require the DTIS to review the existing training institutions and policies.
- What priority infrastructure is required and how to build it (the IF Trust Fund itself will not be able to finance infrastructure but the DTIS can identify needs for bilateral or other multilateral funding).

IV.1 TOURISM: THE BACKBONE OF THE ECONOMY

49. Cape Verde is between 4 and 6 hours' flight from Europe, the largest potential tourist market in the world, and from which most of the tourists to Cape Verde presently come. The islands have a pleasant climate all year round and are outside the hurricane belt. Several islands, in particular Sal, Boavista and Maio, have beautiful white sandy beaches and what many consider to be among the best windsurfing waters in the world. Cape Verde has a friendly population, a certain cultural appeal as the starting point of Portuguese exploration of Africa, as well as a rich musical heritage.

50. Recovering quickly from the 9/11 effect, tourism has already overtaken remittances (and ODA) as a foreign exchange earner (Table 1). It is fast becoming the backbone of the Cape Verdian economy, with a pluri-sectoral dimension. In contrast with the sluggishness or stagnation of almost all other productive sectors, it is achieving spectacular expansion. Cape Verde received 235,000 tourists in 2005, 26.4 per cent more than 2004. In 2006, the BCV reports that tourist receipts increased by 23 per cent over the previous year, and that tourism sector

represented 18 per cent of GDP, 75 per cent of exports of services and more than 95 per cent of foreign investment. A particular feature of tourist development has been investment in real estate which is booming leading to alleged land speculation.

51. According to projections, by 2015, the number of tourists would reach one million, contribute 30 per cent to GDP and employ some 53,000 persons. Developing the skills to match this expansion is a challenge. The first Tourism and Hotel school in the country is about to open in 2008. Current threats to tourism are the recent upward trends in drug consumption, urban crime and violence and sexual exploitation. This can be directly linked to both the increased use of Cape Verde as a transit base for international trafficking, and the growing relevance of the tourism itself. There are several good consultants' reports on the Cape Verdian Tourism Industry, which the Government is using to develop a national strategy and plan, through an intensive consultation process with all stakeholders.

52. **Key issues and implications in tourism for the DTIS**

➤ A very important part of the DTIS will be devoted to tourism. The strategy will be reviewed on the basis of available reports and Cape Verde's positioning vis a vis competitive destinations. The expansion of tourism is already very rapid and the DTIS is not expected to focus on measures for accelerating its development, apart from the completing the development/certification of additional international airports.

➤ A key issue is to ensure linkages between tourism and agriculture, handicrafts, food processing, other services (including the cultural tourism-art, music carnivals), thus maximizing the impact on poverty, particularly in rural areas outside the main tourist zones.

➤ Vocational training is particularly important, not only for hotels, but in ancillary activities.

➤ The environmental and sustainability dimensions, including ecotourism, already well covered in recent studies, will be taken into account, particularly as regards its impact on poverty and gender.

➤ The emerging issue of drug trafficking and the associated violence should be addressed, both in relation to tourism and to the general economic and security environment.

IV.2 MARINE RESOURCES, THE EXCLUSIVE ECONOMIC ZONE (EEZ) AND REGIONAL FISHERIES CENTRE¹⁵

53. **Fisheries.** Fishing resources have traditionally been considered as one of the (rare) natural resources available to Cape Verde. Although limited, fisheries based exports (which have surmounted the embargo of the EU in the early 2000s, for SPS reasons) have been the main domestic merchandise exports in recent years. However, this sector has stagnated. The contribution of fisheries to GDP, which was 2 per cent in 2000, has fallen to 0.8 per cent of GDP in 2006. In 2000/2001, this sector provided employment to some 5-7 per cent of the labour force.

¹⁵ This draws on Gert van Stender et Kim.A.Stobberup, *World Bank Fisheries Sector Strategy Assessment*, July 2005

This included some 4300 artisanal fishermen, 2000 persons ashore (of which 75 per cent are women fishmongers). Employment in industrial fishing (often seasonal) and in the canning factories is less than 800. Government and donors have over the years invested heavily in this sector, with disappointing results¹⁶. The GPRS and the Fisheries Management Plan (2004-2014) have proposed an expansion of the fishing effort.

54. However, the recent study by World Bank consultants recommends the need to apply the precautionary principle, and reducing, or at least postponing the fishing effort, gradually reducing national and international funding and recycling fishermen towards other activities. Indeed, it appears unlikely that GPRS II, departing in this regard from the 2003 ETS, will target the development of national fisheries per se as a potential engine for growth. In this context, the DTIS, while avoiding recommending wasteful use of resources and departing from the precautionary principle, will make a special effort to identify ways to maintain at least some viable fisheries activities in Cape Verde, particularly in the light of its impact on the poor and on women.

55. **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 being with the EU. The agreements with African countries are mostly reciprocal agreements, in that they enable fishing in each other's waters without payment. Sustainable local and foreign exploitation of fish stocks in the large EEZ of Cape Verde is not possible without effective Monitoring, Control and Surveillance (MCS). Given the expensive nature of MCS, it is not surprising that Cape Verde has a modest surveillance capacity for its large EEZ. Efforts are being made to improve national ability to monitor foreign fishing fleets by linking-up to existing Vessel Monitoring Systems (VMS) systems.

56. **Regional Fisheries Centre.** Distinct from the efforts to develop the national fisheries sector, the idea of developing Cape Verde as a regional fishing centre is not new. In fact, investment in shore facilities (ports, fish landing places, ice plants, freezing plants, cold storages) has exceeded past projections and current needs. For example, the Interbase Complex in Mindelo was built in the beginning of the 1980's with expectation of serving the international Atlantic tuna fishing fleet, but demand for this service did not arise, leaving the facilities largely under-utilized. The complex is still the center of the local industrial fishing fleet and of local canneries. Contrary to other islands like Seychelles and American Samoa, where the largest tuna canning factories in the world have been established by multinational corporations, the Cape Verde fish-processing infrastructure is presently limited to a few modest plants, which are struggling in the face of insufficient local supplies of raw material and quality control problems. The technical college ISECMAR, created in 1984 as the Center for Nautical Training, provides training in fisheries and naval activities. It is a potential asset to support in the development of a fisheries centre or for the maritime industry in general.

57. The development of a regional fishing centre is crucially dependent on the presence of international fishing fleets in the vicinity, itself dependent on the presence of fish. In

¹⁶ It is estimated that since 1978, this sector has received an average of US\$ 7.5 million per year in foreign aid, which is more than the value of landed catches.

this respect, there is uncertainty about the potential. According to surveys by the International Commission for the Conservation of Atlantic Tunas (ICCAT), the Cape Verde Archipelago appears to be outside or on the outer limits of the richer fishing grounds off the northwest African continent and the equator, both as regards industrial logline fishery or purse seining. It could be that the Cape Verde quota of 25 000 tons under ICCAT is an overestimate.

58. **Other sea-related activities.** Documentation for the ETS 2003 Forum mentions ship registration and a “themed research park” as potential sea-related activities. However, there does not seem to have been a follow-up. There is also a direct link between fishing activities discussed above and the shipping/transshipment hub envisaged under IV.3 below, as well as with tourism (e.g. yachting, aquariums, underwater sports, and a possible marine park at Murdeira Bay).

59. **Key issues and implications for the DTIS**

➤ The DTIS will attempt to provide a realistic assessment of the maritime based sector, taking into account recent studies and in consultation with national policy makers. For national fisheries, some improvement of boat design and reduction of operating costs may make some segments of the sector more viable. Aquaculture may also be considered. For the regional fisheries centre, the DTIS will take into account the competition in the region, including the Canaries, and the conclusions of the recent study done by Millennium Challenge Account (MCA).

IV.3 THE GATEWAY CONCEPT, HUBS, PASSENGER AND CARGO TRANSSHIPMENT, RE-EXPORTS

60. There is strong political will regarding the development of the “gateway” concept. The Prime Minister often stresses that Cape Verde has always been an entry point of the Americas, Africa, and Europe, and that it “ want(s) to make a strong contribution to the development of the Atlantic corridor by giving businesses all the right conditions for utilizing Cape Verde as a platform to the continents.” Indeed, the gross value of re-exports, mainly for refueling aircraft and ships, is higher than that of domestic exports (Table 1). However, recent reports have expressed considerable doubt about the economic feasibility of this strategy.

61. **Air.** Sal Airport has played a historic role in air transportation. Since 2006, Praia is also able to receive long-range aircraft. An international airport in Boavista is ready and awaiting certification. The airport of Mindelo on Sao Vicente was also upgraded. The Airports and Air Navigation Company S.A. (ASA), which is responsible for air traffic control, manages the Flight Information Region (FIR) of Sal, which is at the crossroads of a number of main intercontinental airways.

62. There is a link between air and sea modes, and there is potential for the cruise ship industry to use Cape Verde as a point for passengers to board and disembark. Cape Verde’s airline company TACV (Transportes Aereos de Cabo Verde) is a government owned enterprise “being prepared for privatization”. Besides ensuring domestic services, it also provides services to Europe, North America (Boston), South America (Fortaleza) and to various destinations in West Africa. TACV achieved its ETOPS certification (Extend Twin-Engine Operations), which

allows it to fly to American destinations. The idea of developing Cape Verde as an airline hub received a set back in 2006, when South African Airways, which had a long standing hub in Sal, scaled down its activities.

63. **Shipping.** The natural deep water port at Mindelo in Sao Vicente played an important role in supplying the intercontinental trade sailing boats and later became a major coal bunkering station, followed by an oil fuelling station for motor ships. In the course of time, Sao Vicente lost most of this trade to the port of Dakar. Cruise ships sometimes enter the harbour of Sao Vicente, but there are limited touristic interests in the island for the moment. Sao Vicente has maintained an important trading function for all the islands due to its good port facilities, managed by ENAPOR (Empresa Nacional de Administração de Portos). An industrial zone was constructed near Mindelo, but not all of the facilities constructed are in use. Mindelo is also the base of a major shipyard, CABNAVE. There are three smaller shipyards (Praia is a secondary port, which requires a wave breaker to protect it so as to be operational year-round). Should present capacity prove insufficient, a new container terminal is planned for Sao Vicente with a capacity of 300.000 per year and the possibility to expand to 1.000.000. For the transshipment hub, much would depend on the attitude of the Maersk group, by far the main actor in this sector in Cape Verde and its region, as well as the decision of China whether to choose Cape Verde as one of the 6 entrepôts in Africa for Chinese trade with the continent or not.¹⁷

64. **Key Issues and Implications for the DTIS**

➤ DTIS will review prospects, opportunities and constraints as regards the gateway/hub/transshipment “sector”, both for air and shipping, taking the competition, in the light of market and feasibility reports recently made available.

IV.4 OFFSHORE SERVICES, IT AND BUSINESS PROCESS OUTSOURCING

65. One of the priority areas for Government, expressed in the ETS and the CP, is to develop IT outsourcing and offshore financial services. The development of this sector is crucially dependent on telecommunications, and Cape Verde has paid considerable attention to this issue. It has created an Inter-Ministerial Commission for Innovation and the Information Society, whose operation structure, the Núcleo Operacional da Sociedade de Informação (NOSi), was inaugurated in 2004. NOSi is acting as an IT catalyst and software development laboratory for Cape Verde. A Programa Estratégico para a Sociedade de Informação (PESI) and a Plano de Acção para a Governação Electrónica (PAGE) are being implemented. An interesting initiative is the Casa do Cidadão (citizen’s house) which aims at making electronic services widely available. IT is given strong leadership by the Prime Minister, and the IT related institutions report directly to his office.

66. Mobile telephone coverage in Cape Verde is significantly higher than the average for Sub-Saharan Africa. In 1996, Cabo Verde Telecom (CVT) was privatized, with Portugal Telecom Internacional (PTI) acquiring a 40 per cent share. The new company was given exclusivity for 25 years for most services. However, in an effort to further liberalize the sector,

¹⁷ Mauritius and Zambia have already been selected.

the government has moved to renegotiate the concession contract with PTI and end Cabo Verde Telecom's monopoly. At the end of 2007, Cape Verde has decided to allow a second national telecom operator (T+) to offer mobile, internet and cable TV services. Only the fixed line monopoly for CVT will remain in place until 2010. It is expected that this competition will lead to lower tariffs, and further improvement in services. In parallel, a strategic partnership with Microsoft is under discussion, and a commercial agreement, allowing improvement in the development of Voice over IP and videoconferencing, has been signed with the Chinese multinational HUAWEI in May 2007.

67. Financial services have been targeted by Cape Verde for some time as a potential development sector. International financial companies operating in Cape Verde have increased from four in December 2005, to 13 in December 2006, 10 of which are banks. (This is apart from 7 financial institutions, including 3 banks, servicing the domestic market). One issue being addressed is that strict surveillance should be put in place to ensure that Cape Verde's offshore financial sector is not used as a platform for money laundering, for illicit activities or financing terrorism¹⁸.

68. Apart from a modest start in offshore financial services, Cape Verde does not seem to be proactively promoting Business Process Outsourcing (BPO) or Information Technology Enabled Services (ITES) for the moment.

69. **Key Issues and Implications for the DTIS**

➤ The DTIS will examine how Cape Verde can enter into the enormous and expanding offshore BPO market¹⁹, both as regards back office functions (billing, purchasing, payroll) and front office outsourcing (customer-related services such as marketing or technical support, for example through call centres). The lusophone market should be particularly explored. Constraints should be identified (including the level of technological and language skills), and measures to overcome them proposed.

¹⁸ Although, the CIA has laconically assessed that "the lack of a well-developed financial system limits the country's utility as a money-laundering center"(CIA Fact book, updated 12 August 2007), the increased use of the Cape Verdean territory for illicit shipments justifies the concern of the Government about the possible infiltration by criminal groups in the economic fabric of the archipelago with a view to laundering money and taking advantage of the opportunities provided by the remittances and rising tourism .

¹⁹ The world BPO industry is estimated at some USD 150 billion in 2007, most of it « onshore ». However, technology makes it increasingly possible to relocate near shore or offshore. The offshore BPO market, which was USD 3 billion in 2004, is estimated at USD 24 billion in 2007. (Sources: CNNMoney.com; Gartner.com).

IV.5 THE DIASPORA, REMITTANCES, AND WORKING ABROAD.

70. Cape Verdians living or working abroad or engaged in circular migration²⁰ play a vital role in the economic and social life of the country, including in alleviating poverty in rural areas. This is well recognized in Cape Verde, which 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 Verdian 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 ETS “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, being mentioned in some detail in a specific paragraph [9. (e)] of the GAT Declaration of June 2007. It is also receiving much attention internationally (however, surprisingly, neither GPRS nor the CP for GPRS II address this dimension).

71. There are several distinct aspects in this regard:

- The flow of migrant remittances, which amount to some 11 per cent of GDP (Table 1). CV is devoting considerable attention to maintaining the links with the communities.
- Migrant deposits, which represent more than 40 per cent of bank deposits. Government and the BCV are particularly attentive²¹ to the management of this important resource. These are deposits rather than flows, are interest bearing, and may be withdrawn (as has happened in the past). Their management poses somewhat different problems than that of the unrequited transfers constituted by most remittances.
- The use of the financial, human and networking potential of returnees (this is particularly highlighted in the June 2007 GAT Declaration).
- New emigration, circular migration and Cape Verdians working abroad. In spite of the remarkable dynamism of tourism, and the renewed efforts to make the economy more competitive, unemployment remains high and may take time to fall to single digits. As the CP concedes, “it is quite likely that there will be people left behind. That is, people that are unable to participate in the initial growth.” It is thus not surprising that, following an ancestral tradition, many Cape Verdians continue to wish to work abroad, at least for some time, and succeed in finding opportunities, with the assistance of the wide diaspora network (and on the basis of their good record as desirable migrants)²².

72. In terms of migration, Cape Verde’s case, although exemplary, is far from unique. Working abroad is often a controversial issue politically and economically, but it is generally

²⁰ Defined as the movement of migrants to-and-fro between their homelands and foreign places of work. See for instance “*Circular Migration: the way forward in global policy?*” Steven Vertovec, International Migration Institute, Oxford, Working paper 4, 2007.

²¹ For a survey see Isabella Karpowicz, *Determinants of Emigrants Deposits in Cape Verde*, IMF Working Paper 06/132, 2006

²² This is documented in Jorgen Carling, *Emigration, Return and Development in Cape Verde*, Population, Space and Place, 10, 113-132 (2004).

recognized world-wide that “migration can work for poverty reduction”²³. At the same time, “the old paradigm of permanent migrant settlement is progressively giving way to temporary and circular migration,” thus the “need to grasp the developmental opportunities that this important shift in migration patterns provides for countries of origin.”²⁴ The Cape Verde authorities so far seem to have taken a *laissez-faire*, passive (or neutral) attitude in this respect, and there does not seem to have been organized efforts to use the opportunities of circular migration or temporary work abroad, including under Mode IV of the General Agreement on Trade in Service (GATS) of WTO.

73. Another migration-related issue relates to relatively recent phenomenon of migration into or through Cape Verde. Apart from the problem of “overstayers” from ECOWAS countries, the country has recently become linked to the clandestine traffic between the West African coast and the Canaries. Some vessels have been intercepted in the Cape Verde islands, while Cape Verde has no effective means of monitoring its shores or territorial waters.

74. **Key issues and implications for the DTIS**

The DTIS, which deals with the insertion of Cape Verde in the international economy, must necessarily deal with issues related to Cape Verdians abroad. The DTIS should examine how best to use Cape Verdeans abroad for the realization of the transformation agenda. This would include defining policies with respect to the financial, human and networking potential of returnees (both temporary and permanent).

Other related issues to be addressed include:

- Maximizing the flow of migrant remittances, reducing the cost of transfer from the originating country and improving the security of transactions.
- Managing and utilizing migrant deposits. Among the schemes to be considered is the issuance of public bonds with long maturity that could be traded on the national stock exchange.
- Migration policies, circular migration and temporary work outside the country according to Mode IV of GATS. It would be beyond the scope of the DTIS to go into overall migration policy (which should include immigration policy to attract certain skills to enable the development of tourism, and to control undesirable entrants), but the DTIS might examine the possibility of measures and policies, which would aim at providing desirable work abroad for part of the labour force, at least for an interim period, while giving time to the ETS to work out. The DTIS might propose measures to organize and facilitate the departure of those who so aspire to find work abroad (for instance as care providers, musical groups, crews for airlines, fishing vessels, cruise ships or yachts). Circular migration agreements with the EU countries, which have a manpower deficit, or with Angola²⁵, which is reportedly short of many skills which

²³ See for example, House of Commons, International Development Committee, “Migration and Development: How to make migration work for poverty reduction”. London: The stationary Office, 2004.

²⁴ Report of the Global Commission on International Migration (GCIM), Geneva, 2005, p.31.

²⁵ In October 2007, it was reported that Angola has granted Cape Verde 7,200 hectares of land in Cuanza Sul province for the archipelago to invest in agricultural projects.

Capverdians could provide, might be considered. Such agreements often provide for the creation of information and training centres both in home and recipient countries. Policies could include facilitating temporary or seasonal work abroad, according to mode IV of the GATS, but also for the reinsertion of returnees, who could dynamize the economy.

IV.6 AGRICULTURE AND INDUSTRY?

75. The agriculture and industry sectors are not among the priorities of the GPRS, and the CP for GPRS II does not even contain the words “agriculture”, “industry” and “manufacturing”. Indeed, in view of the constraints that apply to these sectors, it is not realistic to expect them to be leading the development process and to reach high degrees of international competitiveness, except in a very few niche markets. This being said, and granted that Cape Verde is and will continue to be mostly a service economy, some mention must be made to agriculture, the rural economy, and industry, which have a potential to contribute to poverty reduction.

76. **Agriculture and the rural economy.** Primary production accounts for 11 per cent of the total GDP of Cape Verde. This percentage will probably continue to decline. Self sufficiency in cereals has never been envisaged. However, perhaps as much as 50 per cent of the population is engaged at least part time in agricultural pursuits. Even many families in the urban environment do some farming, or have some small livestock. One of the minor success stories of Cape Verde over the past 15 years is that the introduction of drip irrigation led to self-sufficiency in vegetables and largely in fruits, with availability year-round. It is envisaged that GPRS II will place renewed emphasis on building the capabilities of the most vulnerable and the rural population to be able to effectively participate in the emerging modern economy in Cape Verde.

77. Key agricultural issues and implications for DTIS

➤ The DTIS will not devote much attention to agriculture, and agro processing, although some reference may be made to agriculture as a supplier to the expanding urban/tourist market.

➤ The DTIS might also look at the very few agricultural based activities that could find a niche market overseas (e.g. grogue-arguardiente)²⁶

78. **Industry**²⁷. The industrial sector of Cape Verde represents perhaps 5 per cent of GDP²⁸. Most of the units are very small scale: the woodwork sub-sector for instance consists of 132 enterprises and employs 587 workers (INE, Industrial Survey 2002). Overall, this sector is stagnant and badly positioned to take advantage of the new technological context.

79. Given the cost of factors, notably energy and water, the lack of locally available inputs, the small and fragmented local market, and the lack of industrial tradition in Cape Verde, “manufacturing” is not in general a promising sector. Nevertheless, industry provides some

²⁶ For the traditional products, bananas international competition is such that international competitiveness is unlikely. There may be a gourmet market for coffee and wine.

²⁷ This draws on World Bank, Industrial Sector Strategy, May 2006, BCV Annual Report 2006

²⁸ Industry is grouped with energy in GDP data, which indicate that together they account for 7 per cent of GDP in 2006 (BCV 2006 Annual Report, Quadro 8).

much needed employment; a few modern enterprises exist and have made modest contributions to exports. These are in the food sub-sector, including fish processing (83 enterprises, 1019 workers), the leather sub-sector sector (7 enterprises, 250-300 workers) and the textile/clothing sub-sector (8 enterprises, 700-800 workers). Even these larger enterprises have not been able to make full use of the Lome/Cotonou preferences with the EU. Some early use had been made of the AGOA preferences but there has been a sharp decline of exports to the United States in 2006, reportedly due to problems in meeting the “stringent requirements” of that market (BCV Annual Report, 2007, p.29).

80. **Key issues and implications for the DTIS**

Although it will not be the priority of the DTIS to develop an ambitious programme for the industrial sector, an attempt will be made to find practical ways and means to support existing local manufacturing structures and skills, as well as encourage start-ups. Specific areas might include:

- preparing the small-scale food processing sector to meet the increasing tourist demand;
- assisting the current exporters (fish products, leather, clothing) to upgrade and differentiate their products; in particular, the reasons for collapse of exports under AGOA will be addressed. Specific attention will be paid to SPS and technical standards;
- promoting Cape Verde as a location for light non-energy non-water intensive industry (assembly type, maquiladores, arts and crafts, jewellery, etc...) responding to orders from established international distribution channels, which would also provide training and quality control;
- promoting the music “industry”. This is an intangible activity part service, part technology, part industry, with many links to tourism, where Cape Verde could make use of the international renown of many of its artists.²⁹

The DTIS will also address the employment effect of these sectors.

V. CROSS-CUTTING ISSUES AND OBSTACLES TO ACHIEVING COMPETITIVENESS.

81. As noted above, the objective of “inserting Cape Verde in the international division of labour” was declared more than 20 years ago. In a way, Cape Verde has always participated extremely effectively in the international division of labour through Cape Verdians successfully finding work abroad. However, as regards home-based activities, with the notable exception of tourism, which has started developing over the past few years, there has been very limited success in this regard. Most of the obstacles and constraints which have applied and still apply to achieving competitiveness are on supply side. Some of them that are sector specific will be addressed when examining the particular sector. Others are cross sectoral.

²⁹ Jamaica exports more music than sugar. An industrialized country like Britain exports more music than steel.

82. **Institutional rigidities.** Cape Verdian leaders recognize that, as in many countries, a deep-rooted obstacle to the sought-after economic transformation of the country and its integration into the global economy are the rigidities of institutions and of the “old way of doing things”³⁰ For instance, many privatization programmes and other reforms decided in principle, have been delayed. One handicap is that, contrary to many developing countries, there are hardly any multinational corporations operating in Cape Verde. This means that the Cape Verdean enterprises - almost all of which are very small - and their management have not in general been exposed to modern managerial and technological methods as well in the corporate culture that many multinational corporations often bring with them. Nor have Government institutions been sufficiently exposed to dealings with (or practices of) modern competitive businesses.

83. **Cost of doing business, cost of factors and Investment climate.** Certain constraints to the competitiveness of Cape Verde like territorial discontinuity, lack of natural resources and arable land, and irregularity of rainfall are inescapable.

84. Other constraints are more amenable to interventions. Cape Verde occupies a rather lowly place (132nd out of 178) in the 2008 ranking of “Doing Business”³¹. The recent Investment Climate Assessment made by a World Bank team³² documents many obstacles, or perceived obstacles, to building a competitive economy. These include:

- Cost and regularity of supply of electricity³³
- Water supply³⁴
- Cost of labour, labour legislation and flexibility
- Taxes, customs duties
- Telecommunication
- Availability and cost of financing
- Qualification and training of staff
- Performance of ports and customs
- “the burden of regulation”
- Competition from the informal sector.

85. One could further add weakness in knowledge systems and the absence of a national innovation policy. It is also felt, particularly in the context of the recent Special

³⁰ The Prime Minister, while outlining the country’s transformation objectives, 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. We need to create, to innovate, to dare, to undertake.”

³¹ World Bank, “Doing Business 2008”. (www.doingbusiness.org)

³² World Bank, « Cape Verde Investment Climate Assessment », 2006. This assessment applies the standard methodology used internationally, and focuses essentially on “manufacturing”.

³³ Cost of electricity is twice that of Portugal.

³⁴ Desalination plants account for about 75 per cent of production. For instance, in Sal, water from a desalination plant, is piped to the hotels and trucked to most other areas. The price per cubic meter ranges from USD 375/cubic meter for industrial use to USD 1000 home delivered by tanker.

Relationship Agreement with the EU, that the lack of convergence/harmonization with the European market norms in the areas of SPS and technical and technological standards has been a major obstacle to competitiveness in the European Union market and to attract investments.

86. Key Issues and Implications for the DTIS

- The DTIS will review the obstacles and constraints to achieving competitiveness, and propose measures to overcome them.
- It would not be appropriate for the DTIS to address the the question of “institutional rigidities” throughout the whole economy. However in each of the sectors and issues analyzed, recommendations will be made (e.g. through training) to make the corporate culture, the governance methods and ownership structures of the institutions involved, and the mind-sets of their management and staff more consonant with the achievement of international competitiveness in pursuance of national development objectives.
- For the other technical and institutional obstacles to competitiveness in trade and attractiveness of investment, the DTIS will review them in some detail, in the light of the Investment Climate Assessment and other reports, and propose measures to address them, both as regards those of a cross-cutting nature and as they apply to particular sectors. Technical assistance, such as using the Standards and Trade Development Facility (STDF) will be proposed, with a view for Cape Verde to attaining the upper half of competitiveness rankings in the medium term.

VI. THE DTIS AND POVERTY REDUCTION

87. As indicated in the introduction of this note, the DTIS will propose strategies and measures that will facilitate broad-based, pro-poor economic growth, which will raise income and create employment, and have spillover effects. At the same time, a recurrent theme throughout the DTIS will be to enable the poor to participate effectively in the economy. The DTIS will attempt to provide an analysis of the effects of trade expansion and institutional reforms on income, employment and poverty, taking into account occupational, gender and regional differences. Relationships with the Social Protection System will be examined.

VII. IMPLEMENTING THE IF

88. Cape Verde benefits from a large number of strategies, frameworks, assessments, plans of action, etc... These various programmes compete for priority attention, and their management puts a tremendous strain on the limited number of decision makers and middle managers in the country. The DTIS will address the issue of implementation arrangements for the IF in line with the Paris Declaration principles. The programme to be adopted will necessarily require managing and controlling by the Cape Verde authorities, but care will be taken to ensure that this programme is adapted to the “absorptive capacity” of the country, and does unduly complicate the work of already overburdened planners, implementers and

evaluators. In this context, the DTIS will provide a proposed prioritization, and may have to limit its scope to fit the national managerial capacity. In certain cases information constraints or the changing geopolitical context may lead the DTIS to recommend further analysis before recommending concrete action. To facilitate decision making, the DTIS will contain, as far as possible, costings and time frames, as well as indicate recommended responsible bodies for implementation, and sources of potential donor support.

ANNEX I

IF INSTITUTIONAL ARRANGEMENTS

National Focal Point

- Mr. Jorge Borges, Deputy Minister of Economy, Growth and Competiveness (Jorge.Borges@gov1.gov.cv)
- Jerson Fernandes Semedo, Office Director (Jerson.Semedo@gov1.gov.cv)
- The General Directorate of Commerce within the Ministry of Economy (MECC) will serve as “institutional home”

Steering Committee

- DG Planning /Ministry of Finance (MFAP);
- DG International Cooperation, Ministry of Foreign Affairs;
- Ministry of Infrastructure, Transport and Sea (MITM)
- NGO platform
- Chambers of Commerce
- Ministry of Economy Growth and Competitiveness (MECC).

DTIS Team Leader

Philippe Hein (mail: philhein@orange.fr)
Telephone 00230 2633244. (until March 2008)

Lead Agency Contacts: UNDP

A. In Geneva Bureau

- David Luke, Senior Trade Adviser and Coordinator, Trade and Human Development Unit (david.luke@undp.org)
- Luca Monge Roffarello, Trade Policy Specialist, Trade and Human Development Unit (luca.monge.roffarello@undp.org);

B. In Cape Verde Country Office

- Patricia de Mowbray, Resident Coordinator (patricia.de.mowbray@cv.jo.un.org)
- Jeanne Gouba, Deputy Resident Coordinator (jeanne.gouba@cv.jo.un.org)
- Idrissa Sanoussi, Economist (sanoussi.idrissa@cv.jo.un.org)

C. In the UNDP Dakar Regional Centre

- Cristina Hernandez : Regional Trade advisor (cristina.hernandez@undp.org)

ANNEX 2

DRAFT CALENDAR FOR DTIS IN CAPE VERDE.

The following calendar is envisaged.

September 2007. Preliminary Mission

October 2007. Team Leader submitted a draft Concept Note in English (15 October), Portuguese translation made available (30 October)

22 November. Ministry of Economy designated IF focal point and commented on draft Concept Note

28 November. Revised Concept Note circulated to IF Agencies

14 December 2007. Comments from IF agencies on Concept Note received. Concept Note revised.

December 2007/January 2008. DTIS Consultants TORs prepared and consultants identified.

February 2008. Consultants contracts finalized.

March/April 2008. DTIS mission.

May/June 2008. Draft 00 of DTIS, including Priority Action Matrix available.

July 2008. Portuguese translation available.

July/August 2008. Formulation of Tier I programme and approval by the Executive Director of the IF in Geneva.

July/August 2008. Government comments on DTIS draft received.

August/September 2008. Draft 0 of DTIS will be available taking into account the Government comments.

September 2008. Agency final comments on DTIS received.

October 2008. National validation workshop. Priority Action Matrix validated and Government formally endorses the document.

November 2008. Formulation of Tier II programme and approval by national Steering Committee.

December 2008. Approbation of Tier II by the IF Board in Geneva

January 2009. Implementation of the Tier I and II (initial period of 5 years envisaged).