



1. Project Data:		Date Posted : 05/03/2002	
PROJ ID: P000438		Appraisal	Actual
Project Name: Private/financial Se	Project Costs (US\$M)	12.71	10.91
Country: Cape Verde	Loan/Credit (US\$M)	11.4	10.83
Sector(s): Board: PSD - General industry and trade sector (54%), Banking (38%), Compulsory pension and unemployment insurance (4%), Law and justice (2%), Ports waterways and shipping (2%)	Cofinancing (US\$M)	0.0	0.0
L/C Number: C2864; CP732			
	Board Approval (FY)		96
Partners involved :	Closing Date	12/31/2000	06/30/2001
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

(a) to assist the private sector by increasing the country's foreign exchange earnings, attract foreign investments, and improve the performance of private enterprises with the overarching objective of generating employment in the formal sector

(b) to establish a well functioning financial system by improving the functioning of the Central Bank of Cape Verde as a monetary authority and improving financial intermediation by strengthening banks and non -lending institutions

b. Components

(i) Private sector development

- Capacity building support to PROMEX, the export and investment promotion center through the financing of staff training, studies feeding into the implementation of the country's export development strategy, and a media campaign.
- Support to promotion of foreign investment in the tourism sector
- Development of an export processing zone
- Establishment of an international marine registry
- Technical assistance to domestic enterprises

(ii) Financial Sector Development

- Advisory services and equipment to the Central Bank of Cape Verde to : design and implement domestic and international payments systems, design and implement an integrated economic data base, review banking legal infrastructure, develop an effective credit risk centralization system, formulate sound monetary policy and develop new financial instruments;
- Institutional development of the Banco Comercial do Atlantico;
- Technical assistance to privatize and audit the Ciaxa Economica de Cabo Verde and establish an MIS
- Technical assistance to the Instituto de Seguros De Cabo Verde (Insurance Institute)
- Technical assistance to the Instituto Nacional de Previdencia Social (Social Security Institute)

c. Comments on Project Cost, Financing and Dates

Ninety-five percent of the credit was disbursed during project implementation . Project costs were reduced due to the deletion of the establishment of a video-conferencing center from the project and the delayed implementation of some sub-components, resulting in cancellation of five per cent of the credit . The project implementation period was extended by six months to permit completion of some activities .

3. Achievement of Relevant Objectives:

(a) Private Sector Development

- PROMEX capacity building activities were implemented, including training, technical assistance, and studies to

Identify new export markets.

Tourism sector development exceeded project objectives in terms of the numbers of hotel rooms and beds . The number of tourists visiting Cape Verde increased 211 percent from 1996 through project completion. Average length of stay is 7 days, as compared to 8 days projected at appraisal.

Export Processing Zone-factor buildings were completed and leased . The building square footage leased exceeded project goals by 50 per cent. Project financed in-factory training of workers, attaining 98 percent of the project training goal.

Training and consulting services were provided to two Chambers of Commerce .

(b) Financial Sector Development

-An effective domestic and international payments system was established

-The Banking Law and the Bank of Cape Verde statutes were updated and adopted; many Central Bank directives were issued, strengthening the supervision role of the Central Bank vis -a-vis banks and insurance companies

-A financial and economic database installed in the Central Bank to support formulation of monetary and fiscal policies

-Laws and regulations for the insurance industry were updated

-An effective risk centralization system was established

-Four commercial banks were privatized and all commercial banks are connected to the international payment clearance network, SWIFT

-A network of ATMs and Points of Sale was established and functions . These activities were an addition to the project.

-The social security system was reorganized, its MIS upgraded, and its actuarial function strengthened

-The general law on the Cape Verdean social security system was adopted

4. Significant Outcomes/Impacts:

(a) Private Sector Development

-A total of 3, 655 new jobs was added in the manufacturing sector through end 2000, compared to the appraisal estimate of 2,700. Women filled many of these jobs.

-Between 1996 and June 2001, a total of US\$425 million in manufacturing investment projects was approved by Government

-At project completion, US\$63 million had been invested in the tourism sector; US\$218 million in tourism projects were at the pre-investment stage

-Exports increased from US 10.3 million in 1996 to US\$12.7 million in 2000, with an annual average growth rate of 5 percent

-Export structure changed from one dominated by primary products to one in which by 1999 manufactured goods accounted for 82 percent of total export value

(b) Financial Sector Development

-Central bank role was strengthened through a revision of the legal framework for banking and insurance supervision and the strengthening of the banking supervision function

-Four private banks, serving 36 per cent of the population, were established during the course of the project, where none had existed before

-Non-performing loans were reduced from 35 per cent to 11 per cent of the portfolio of the largest bank, BCA .

5. Significant Shortcomings (including non-compliance with safeguard policies):

This project was highly complex . In hindsight, it was perhaps too complex for the Government's administrative and financial capability . Nevertheless, given the complexity of this project, a large number of project objectives was realized. Despite not realizing the sub-component objectives listed below, the project achieved many of its principal objectives.

(a) Private Sector Development

- Establishment of an international ship registry was not fully realized, as draft parliamentary legislation was not approved

-Construction of a one mile tourist alley on the island of Sal was not completed due to delays in counterpart funding

(c) PROMEX was unable to provide the level of expected technical assistance to export -oriented industries and to facilitate companies' business operations . A study on the sustainability of PROMEX recommended that it relinquish its investment approval function.

(d) The financial sustainability of PROMEX and the Chambers of Commerce is highly uncertain because the institutions do not generate enough revenue to finance their activities and because the Government cannot make up the financial shortfall.

(b) Financial Sector Development

-New financial instruments for financing the private sector were not developed

-The Credit Agreement included no condition requiring the Government to cease or phase out subsidizing the bank accounts of expatriate Cape Verdeans .

- Level of financial intermediation remains low by international standards (loan to deposit ratio of 41.2 percent) in 2000

- Government retains a 20 percent ownership share and "golden share rights" which permit the state to influence decisions at Banco Comercial do Atlantico and the overall state of the bank's portfolio remains fragile with

non-performing loans at 11 percent of the portfolio. CECV non-performing loans continue to represent 18 per cent of its portfolio.

-The Social Security Bill that would have expanded the social security system to cover all public and private employees was not adopted

-Improvement in the long term financial structure of the Social Security Fund was not completed

(c) Implementation

-Project counterpart funds were not made available in a timely fashion, which prevented completion of some project activities, e.g. the tourist alley.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Modest	Substantial	Given the number of crucial laws and regulations which were passed and issued and the establishment of functioning databases and MISs in important institutions, the institutional development component of this project should be upgraded to substantial .
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

In such a complicated project there is a need to ensure prior sufficiently detailed analysis of all legal and institutional repercussions of proposed project activities

In this kind of project, Government commitment and consultation with key stakeholders and other donors during preparation is essential

Resolution of complex issues requires proactivity by the Bank and the Government

Estimated project costs should have a solid basis and be realistic . If possible, project design, costing and effectiveness should be coordinated with the Government's budget cycle to increase the probability that counterpart funds will be included in the budget decision making process and cycle .

Careful assessment of weaknesses of partner institutions and beneficiaries is essential

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

-The ICR honestly pointed out weaknesses in project design and implementation by both the Bank and the Government. The ICR clearly states that some project goals, particularly in the financial sector, were overambitious .

It states that the monitoring and evaluation system was principally designed to monitor inputs, not project outputs . It is somewhat overcritical of the M&E system, given the data which was available to the project completion missions .

-However, the ICR could have been stronger in analyzing the achievement of some project outcomes . e.g. impact of private sector training, and could have provided more information on the value and reasonableness of the cost of creating jobs in the fishing sector . The ICR also did not include a recalculation of the ERR and the NPV, based on the project implementation and output data . The ERR and NPV were based on assumptions made at appraisal .

-In the appraisal report and in the ICR more data needed to have been provided to substantiate the poverty alleviation impact of the project . For example, what percentage of the individuals employed in the new jobs in the Export Processing Zone were unemployed when hired? What was the salary level of EPZ employees before being hired and their salaries at project completion . What was the distribution of EPZ hirees in the working population salary quintiles?

-The Borrower's input to the ICR is exemplary due to its coverage, the quality of the reasoning , its honesty, and its lack of defensiveness .