# PROJECT INFORMATION DOCUMENT (PID)
## CONCEPT STAGE

<table>
<thead>
<tr>
<th><strong>Project Name</strong></th>
<th>Cape Verde - Transport Sector Project (P126516)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Region</strong></td>
<td>AFRICA</td>
</tr>
<tr>
<td><strong>Country</strong></td>
<td>Cape Verde</td>
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<tr>
<td><strong>Sector(s)</strong></td>
<td>Rural and Inter-Urban Roads and Highways (80%), Central government administration (20%)</td>
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<td><strong>Lending Instrument</strong></td>
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<td><strong>Project ID</strong></td>
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<td><strong>Borrower(s)</strong></td>
<td>Ministry of Finance and Planning, Ministry of Finance and Planning</td>
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<td><strong>Implementing Agency</strong></td>
<td>Ministry of Infrastructure and Maritime Economy</td>
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<td><strong>Environmental Category</strong></td>
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<td><strong>Estimated Date of Appraisal Completion</strong></td>
<td>31-Jan-2013</td>
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<td><strong>Estimated Date of Board Approval</strong></td>
<td>28-May-2013</td>
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<tr>
<td><strong>Concept Review Decision</strong></td>
<td>Track II - The review did authorize the preparation to continue</td>
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## I. Introduction and Context

### Country Context

1. Cape Verde is one of only three countries (with Maldives and Botswana) to graduate from the United Nations least developed country status and is now eligible for a blend of International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) funds over the current Country Partnership Strategy (CPS) period (2009-2012). It has also entered a Special Partnership with the European Union and joined the World Trade Organization. Cape Verde has steadfastly followed a path of peaceful political transitions and prudent economic management with significant impact in terms of poverty reduction.

2. The country’s GDP growth rate in the 2000s reached an average of 6 percent (or 4.5 in per capita terms), but the effects of the ongoing European sovereign debt crisis have dampened Cape Verde’s growth performance and are a major threat to its macroeconomic stability. The global slowdown as a whole, and a sharp decline in the demand for tourism in particular, had a strongly negative impact on GDP growth in 2008 and in 2009 and the incipient recovery experienced in 2010 was slowed by the worsening of the Euro Zone crisis in the second part of 2011. At 5 percent, GDP growth in 2011 was still robust, but the continuous deceleration of economic activity observed since then suggests that economic growth should slow to around 4 percent in 2012. Cape Verde maintains however its ambitious goals to boost economic growth and reduce unemployment. Reaching them...
may be hampered by the global financial crisis, given the country’s vulnerability to falls in tourism, remittances, foreign direct investment and Official Development Aid (ODA). Its fiscal space is also very limited given the size of its fiscal deficit and indebtedness (9.4 percent of Gross Domestic Products (GDP) and 76.5 percent of GDP in 2011, respectively). It is therefore crucial that Cape Verde keeps pursuing, with the support of the Bank, its important structural reform agenda in key sectors such as energy, transportation and public administration.

3. National economic integration and social inclusion continue to be central issues to the development of Cape Verde, as reflected in the Government’s Program for the 8th Legislature (2011-2016). Despite recent overall progress poverty remains prevalent in some of the most remote islands and rural areas, especially in the island of Santiago. The share of the population in absolute poverty decreased from 37 percent in 2001 to 27 percent in 2010. However, progress in reducing poverty has been slower in rural areas, where 72 percent of the poor live. The islands with the largest rural and isolated populations (Santiago, Santo Antão, and Fogo) still experience the highest rates of poverty and food insecurity.

4. The population residing in these isolated rural communities is impoverished and unable to harness economic opportunities as inadequate infrastructure and the inter-island logistic issues make central services and markets difficult to access. Unemployment remains high, particularly among youth, women and rural populations, and there are sharp differences across islands, reflecting a misalignment between skills and job opportunities and constraints in domestic migration. Promoting tourism and employment in tourist related activities remains a key thrust of the country’s growth strategy, but better inter-island transport will be essential to improve linkages with the rest of the economy. This is because the main source of growth in the economy remains the tourism sector which is concentrated on two of the least populated islands (Boa Vista and Sal).

5. Reducing the geographical gap and improving accessibility by means of an affordable and dependable transportation network connecting the rural areas to urban centers and the improvement of inter-island transport and inter-modal logistics is crucial to enhance the growth potential and national integration strategic objectives for Cape Verde.

Sectoral and Institutional Context

6. The Transport Sector Strategy, 2008-2020, spells out the Government’s vision for the development of the sector in support of social activities and economic growth, and equal access for the spatially dispersed population. This vision is reinforced by the Government’s Program for the 8th Legislature (2011-2016) which insists that “transport will be a major priority during the 8th Legislature, in view of its importance for our agenda of building a vibrant, competitive and innovative economy, offering prosperity shared between all”.

7. The Government recognizes that in addition to rehabilitation of key infrastructure assets a comprehensive sector approach is needed to bolster the efficiency of the transport network and services providers. The possibility for transport operators to provide high value added services would increase Cape Verde’s attractiveness for high-end tourism while cross subsidizing basic intra/inter island mobility, thereby increasing accessibility and sustainability of the transport network.

8. Inter-island transport costs in Cape Verde are high by international standards and not only erode the competitive advantage of Cape Verdean suppliers over overseas suppliers but also discourage economic activities in the peripheral islands that depend on inputs from outside. While
the government has privatized inter-island shipping, the maritime fleet remains small and obsolete, providing insufficient and unreliable services.

9. Logistical facilities for transferring cargo from maritime to road or air transport appear to be limited, adding to storage costs and delays that undermine competitiveness. Over the last 10 years, major investment have been undertaken to upgrade airports and port facilities, as well as to rehabilitate the core road network to a sustainably maintainable level. Nonetheless, bottlenecks in seamlessly integrating air, sea (ferry) and road transport remain to be addressed to support trade, tourism and inter-island connectivity more broadly. Rehabilitation of the core road network is ongoing and remains to be completed. Connecting rural populations to the core network through repair and upgrade of rural road networks, and delivery of transport services, remain a priority for the government.

Sea and Air Transport Sectors:

10. Air and sea transport services are critical to make Cape Verde a unified and well-functioning country. Government has invested heavily, to the tune of US$400 million over the last ten years, in the buildup of the maritime and aviation infrastructure, resulting in Cape Verde having good port and airport infrastructure. The quality and reliability of transport services remains unsatisfactory, customer satisfaction is poor and this situation is unlikely to improve unless critical long known structural issues are addressed by the Government. Corporate Governance for State Owned Enterprises (SOEs, such as the National Company of Port Administration - ENAPOR, Airports and Air Safety - ASA, and Cape Verde National Airline - TACV) is impacted by the state ownership function and the Government’s limited ability to oversight the fiscal and service delivery performance of SOEs; the Unit of SOE oversight within the Directorate of Treasury is understaffed, has limited capacities and the timely collection of financial data appears to be challenging in some cases. As a result and despite significant traffic growth, the financial situation and prospects for the State-Owned Enterprise operating in the transport sector is worrying.

Sea Transport:

11. ENAPOR is the Cape-Verdean Port Authority and manages all ports in the country. Sea traffic has dramatically increased since 1998 (+211 percent), benefitting from the steady growth of Cape Verde’s economy. However, ENAPOR’s revenues increased at a much slower pace (+142 percent), which reflects a decline in unit revenue (per ton) that prevents ENAPOR from reaping the full benefits of Cape Verde’s continuous growth. ENAPOR has not been able to optimize its fare policy (average fares are significantly lower than West African average) and to rationalize its cost structure. Wages have increased significantly faster than revenues and ENAPOR is overstaffed compared to international standards, while productivity is low even compared to West African standards. It is expected that some level of private participation could guarantee a gradual but rapid transition of Cape Verde port operations towards commercial principles. Such transition is long overdue since today massive financial subsidies enjoyed by ENAPOR can no longer be justified by the size of the market it serves and the increased purchasing power of its end customers.

Air Transport:

12. Cape Verde aviation sector has also greatly benefited over the past decade from the
impressive growth of the country’s economy, especially its tourism industry. Demand patterns have changed, with a recent preeminence of international flights over domestic ones as a result of Cape Verde boasting four international airports (Praia, Boa Vista, Mindelo, Sal) in lieu of only one in the 90’s (Sal) on which was centered a hub-and-spoke system. As an overwhelming share of the origination market for Cape Verde tourism industry is centered in the Euro zone where sluggish growth is likely in the near future, international traffic may well stagnate in the coming years.

13. Airport and Air Safety’s (ASA’s) financial situation contrasts favorably with ENAPOR’s even though ASA has also benefitted from Government subsidies in the form of concessional sovereign loans. Profitability has improved since 2008 and unit labor costs are under control. About two thirds of ASA’s revenues are generated by over flight activities through fees paid by international airlines crossing the Cape Verdean air space on their way to/from Europe from/to Latin America (80 percent of the total) or from/to Africa to/from North America, while the remaining third stems from airport activities. Airport activities are cross-subsidized by over flight activities, in violation of the basic principles underpinning over flight tariff setting. This equilibrium may be weakened as over flights activities are expected to stagnate or decrease due to the overall crisis. There is an urgent need to raise the international passenger departure tax which, at US$17 per international passenger, is about half the African average. This is to improve the long term financial sustainability of airport operations, and possibly introduce some private sector participation in their management and/or financing.

14. Cape Verde National Airline (TACV – Transportes Aéreos Cabo Verde): TACV’s long term financial solvency has been hampered for years by an array of structural and governance issues such as the lack of effective routes and ticket pricing, excessive labor costs, revenue leakage, rapidly accumulating arrears, etc. and it has only been able to continue operations due to ASA’s tacit support. According to TACV newly appointed management, the company will need to receive a capital injection of about US$20 million from the State if it is to continue operating beyond the end of this year. The Government has expressed its willingness to tackle the financial challenges facing TACV, including privatizing the company or selling a majority share of TACV’s capital to a private investor. However, neither of these two options looks likely to succeed under the current restrictive labor and business laws that prevail in Cape Verde.

15. Considering the political economy dimension of restructuring TACV, the amount of political capital that will be needed to push it through should not be underestimated. Accordingly, a credible Government plan to restructure TACV would require buy in by all ministries concerned under the stewardship of the Prime Minister’s office.

Road Sector:

16. In the road sector, the objectives of the Government’s Program for the 8th Legislature are to be achieved through a balanced approach to completing the rehabilitation of the core road network accompanied by consolidation of institutional capacity for planning, implementation and management of road investments and maintenance.

17. Cape Verde road network consists of 1,350 kilometers (km) spread among the nine inhabited islands (334 km/1,000 km2 compared to 81.5 km/1,000 km2 for Africa as a whole). The comparatively dense road network is characterized by: (a) major roads (often a “ring road” around the island) which extend from each island’s principal port and airport to municipalities and serve
small towns and rural communities; (b) secondary roads which serve smaller ports and fishing and agricultural communities farther off the main axes; and (e) municipal town roads and tracks.

18. The estimated value of the country’s road infrastructure asset base is about US$535 million (31 percent of GDP, a relatively high value compared to other African countries (25 percent average, 14 percent for Senegal). However, the road network is vulnerable and expensive to maintain because of the geography (steep slopes), geology (unstable and crumbly terrain conducive to landslides, subsidence and rock falls), and climate (heavy rains, potentially explained by climate change and likely to become more and more common). In addition, most of these roads were designed decades ago for much lower traffic volumes than those of today, and the drainage systems have been sized for rainfalls dwarfed by the downpours being experienced over the last few years. Many would need to be re-engineered if not reconstructed.

19. Steady progress has been achieved in advancing the institutional reforms in the road sector seen in a functioning road fund (Fundo Autônomo de Manutenção Rodoviária - FAMR), generating approximately ECV500 million annually, establishment of a dedicated road agency (Instituto do Estradas - IE), and improved capacity in Ministry of Infrastructure and Maritime Economy (Ministério das Infra-estruturas e Economia Marítima - MIEM) units to support planning and decision making.

20. The two-year performance based maintenance contracts (PBMC) piloted under ongoing IDA financed Road Sector Support Project (RSSP) has been expanded by IE, with the FAMR providing the funding. The timely availability of funds for road maintenance through the FAMR, and the consolidation of sector responsibilities at IE are creating a sustainable institutional structure for the planning and management of the road network.

21. Notwithstanding the progress achieved in road maintenance management notably with the introduction of PBMCs, there are considerable challenges that hamper sustainability of road asset value, mainly: (i) limited resources of the road fund which only covers 44 percent of the road network; (ii) unmet rehabilitation demand for aging roads to bring them to maintainable standards; and (iii) significant emergency works backlog caused by exceptional storms events in a country subjected to climate change.

22. According to a 2009 estimate, about US$200 million would be needed over the next twenty years to cover all needs in terms of rehabilitation, current and periodic maintenance and emergency works, with some level of frontloading to bring existing degraded roads to a maintainable condition. Taking into account the emergency works backlog, this means that about US$12 to US$15 million per year would be needed over the next three years. This represents about 0.7 to 0.9 percent of GDP.

Relationship to CAS

23. The Bank Group’s program for Cape Verde for the period 2009-2012 is spelled out in the Country Partnership Strategy (CPS) presented to the Board in April 2009. The Strategy provides a framework for the Bank Group’s selective support for the implementation of the Second Growth and Poverty Reduction Strategy Paper (GPRSPII) priorities to support its economic transformation. The Bank Strategy is articulated around three objectives: (a) promoting good governance and public sector capacity; (b) improving competitiveness and the investment climate for private sector-led growth; and (c) strengthening human capital and social cohesion.
24. The proposed project is an integral part of the CPS and focuses on all three pillars: (a) through the support provided to State-Owned enterprises in the transport sector, (b) through the improvement of transport services and subsequent reduction in transport costs and time, and (c) through the rehabilitation of rural roads serving isolated communities and through the expected enhancement of inter-island connectivity.

II. Proposed Development Objective(s)
Proposed Development Objective(s) (From PCN)
25. The proposed objectives of the project are to: (i) support the Recipient’s efforts to sustain its road asset base, and (ii) provide the building blocks towards transport sector SOE reform and increased private sector participation.

Key Results (From PCN)
26. Achievement of the above development objectives will be measured through the following results indicators:

- Roads in good and fair condition as a share of total classified roads (Percentage)
- Share of rural population with access to an all-season road (Portion)
- Direct project beneficiaries (Number), of which female (Percentage), and
- Indicators related to Inter-island transport, including TACV. (TBD)

III. Preliminary Description
Concept Description
27. The proposed project will finance: (i) road asset preservation activities including five-year management contracts for selected road sections in targeted islands; and (ii) Technical Assistance (TA) activities aimed at providing the Government with the information needed to pursue the transport sector reform agenda. The project consists of the following components:

Component 1 – Road Asset Preservation including PBMC on selected road network in targeted islands – US$22 million, of which IDA financing US$12 million.

28. This component will finance Performance-based Road Contracts (PBMC) for 5-year management of 197 km of roads in the island of Santo Antão, 93 km in the island of São Nicolau, 48 km on the island of Maio, and 171 km in the island of Fogo. These contracts would cover about 40 percent of the national network, and more than half of the roads located in hilly areas and will include emergency works, rehabilitation, and routine maintenance. The credit will finance the rehabilitation and emergency works, while the maintenance costs will be covered by the Road Fund. According to IE estimates, the overall aggregated costs of these PBMC will be around US$20 million, out of which half will go to the rehabilitation part, and half to the maintenance part (the cost of which has been estimated on the basis of the existing maintenance contracts in the same islands as those targeted by the credit).

29. This component also includes: (a) the purchase of truck weighbridges, including portable ones, to enforce the legislation on axle load control, (b) the setting up of an US$2 million emergency fund for urgent works required after heavy rainfalls since Cape-Verde is regularly hit by torrential rains between July and October which often damage bridges and roads, cutting vital links to areas that then become isolated until traffic is restored. This facility would help the Government
address quickly and efficiently this recurrent and worsening problem as damages often remain unaddressed for a long period of time, and worsen as time goes by without any proper intervention, because of the unavailability of funds to finance the much needed works, and (c) consultancy services by firms that will perform as Monitoring Consultants (MC) for the above PBMC. The MC’s role is to monitor the Contracting Entity’s (CE) performance and provide timely advice to them to ensure the quality of the final deliverables. The MC will be responsible for verifying the achievement of all of the contractual requirements within stipulated time and budget.

30. Santo Antão, São Nicolau and Fogo are hilly and rugged islands, while Maio is relatively flat. All four islands are characterized by sparsely populated areas. Most of the road network was built in colonial times and represent an enormous asset as their construction implied significant earthworks, large and high retaining walls, extended drainage systems, and probably millions of cobblestones.

Component 2 - Institutional Strengthening and Project Management in the Road Sector – US$3 million

31. The main objective of the technical assistance will be, consistently with Component 1, to ensure the preservation of road assets through different means such as (a) the setting up of a Road and Bridge Management System to collect and analyze yearly data relating to the condition of bridges and roads in order to highlight the vulnerabilities of the road network to heavy rains and re-orient maintenance efforts accordingly, (b) institutional strengthening for the IE and the FAMR, and contribution to operating costs of the Project Coordinating Unit (PCU), (c) definition and establishment of complementary funding mechanisms to widen the resource base of the FAMR. The Ministry of Infrastructure is also fine-tuning a request for funding to support the development of the National Civil Works Laboratory.

Component 3 – Road Safety – US$1 million

32. The General Directorate for Road-Based Transport (Direcção Geral dos Transportes Rodoviários) recently completed the 2011-2020 Road Safety National Plan dated July 2012. The plan focuses on (a) awareness raising campaigns especially targeting the main accident victims, i.e. pedestrians and 2-wheeler users, (b) transit law enforcement, including compliance with speed limits, (c) fight against drunk driving, (d) efficiency of the rescue accident assistance including provision of emergency trauma care services, (e) implementation of guidelines for safer road infrastructure, (f) creation of a National Road Safety Observatory to collect reliable road traffic injury data. The proposed component will help finance some of the actions listed above, including the purchase of radars for speed limit enforcements, alcohol breath analyzers, review of road engineering standards to improve road safety, awareness raising campaigns, traffic signaling, etc.

Component 4 – TA in support of the Government’s reform agenda in the air and sea transport sectors – US$3 million

33. The key decisions to be made by the Government in order to tackle the issues listed above need to be solidly anchored in proper full-fledged analyses that are required to fine-tune the quantitative part of the strategic assessment that has already been carried out. The corresponding
knowledge gaps have been identified and a list of specific studies that would complement the analysis already realized has been discussed with the Government and is deemed key to improve the maritime and aviation sub sectors efficiency and to lay the groundwork for private sector participation.

34. This component would focus on: (a) strengthening of the SOE ownership and oversight functions including capacity building targeting the SOE Unit at Treasury and dissemination of knowledge on SOE corporate governance, (b) financial analysis of transport sector SOE’s books and design of optimal tariff strategies for transport sector SOEs, (c) review of labor law and SOE’s labor agreements to ascertain total cost of labor right sizing, (d) assessment of regulatory agency model options in the sea transport sector, (e) Public Private Partnership (PPP) feasibility for ASA’s airports and ENAPOR’s ports, (f) route network analysis for air transport, revenues optimization action plan, debt reduction strategy for TACV, (g) mapping of maritime industry and sea transport skills, (h) communication strategy geared towards SOEs employees etc.

IV. Safeguard Policies that might apply

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V. Tentative financing

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VI. Contact point

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