Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 26-Jan-2023 | Report No: PIDA35356

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Cabo Verde	P179274	Cabo Verde Tourism and Blue Economy AF	P176981
Parent Project Name	**Region**	**Estimated Appraisal Date**	**Estimated Board Date**
Resilient Tourism and Blue Economy Development in Cabo Verde Project	WESTERN AND CENTRAL AFRICA	23-Jan-2023	15-Mar-2023
Practice Area (Lead)	**Financing Instrument**	**Borrower(s)**	**Implementing Agency**
Finance, Competitiveness and Innovation	Investment Project Financing	Republic of Cabo Verde	Ministry of Culture and Creative Industries and Ministry of the Sea, Ministry of Finance and Business Development, Ministry of Infrastructure,Territorial Planning and Housing, Ministry of Tourism and Transports

Proposed Development Objective(s) Parent

To increase diversity and resiliency in the tourism offering and small and medium enterprise (SME) participation in tourism-related value chains in targeted destinations.

Components

Component 1: Development of integrated and resilient tourism and blue economy infrastructure
Component 2: Enhancement of inclusive and sustainable management of tourism in a blue economy
Component 3: Project Implementation Support
Component 4: Contingent Emergency Response Component (CERC)

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	10.00
Total Financing	10.00
of which IBRD/IDA	10.00

Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	10.00
IDA Credit	10.00

Environmental and Social Risk Classification

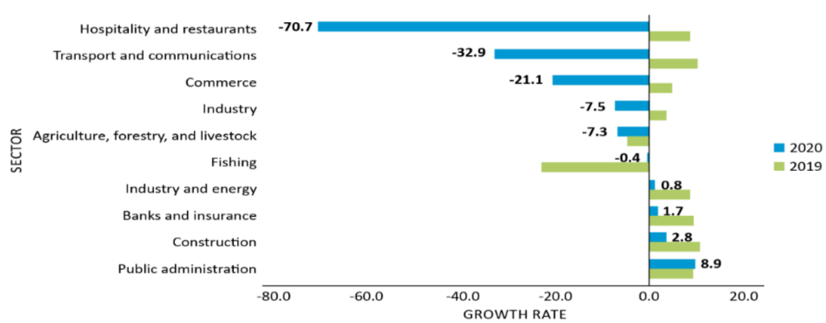
Substantial

B. Introduction and Context

Country Context

1. **Cabo Verde's stable political and macroeconomic environment allowed for significant economic and social development in the last three decades.** Cabo Verde is an archipelago of ten islands (nine of which are inhabited) located 500 kms off the west coast of Africa. The country's estimated population is 556,000;[1] 68 percent of which live in urban areas. Only about 10 percent of the territory is classified as arable with limited mineral resources. However, despite the arid climate, mountainous terrain, vulnerabilities to climate change, rising sea levels, and natural disasters (including an active volcano on Fogo Island), the country has developed rapidly. Largely due to the growth of the tourism sector, gross domestic product (GDP) per capita almost quadrupled from 1989 to 2017, rising from US$800 to US$3,000 with annual average GDP growth rates of about 6.7 percent. In the same period, the poverty rate fell from nearly 50 percent to 35 percent. The positive track record led the country to graduate to middle-income status by 2008.[2]

Figure 1. Annual Growth Rates per Sector 2019–20



Source: World Bank Cabo Verde Economic Update 2021.

[1] World Bank Open Data 2020 estimate.
[2] World Bank. 2019. *Cabo Verde Public Expenditure Review: Revisiting the Efficiency of Public Spending to Reduce Debt and Improve Education and Health Outcomes.* Washington, DC: World Bank.

2. **The COVID-19 pandemic brought the trend of economic and social advances to a halt.** The growth track had remained stable between 2016 and 2019, averaging 4.7 percent (3.4 in per capita terms). With the onset of the COVID-19 crisis from March 2020 onwards, the ensuing international travel bans as well as domestic lockdowns caused an estimated 14.8 percent contraction in GDP for 2020 (15.7 percent in per capita terms), representing the largest reduction on record in the country's history. The effects of the crisis were estimated to have pushed 100,000 people into temporary poverty, and the sectors dependent on tourism have been especially affected[3] (figure 1). The main channels through which the exogenous economic shock affected the country were the crash in demand in the tourism sector, which represented an estimated 25 percent of GDP, and the halt in foreign direct investment (FDI), a critical source of external finances and key driver of growth.[4]

3. **The economic shock and subsequent response measures aggravated the fiscal situation and erased recent gains in reducing the public debt burden.** To support vulnerable households and businesses, authorities implemented cash transfers and support for hard-hit sectors by granting temporary tax exemptions, deferring tax payments, and providing Government-backed credit lines and partial credit guarantees to help businesses secure working capital. Authorities also legislated a temporary layoff regime, partially subsidized by the pension fund. Driven by the impact of the crisis on tax collection in addition to the tax deferrals granted to affected firms, fiscal revenue declined by 23.8 percent in nominal terms in 2020. As current expenditure expanded and capital investment contracted, the overall deficit (including grants) increased from 1.8 percent in 2019 to 8.9 percent in 2020. With the onset of the crisis, debt escalated to 152.2 percent of GDP in 2020. Public and publicly guaranteed debt is still assessed as sustainable, yet the risk of external and total debt distress is high, according to the latest joint World Bank/International Monetary Fund (IMF) Debt Sustainability Assessment conducted in September 2020.

4. **The high rate of COVID-19 vaccination and recent progressive resumption of tourism flows are grounds for cautious optimism.** Gross national income per capita is projected to return to the 2019 pre-crisis level by 2024. Based on the latest estimate (April 2022) provided by the National Directorate of Planning in the Ministry of Finance and Business Development, GDP growth is projected to have reached 7.2 percent in 2021, supported by the progressive reopening of borders and gradual resumption of tourism flows. For 2022, added uncertainty related to the conflict in Europe and strong inflationary pressures are placing current GDP growth estimates at 4 percent, subject to continuous assessment. A key contributing factor to the pickup in growth was that, according to the Ministry of Health data, as of March 27, 2022, about 85.7 percent of the eligible population (above 18 years of age) were vaccinated with the first dose of vaccine, and about 73.7 percent had received the second dose. In addition, authorities enacted a sanitation seal training and certification program mostly targeted at hotels and restaurants, providing comfort to tour operators as they resume operations.

Sectoral and Institutional Context

5. **Cabo Verde's tourism sector is a key driver of growth and job creation but is overconcentrated on two islands.** The sector has witnessed impressive and sustained growth for two decades. In 2019, the country attracted almost 820,000 tourists (up from 145,000 tourists in 2000), and the Government had

[3] World Bank. 2021. *Cabo Verde Economic Update: Rebounding from the Crisis: Restoring Fiscal Sustainability and Leveraging the Private Sector for a More Resilient and Sustainable Recovery.* Washington, DC: World Bank.
[4] World Bank. 2021. *Cabo Verde: First Sustainable, Equitable and Green Recovery DPF (P174754) Program Document*.

anticipated reaching 1 million by 2021. Before the pandemic, tourism accounted for about 25 percent of GDP, driving about 40 percent of overall economic activity, employing more than 93,000 people (39 percent of total employment, 40 percent of whom are women) and bringing in substantial exports (66 percent of total exports) and FDI flows (26 percent of total investment). The main tourism segment is sun and sand, anchored on the all-inclusive package model dominated by foreign-owned large resorts and operators. Despite notable diverse cultural and natural resources across the archipelago, the tourism industry is overconcentrated on two islands, Sal and Boavista. They combine for more than 80 percent of bed-night stays, attracting mainly European sunseekers. The main assets are the country's ideal year-round climate, beautiful beaches, proximity to Europe, and political stability and security.

6. **COVID-19 devastated the tourism and ancillary sectors.** Following the closure of Cabo Verde's international borders in March 2020, tourism arrivals collapsed by about 75 percent on par with the global average. Hospitality operations and restaurants were the hardest hit segment (figure 1), and the nine-month closure further compounded negative spillovers in upstream sectors. Despite a partial reopening in October 2020, the slowdown in arrivals continued into the first half of 2021 as first quarter figures show a decrease of about 94 percent in guest movements with respect to the same period in 2020. The second quarter of 2021 showed a slight uptick reflecting the progressive reopening, although still only about 12 percent of what had been recorded in the same period of 2019 pre-pandemic. The figures for the third quarter confirmed the uptrend in resumption with about 42,396 guest arrivals (about 23 percent of what had been recorded in the same quarter of 2019).

7. **The firm-level impact of the crisis has threatened a large swath of the economy.** Small and medium enterprises (SMEs) are the backbone of the Cabo Verde economy, representing about 98 percent of formal companies and 40 percent of formal jobs. There is a strong concentration of companies in the commerce (45 percent) and hospitality (16 percent) sectors, which are particularly vulnerable to external shocks. As in many developing countries, the informal sector is large, possibly as high as 59 percent of the number of formal establishments. According to the latest available data gathered by the National Institute of Statistics (*Instituto Nacional de Estatística*, INE) on COVID-19 impact, early in the crisis, about 20 percent of surveyed firms fully suspended activities following the state of emergency declaration in March 2020. In addition, 83 percent of firms reported suffering a reduction in business turnover during the second quarter of 2020, and 43 percent reduced their effective workforce.

8. **The COVID-19 crisis exposed several legacy structural challenges in the sector brought on by the rapid burst of tourism FDI in just two islands.** Despite having good climate and many miles of pristine beaches, international tourism only started in earnest in the mid-1990s when authorities began buying large plots of land in high potential areas, mostly in the Sal and Boavista Islands, for selling or private concession. Thereafter, large resort-type projects were approved and developed,[5] first in Sal Island (which had the single international airport until 2005), and then in Boavista (which opened its international airport in 2008). The small critical mass of population (both islands combined had less than 10 percent of the national population), as well as residual support services, led to the prevalence of an all-inclusive package model where a few international brands developed vertically integrated supply chains to satisfy overwhelming needs for food and beverage, with limited links to local supply chains. In 2019, 81 percent of tourists traveled through a tour operator package, out of which 94 percent were on all-inclusive

[5] World Bank. 2013. *Tourism Development in Cabo Verde: Is it Time to Abandon the All-inclusive Model?*

packages. This concentration on Sal and Bovista left the other islands unable to benefit from the larger flow of tourism.

9. **This geographical and segment concentration affects tourism expenditure negatively and is also noticeable in source markets, where seven European countries combine for over 70 percent of tourist arrivals.** Tourists' average length of stay and expenditure had been stable pre-COVID with an average length of stay of about nine nights and US$300 of expenditure per tourist per trip. When compared to some of its peers, Cabo Verde fares poorly with just €41 average expenditure per day in 2019 versus €91 in the Azores, €124 in Madeira, or €238 in the Canary Islands, primarily due to reliance on the all-inclusive resort model which is designed to minimize tourist spending outside the resort.

10. **Local SMEs have been unable to fully reap the benefits of the growing tourism value chain.** The large all-inclusive units affiliated with big international brands, dominant in Cabo Verde's tourism context, typically have group-wide corporate policies and a risk-adverse approach to local sourcing versus independent hotels, which have more autonomy of purchase. The subsequent concentration and specialization of the wholesale trade supplying the hotels has had a strong impact on purchasing dynamics, such as avoiding non-accredited suppliers and understanding the importance of quality, certification, and traceability. Despite the interest expressed by managers from large hotels and import wholesalers in increasing local sourcing, especially for fresh produce, only an estimated 5–10 percent of hotels' food demand is sourced locally. A broad set of production and logistics constraints, including lack of scale, poor landing facilities, substandard sanitary procedures, lack of proper handling, and inefficient inter-island logistics, are preventing the penetration of local products and services, particularly primary sector fisheries and agriculture; sectors which have a relatively low input to the formal economy and a large proportion of workers (artisanal fishers and fish traders) being poor.[6]

11. **Another challenge is accessibility of the islands.** Limited inter-island connectivity and lack of a connectivity policy to improve access to all islands by air and sea hinders decentralization of tourism arrivals. Inter-island maritime services for the transport of passengers and cargo have been operated by the concessionaire *Cabo Verde Interilhas* since August 2019. All islands are connected through maritime services but at varying frequencies. Infrastructure varies across islands, and some do not yet have a maritime passenger terminal. Cabo Verde has seven airports, four of them international—located in Praia (Santiago Island), Sal Rei (Boavista Island), Espargos (Sal Island), and Mindelo (São Vicente Island)—and well connected to source markets by regular and charter international carriers. However, some islands (Santo Antão, São Nicolau, Maio, Fogo, and Brava) have limited or no airport infrastructure. Before COVID-19, domestic air services were provided by a single operator dubbed TICV (*Transportes Interilhas de Cabo Verde*), co-owned by a foreign carrier (Binter Canarias) and the Government (70 and 30 percent owned respectively). The pandemic led to a temporary stop of operations which progressively resumed. In June 2021, a new foreign company (Bestfly) replaced Binter Canarias a majority-shareholder of TICV which is progressively reestablishing a network of domestic routes. There is also a need to improve intra-island connectivity on Sal Island to facilitate tourism activities.

12. **The pre-COVID-19 tourism boom highlighted significant gaps in coastal management, environmental sustainability, and climate resilience.** Coastal development has been largely

[6] World Bank. 2019. *Local Sourcing in the Cabo Verde Tourism Food Supply Chain: Opportunities and Challenges.* Washington, DC: World Bank.

opportunistic, without adequate strategic vision, planning, and enforcement, thereby increasing pressure on natural resources and ecosystems and climate vulnerability. The country is recognized for its rich marine biodiversity, with more than 5,000 species identified in terrestrial and marine environments. This is reflected in the National Network of Protected Areas,[7] consisting of 47 land and territorial sea protected areas that represent support for key economic activities, including fishing, beach, nautical, and ecotourism/nature tourism. The rapid growth of the tourism sector has brought severe threats to Cabo Verde's rich yet fragile coastal and marine ecosystems, ranging from excessive construction of hotels and accompanying surge in water demand and waste generation to overfishing, illegal fishing, unregulated marine tourism activities, capture of turtles, and growing plastic pollution,[8] leading Cabo Verde to be considered one of the world's 10 most endangered marine biodiversity hotspots.[9]

13. **The country is also exposed to climate shocks, including extreme weather events, desertification, and sea level rise.** Nearly 30 percent of the country's population is exposed to flash floods, while on average, about US$2 million of the income is expected to be lost due to agricultural drought annually. The sea level is projected to rise from 0.26 m to 0.98 m over the next 60–80 years, increasing coastal submersion, erosion, and salinity. In 2020, the country updated its Nationally Determined Contribution (NDC), through which it seeks to achieve substantial mitigation outcomes, at an 18 to 24 percent reduction in economy-wide greenhouse gas (GHG) emissions below business as usual by 2030, as well as a lasting adaptation impact in terms of food, water, and energy security.

14. **A recent gender assessment[10] showed considerable gains in gender-related policies and programs, yet the country continues to face challenges in achieving gender equality and women empowerment in tourism and other ocean economy sectors.** Even though women represent 60 percent of the people working in the accommodation and restaurant businesses' labor force, they earn 50 percent less than their male counterparts[11] and more than half work under short-term contracts and informal working conditions.[12] In the fisheries sector, women represent a large part of the labor force in the post-harvest sector, in particular for processing landed catches;[13] however, they also operate in informal and poor conditions. Women led only 33 percent of active enterprises in Cape Verde in 2019. In the tourism and fisheries sectors, women-owned businesses often suffer from significant education and training barriers (such as lack of advanced business planning and management skills) and lack of childcare solutions.[14] In addition, access to finance is perceived as one of the most significant challenges for tourism enterprises. According to Africa Gender Data Book only 5.1 percent of women had access to credit in 2017 (compared to 7.3 percent of men). Anecdotal evidence also shows that women-owned businesses suffered more during the pandemic and that gender-based violence (GBV) in tourism occurs, including

[7] Decree-Law no. 3/2003, of February 24, amended by Decree-Law no. 44/2006, of August 28.
[8] Ministry of Finance. 2018. *Environmental and Social Assessment Study of the Tourism Sector in Cabo Verde*.
[9] WriMS (World Register of Introduced Marine Species), at marinespecies.org (consulted December 16, 2021).
[10] A diagnostic on Gender Responsive Tourism in Cabo Verde assessing existing gaps and opportunities in the sector has been carried out to feed into the design of the project. Annex 8 includes a final summary of the diagnostic.
[11] UNWTO (United Nations World Tourism Organization). 2019. *Second Global Report of Women in Tourism*.
[12] Moreno, D. 2016. *Plano de ação para a transversalização da abordagem de género no turismo, ONU Mujeres Cabo Verde*. UN Women.
[13] About 1,500 women fish sellers are registered, of which 1,425 are female heads of household. About 90 percent of workers in the canning sectors are women.
[14] At the national level, women spend 43.7 percent of their time in paid labor versus 68.3 percent in unpaid work (for men, those figures were 56.3 percent and 31.7 percent, respectively).

sexual exploitation of children, mostly in Sal, Praia, and Mindelo.[15] Similarly, women working in the sector, particularly in the hospitality sector were largely affected by the COVID-19 crisis. For example, Sal, Sao Vicente, and Santo Antão suffered an important reduction of women working in tourism (job reduction of 4,408 women versus 3,064 men).

15. **Authorities are looking to pursue a post-COVID-19 'build-back-better' vision for the tourism sector, anchored in a new Tourism Operational Plan (***Plano Operacional do Turismo,* **POT) covering 2022–26, to diversify and leverage other high-potential demand segments.** As part of the Grand Options for the Sustainable Tourism Development Strategy (*Grandes Opções do Plano Estratégico de Desenvolvimento Sustentável do Turismo em Cabo Verde*, GoPEDS) long-term tourism vision and under the umbrella of the Second National Strategic Plan for Sustainable Development (PEDS II, covering 2022–2026), in April 2022, the Government officially approved and published the POT to accelerate medium-term investments and reforms to promote tourism diversification across more demand niches and islands. The POT cross-sector action plan aims for a more sustainable, inclusive, and resilient development model, expanding beyond the current 'sand and sun' segment in the islands of Sal and Boavista. With the objective of diversifying the tourism sector, both geographically and in terms of offering, and increasing local capture of the sector, the POT builds on island-specific tourism master plans (supported by the World Bank Competitiveness for Tourism Development [CTD] Project [P146666]) that provide an asset inventory and recommendations to leverage the respective tourism potential and related local economic development. The POT prioritizes new demand segments such as nature-based tourism in the mountain islands of Santo Antão, São Nicolau, and Fogo, as well as cultural/blue economy-related activities in the São Vicente and Santiago Islands.

16. **Complementing the POT, Cabo Verde's recently integrated blue economy vision and strategy provides a holistic view on value-chain link potential while safeguarding the preservation of key tourism assets associated with coastal areas.** Recognizing the potential and preservation needs of its coastal and marine assets as critical to sustain economic diversification and resilience, Cabo Verde recently adopted a dedicated blue economy strategy and action plan. The umbrella blue economy[16] concept seeks to promote economic growth and diversification by exploring and maximizing comparative advantages while ensuring environmental sustainability in the marine and coastal sectors.

C. Proposed Development Objective(s)

Original PDO

To increase diversity and resiliency in the tourism offering and small and medium enterprise (SME) participation in tourism-related value chains in targeted destinations.

Current PDO

There are no changes to the Original PDO

[15] According to data from the Ministry of Family and Social Inclusion and Cabo Verde Institute for the Child and Adolescent.

[16] According to the Ambição 2030 National Strategic Vision, the blue economy sector includes maritime transport, ports and logistics, shipbuilding and repair, nautical and recreational tourism, nautical sports, entertainment and leisure, security and surveillance, pharmaceutical industry, fisheries, aquaculture and fish industry, research and exploitation of biological resources, blue energy, marine ecosystems, wrecks for diving, and geothermal energy.

Key Results

17. Progress toward the PDO will be measured by four results indicators:
   (a) Increase in average daily tourist spending at destination islands (percentage)
   (b) Increase in total tourist overnight stay at destination islands (percentage)
   (c) Share of beneficiary SMEs with new or expanded contracts to the hospitality value chain (disaggregated by gender and sector) (percentage)
   (d) Infrastructure rehabilitated, upgraded or established integrating climate resilience practices (number)

18. **The project will aim to increase the geographic scope and depth of tourism's contribution to the economy in a sustainable manner, thus involving a wide range of beneficiaries across the civil society, private, and public sectors in Cabo Verde.** The investments proposed in Component 1 will affect target communities, individuals, and businesses by ultimately improving economic opportunities in targeted destinations. The investments under Component 2 will benefit policy makers and businesses, whether by upgrading the regulatory framework to enable sustainable and well-balanced investments, providing the tools to better link the local value chains (such as fisheries to the new sources of tourism demand), creating conditions to better promote the destination abroad, tapping into higher spending niches of potential visitors, and accessing more data for better policy making.

(a) **Communities.** The inhabitants of the investment target areas will benefit, among other things, from more facilitated and secure mobility and accessibility to their areas by land or sea, as well as more opportunities for employment brought on by more tourists visiting the enhanced tourism assets. Fishers and fish workers will benefit from improved landing infrastructure and dedicated investments, such as in fish markets, enabling a better connection to retail and wholesale buyers. More broadly, the population and tourists will have better access to locally and sustainably caught fish handled under good sanitary conditions.

(b) **Private sector.** Investments in better air and maritime mobility are key to unlocking more efficient supply chains, lowering the cost of accessing source markets, and reducing transaction costs in obtaining input materials or services, as well as demand from individual or wholesale clients. Businesses in the hospitality, restaurant, and entertainment sectors will benefit by capturing the increased flow and volume of leisure expenditure of visitors and exploring new or concession opportunities adjacent to the revamped tourism assets. Fishers and fish workers will benefit from better landing and sale infrastructure and better connections to market. They will also benefit from the potential opening of new fisheries (that is, technical assistance on accessing demersal deep-sea resources) and from continued support on co-management (that is, technical assistance on lessons and scoping of new communities for co-management).

(c) **Public sector.** Policy makers in the tourism and blue economy sectors will benefit from additional tourism-related foreign and domestic direct investments and tax revenue that infrastructure investments in Component 1 are expected to unlock and catalyze. In addition, Component 2 will also enable the development and leveraging of the country brand destination across new potential visitor segments, improved regulatory overview of the sector, access to better data to feed into decision-making, and targeted SME support to emerging local businesses in key niches.

(d) **Citizen engagement.** The integrated design of the project requires a participatory approach through the implementation of citizen engagement interventions to enhance beneficiaries' voice and participation. Integrating citizen engagement mechanisms will allow for better access to services such as the fishing pier, the Mindelo fish market, the rehabilitation of tourist sites and museums, and the rehabilitation of a section of the road in Sal. The communities will be consulted to provide their input in the design of these tourism and community infrastructures. The Government of Cabo Verde prepared and will implement an inclusive Stakeholder Engagement Plan (SEP). Throughout the project life cycle, inclusive consultations targeting stakeholders and beneficiaries will be implemented, ensuring that all beneficiaries participate in planning and decision-making processes and that project activities promote opportunities equally to men, women, and youth as well as vulnerable groups or at risk of exclusion. These consultations will also address the findings of the social and environmental assessment, including impacts and benefits derived from project-financed activities and measures identified to avoid, minimize, and mitigate potential risks of exclusion and/or adverse impacts on vulnerable groups. In addition to periodic consultations, the project will conduct a satisfactory survey to be conducted at project midterm, as well an accessible and transparent grievance redress mechanism (GRM). The feedback will inform subsequent project activities and if necessary, address implementation issues. Citizen engagement activities will be captured in the Results Framework through monitoring the percentage of grievances received and addressed in the project GRM time frame. The Results Framework includes an indicator of beneficiary satisfaction (that is, share of local tourism and blue economy value chain beneficiaries satisfied with the project interventions) to track progress on this front throughout the life of the project.

D. Project Description

19. **The Resilient Tourism and Blue Economy Development in Cabo Verde project (RTBED) was approved on May 31, 2022, with an IDA Credit (No. 7126-CV) in the amount of SDR 21.8 million (US$30 million equivalent) and PROBLUE Grant (No. TF0B8414) in the amount of US$5.0 million.** The project became effective on June 30, 2022, with a closing date of June 30, 2027.

20. **The project supports the Government of Cabo Verde's national vision and strategies—namely the Tourism Operational Program and the National Investment Plan for the Blue Economy—to promote sustainable tourism and conservation of natural resources with benefit to local communities.** Through a series of integrated and cross-sectoral project interventions in three priority geographical areas (Santiago Island, the northern Islands of São Vicente and Santo Antão, and Sal Island), the project seeks to catalyze tourism flows across more islands and market segments beyond the current core all-inclusive offering, enabling greater participation of local communities in tourism-related value chains and supporting the SME sector to provide demand-driven and sustainable services for tourism.

21. **The Project Development Objective (PDO) is to increase the diversity and resiliency in the tourism offering and SME participation in tourism-related value chains in targeted destinations** and includes the following three components: (i) Component 1: Development of integrated and resilient tourism and blue economy infrastructure which focuses on the development of selected resilient tourism and blue economy infrastructure; (ii) Component 2: Enhancement of inclusive and sustainable management of tourism in a blue economy which supports local SMEs to increase participation in the tourism and blue economy. This includes a better enabling environment and policies to stimulate additional private sector

investment in these segments; (iii) Component 3: Project Implementation Support which provides support to the Unit for the Management of Special Projects (Unidade de Gestão de Projetos Especiais, UGPE) for the management and implementation of the project; and (iv) Component 4: Contingency Emergency Response Component (CERC) in accordance with IPF policy, paragraphs 12 and 13, for Situations of Urgent Need of Assistance and Capacity Constraints.

22. **Per the first Implementation Status and Results (ISR) report prepared in October 2022, the overall performance of the Parent project is rated as Satisfactory.** Six months after project effectiveness, important implementation progress has been achieved. Key progress includes the launching of procurement processes for 15+ priority activities; the set-up of the institutional arrangements (i.e., Project Steering Committee and Project Technical Committee) and hiring of required project implementation technical staff (i.e., project manager, a tourism planning advisor for the Ministry to Tourism and Transports, a tourism marketing specialist to support the Tourism Board and a civil engineer to support the UGPE). In addition, the project has prepared the Annual Work Plan and Budget for 2023 which has been approved by the Steering Committee and the Bank. The total disbursement rate as of January 2023 is 1.3 percent and the progress towards achieving the PDO and the implementation progress are rated Satisfactory. The project is in compliance with key loan covenants. The procurement is rated as Satisfactory and the financial management and environmental and social performances as Moderately Satisfactory.

23. **One of the project key and largest investments includes the financing of the rehabilitation of a section of the Espargos-Santa Maria Road.** The national road (EN1-SL-01 Espargos-Santa Maria) is the main transport infrastructure connecting the two main urban areas on the island, Santa Maria (12,000 inhabitants) and Espargos (17,000 inhabitants). Most of Sal's touristic resorts are in Santa Maria, while most of the tourism industry's workers live in Espargos. The road is also the main access gateway to the port of Palmeira and to and from the Amílcar Cabral International Airport (the largest airport in the country). Built 20 years ago, it needs to be rehabilitated to accommodate the rapid increase in traffic (from 2,000 vehicles per day in 2012 to 4,000 in 2020) and to offer a better level of service. It is estimated that 72 percent of pavement surface is cracked (more than 35 percent are low severity cracks and 37 percent are already medium to high severity levels) with considerably high numbers of potholes (over 50 reported). The deteriorated condition and lack of lighting have led to a heightened occurrence of accidents, and the recent rainy season during the summer of 2022 has further accentuated the precarious state of the road and the need for urgent rehabilitation throughout the full length.

24. **The full rehabilitation of the Espargos-Santa Maria Road will bring improved accessibility and mobility of the population, tourist operators and visitors to the main urban centers of the Island, as well as to the airport, port and tourism sites.** The road rehabilitation will contribute to improving the living conditions of local populations particularly regarding the enhancement of accessibility conditions and the promotion of economic activities (e.g., tourism) facilitating also their lives in terms of the flow of products (fish products). As such, it will improve the conditions of accessibility to the communities of the most important cities of the Island, directly benefiting the inhabitants of the cities of Santa Maria, Murdeira, Vila Verde, Fátima and Espargos. In addition, it will also ensure enhanced mobility and safety for tourist operators (travel agencies and hotels) who promote excursions to the Island, tourist guides, tourists, economic operators (e.g., vegetable and of fish, fishermen, divers) and visitors to the Island.

25. **Due to constraints on IDA19 envelope at project preparation and approval, it was decided that the**

project financing would only contemplate funds for the rehabilitation of the most damaged section of the road and an additional financing (AF) would be prepared as soon as IDA20 funds were made available. The original financing covers approximately 7.2 km of the northern stretch from the airport down to Murdeira. The full length of the road is 14.6 km, comprising two lanes in each direction and six traffic circles. Overall, the pavement and drainage structures are deteriorated, signage and guardrails are lacking, bicycle lanes are missing, and there is no speed control system.

26. **To be able to work on the full rehabilitation of the road, the Government of Cabo Verde requested an additional funding for the remaining 7.4 km prior to project approval**. On April 18, 2022, the Government of Cabo Verde sent an official request for an additional financing in the amount of US$ 10 million to cover for the remaining road stretch highlighting the urgency and importance of working on both phases of the road simultaneously.

27. **Based on revised estimates sent by the Government, the estimated funding gap for the remaining stretch of the road is US$10 million.** During the last months, the Government of Cabo Verde has worked on the development of the technical specifications' documents for the rehabilitation of the road which have received the Bank's Non-Objection and are currently under procurement process. In addition, the procurement process related to the supervision of the works is in progress.

28. **The proposed AF will exclusively focus on the funding gap for the remaining 7.4 km of the Espargos-Santa Maria Road.** The AF will support the development objectives of the original project with no changes to PDO, components, institutional arrangements or closing date of the Parent project. Changes will only include those related to the cost of the road (i.e., increasing by US$7 million to Component 1), disbursement estimates and the update to the results framework to reflect the additional number of kms to be rehabilitated (i.e., the end target of the intermediate results indicator on Roads rehabilitated will be increased from 7.4 km to 14.6 km).

29. The AF will apply the World Bank Environmental and Social Framework (ESF) management tool prepared for the Parent project. The Parent project has already developed the following instruments: Environmental and Social Management Framework (ESMF), an Environmental and Social Commitment Plan (ESCP), a Resettlement Policy Framework (RPF), and a Stakeholder Engagement Plan (SEP). For the rehabilitation of the the Espargos-Santa Maria, a specific Environmental and Social Management Plan (ESMP) was developed for the full length of the road.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

E. Implementation

Institutional and Implementation Arrangements

30. **The AF operation will follow the Implementation Arrangements and Project Operational Manual agreed upon and developed for the Parent project with no modifications required.** The AF will build from the existing operational manual including institutional aspects, internal controls and procedures, procurement methods and procedures, disbursement and payments, file and inventory management, accounting organization, environmental and social instruments, and financial audits. The key implementation partner for the proposed project will be the Ministry of Finance and Business Development, particularly the Unit for the Management of Special Projects (Unidade de Gestão de Projetos Especiais, UGPE) whose responsibilities will include managing procurement, financial management, disbursements, and safeguards among others.

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CONTACT POINT

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Borrower/Client/Recipient

Republic of Cabo Verde

Implementing Agencies

Ministry of Culture and Creative Industries and Ministry of the Sea
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