

## PPIAF Assistance in the Republic of Cape Verde

The Republic of Cape Verde (Cape Verde) is a small island country comprised of an archipelago of ten islands, located off the coast of Western Africa. Unlike many of its neighboring countries, Cape Verde is known for being a stable country, with no history of political coups or social conflicts. Despite its recent graduation from the list of the United Nation's Least Developed Countries, the government of Cape Verde continues to face great challenges due to the country's insularity and high vulnerability to exogenous shocks. To mitigate the risks of economic downturns and maintain its lower-middle-income status, the government of Cape Verde has committed to modernizing the country's socio-economic infrastructures and implement a favourable business environment to attract private sector investment. Supporting infrastructure provision is a priority for the government, particularly to improve the delivery of basic services to the poor and stimulate economic growth. To this end, the government, with support from its donor partners such as the World Bank, International Finance Corporation, European Union, and Millennium Challenge Corporation, is supporting the development of innovative project development modalities and financing instruments to leverage the investment and operational capacity of the private sector. Cape Verde has also received support from PPIAF to strengthen its regulatory environment for the development of public-private partnerships (PPPs) in the country's infrastructure sectors.

### Technical Assistance to Cape Verde's Regulatory Environment

Since late 1998, the government of Cape Verde has implemented a comprehensive and private-sector led reform program aimed at liberalizing the economy and encouraging private sector investment. The reform program focused on: 1) removing barriers to entry for private investment; 2) reforming the financial sector; and 3) implementing a large divestiture program of stated-owned enterprises with a special emphasis on public utilities to improve the availability and quality of services. Significant improvements have occurred in the Cape Verde economy since the start of the reform program, with sustained economic growth and private investment. Encouraged by this successful experience, the government of Cape Verde requested PPIAF support in 2006 to mainstream PPPs in the electricity, water, and sanitation sectors. PPIAF provided technical assistance to the government of Cape Verde to strengthen the regulatory framework in these three sectors, and to implement a capacity building program for the *Agência de Regulação Económica* (ARE), the multi-sector regulatory agency. This activity complemented a broader capacity building program launched by the Cape Verdean government with donor assistance to enhance regulatory effectiveness of the multi-sector regulator.

As part of this activity, a comprehensive electricity sector strategy was developed in March 2009 and approved by the Cape Verdean council of ministers in July 2009. The final report on the strategy included an overall needs assessment of the ARE; revised licenses for approval by the Board of the ARE; an assessment of revenue requirement procedure for *Empresa Pública Electricidade e Água* (ELECTRA), the national utility for electricity transmission and distribution, water transport and distribution, and wastewater treatment; tariffs; proposed market entry and exit rules; and a plan for future capacity enhancement of the ARE. Furthermore, the report recommended the development of a strategic recovery plan for ELECTRA. The proposed action plan for the development of ELECTRA's recovery plan was approved by the government of Cape Verde. This recovery plan, which is being implemented through PPIAF's Sub-National Technical Assistance (SNTA) program, focused on technical, organizational, commercial, and financial aspects that contributed to the management and operations of ELECTRA.

The short-term outcome achieved through this PPIAF activity was the building of the ARE's institutional capacity on tariff regulations, licensing, and decision-making procedures. Other outcomes expected to be obtained in the medium-term include the implementation of effective regulatory mechanisms for pro-poor distributional impacts of reform and sustainability of private sector arrangements, and further strengthening of the regulatory framework to ensure the good performance of private utilities.

## Results of PPIAF Support to Cape Verde's Regulatory Environment

Category	Outputs
<b>Enabling environment reform</b>	
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> <li>• Report on Cape Verde's electricity sector development strategy, March 2009.</li> <li>• Proposed action plan for the recovery of <i>Empresa Pública Electricidade e Água</i>, March 2009</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Consultation workshop held in Praia on January 15, 2009.</li> </ul>

Category	Outcomes
<b>Enabling environment reform</b>	
<i>Plans/strategies adopted</i>	<ul style="list-style-type: none"> <li>• Electricity sector strategy adopted by the Cape Verdean council of ministers, July 2009</li> <li>• Proposed action plan for the recovery of <i>Empresa Pública Electricidade e Água</i> adopted, July 2009</li> </ul>
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> <li>• <i>Agência de Regulação Económica</i> strengthened from 2007 to 2009</li> </ul>

### Technical Assistance to Cape Verde to Develop a PPP Framework

As mentioned in the previous section, the first PPIAF activity in Cape Verde helped formulate a clear and well-articulated strategy for the electricity sector that allowed the government to identify areas for improvement to create a PPP enabling environment and leverage private investments. As a follow-up to that activity, PPIAF approved a second activity to support the development of a PPP strategy and capacity building program in Cape Verde. The technical assistance aimed to help the Cape Verdean government establish a strategic framework for the development of a PPP program in the country, and to strengthen the technical capacities of government agencies on private sector participation in infrastructure. The activity was comprised of two components: 1) a review and assessment of the policy, legal, and institutional framework for PPPs, including recommendations to improve procedural clarity, effective project management and identification of a pipeline of potential PPP projects; and 2) the design and delivery of a week-long capacity building seminar on structuring PPPs. However, due to coordination issues with the government, the second component was not implemented.

The first component of this activity included the following recommendations to improve the PPP framework in Cape Verde:

- Limit the scope of PPPs in the PPP Law by either restricting remuneration of the private partner to payments made by the State, or by excluding from the scope of PPP projects whose entire remuneration would come from payments made by end users of the service/facility
- Create a single permanent PPP Commission in charge of both the prior evaluation of projects and the subsequent evaluation of private partners' proposals
- Extend the tax breaks granted by the Investment Law to PPP projects that aim at fulfilling a collective need or a public service mission
- Analyze the possibility of creating tax-free zones, which would allow a greater fiscal and custom flexibility for the installation of certain activities in the framework of the government's policy on PPP

The final report of the activity also included a pipeline of five potential projects that could be developed as PPPs. The findings of this activity were presented to stakeholders during a workshop held in Praia on

December 14, 2009. The activity was closed in January 2010 following the successful implementation of the first component. No outcomes have yet been reported. The PPIAF team will monitor and report any results produced through this activity.

### **Results of PPIAF Support to Cape Verde's Development of a PPP Framework**

<b>Category</b>	<b>Outputs</b>
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>• Institutional, legal, and regulatory framework for PPPs in Cape Verde, January 2010</li> </ul>
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Stakeholder workshop to present findings held in Praia on December 14, 2009</li> </ul>

### **Technical Assistance through the Sub-National Technical Assistance Program**

The first activity funded by PPIAF in Cape Verde recommended the strengthening of ELECTRA. The utility had financial problems partly due to the rise in fuel prices and an increasing tariff deficit. The government of Cape Verde, which owns 85% of ELECTRA, sought solutions for ELECTRA's recovery. In 2009 PPIAF, through its SNTA program, agreed to provide technical assistance to the government of Cape Verde for the development of a recovery plan for ELECTRA and for the preparation of a series of management tools to help the utility improve the utility's operational and financial performances and reach creditworthiness so it can access market-based financing.

The activity included two phases with a decision point between them. The decision point was related to whether it was worthwhile proceeding with the study if in fact ELECTRA had no reasonable chance of achieving the minimum performance indicators to secure a rating from a reputable credit rating agency within the time frame of three to five years. Its objectives were to: 1) achieve ELECTRA's recovery and development objectives; and 2) obtain a rating by a reputable credit rating agency. The credit rating exercise would enable ELECTRA to enhance its creditworthiness in the eyes of prospective lenders, which in turn could facilitate access to market-based finance to increase its performance and competitiveness.

The first phase of this activity was completed in April 2011. The resulting strategic plan focused on all the functions of ELECTRA. Successful implementation of this plan will lead to the utility's recovery through an increase in efficiency (reduction in technical and non-technical losses, minimization of fuel consumption in power stations and containment of staff costs in line with the company's business plan) and an increase in revenues through an increase in the consumer base, tariff adjustments and improvements in billing and collection.

The final report of phase one included a detailed action plan with a comprehensive set of activities to achieve the ultimate targets of 15% energy losses and a sensible improvement in the quality of the services offered by ELECTRA. The analysis undertaken in this report shows that implementing the action plan items can provide a significant boost to the financial performance of ELECTRA, to the extent that under reasonable assumptions on its operating environment, it will be in a situation to demonstrate performance along the lines of that required by a rating agency, and more pertinently for the economy of Cape Verde, to operate in a sustainable manner without the need for periodic cash or equity injections by the government.

The second phase of this activity was completed in July 2011. It produced the financial model for the restructuring of ELECTRA, which showed that ELECTRA could indeed improve its performance and achieve a rating if it implemented the recommendations formulated in the recovery plan. Based on the conclusions of the activity, the government of Cape Verde recently launched a discussion on the

relevance of the proposed financial and institutional restructuring of ELECTRA. A decision is expected to be reached in 2012<sup>1</sup>.

### **Results of PPIAF Support to Cape Verde's Electricity Sector**

<b>Category</b>	<b>Outputs</b>
<b>Enabling environment reform</b>	
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> <li>• Corporate business, action, and implementation plans for the restructuring of ELECTRA, June 2011</li> <li>• Financial model for the restructuring of ELECTRA, June 2011</li> </ul>
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Workshop held in Praia on June 29, 2011</li> </ul>

<b>Category</b>	<b>Outcomes</b>
<b>Enabling environment reform</b>	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> <li>• ELECTRA strengthened from 2010 to 2011</li> </ul>

### **Looking Ahead: Moving the PPP Agenda Forward**

Cape Verde continues to enjoy steady economic growth despite the effects of the world financial crisis that hit the country in 2008. In addition, Cape Verde's long history of political and social stability constitutes to be its biggest asset to boost investors' confidence and facilitate private sector participation. With support from technical and financial partners, the Cape Verdean government has committed to providing for the development of new and existing infrastructure in the electricity, water and sanitation, and transport sectors. Various PPP options are being considered for the implementation of these infrastructures, and the government has already prepared a pipeline of potential PPP projects based on the findings of the PPIAF PPP framework activity that could be developed in the next five years.

<sup>1</sup> <http://www.macauhub.com.mo/en/2011/05/30/cape-verdean-government-prepares-privatisation-of-two-public-companies/>