PD-AAZ-008

CAPE VERDE EXPORT DEVELOPMENT SERVICES

(655-0014)

USAID/Cape Verde

AGENCY FOR INTERNATIONAL DEVELOPMENT

PD-AAE-006
ISN 10217

APPENDIX 3A, Attachment 1
Chapter 3, Handbook 3 (TM 3:43)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)
Amendment Number:
DOCUMENT CODE: 3

COUNTRY/ENTITY: CAPE VERDE
3. PROJECT NUMBER: 655-0014

4. BUREAU/OFFICE: AFRICA 06
5. PROJECT TITLE (maximum 40 characters): Export Development Services

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 93
7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)
A. Initial FY 89 B. Quarter 4 C. Final FY 91

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 89 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	1400	–	1400	4,000	–	4,000
(Grant)	(1400)	( )	(1400)	(4,000)	( )	(4,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1						
Other U.S. 2						
Host Country		35			522	
Other Donor(s)						
TOTALS	1400	35	1435	4,000	522	4522

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) DFA	730	840		–		1400		4,000	
(2)									
(3)									
(4)									
TOTALS				–		1400		4,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 831
11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	BRW	BU	BUW			
B. Amount				–			

13. PROJECT PURPOSE (maximum 480 characters)

To provide support to Cape Verde's private sector by mitigating constraints to expanding export-oriented production, trade and private sector participation.

14. SCHEDULED EVALUATIONS
Interim MM 09 YY 91 MM YY Final MM 06 YY 93

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [X] 000 [ ] 941 [X] Local [X] Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment)

17. APPROVED BY
Signature
Title: Lawrence J. Abel, Acting A.I.D. Representative
Date Signed: MM 06 DD 07 YY 89

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Timothy J. Bork

SUBJECT: Cape Verde Export Development Services (655-0014) Project Authorization

I. Proposed Action: Your approval is requested for a grant of $4 million from the Development Fund for Africa appropriations account, for the subject project. It is planned that $1.4 million will be obligated in FY 1989.

II. Discussion:

A. Description: This $4 million project is intended to provide support to Cape Verde's private sector by mitigating constraints to expanding export-oriented production and trade. It will address a broad spectrum of issues and conditions related to investment and commercial activity. Proj ct outputs will include:

- The creation of a Center for Investment and Export Promotion, an autonomous institution with a mandate to facilitate the establishment of new commercial ventures in Cape Verde and to coordinate the new investment approval process.

- Recommendations for policy and administrative reforms which facilitate and ennance investment and export activity.

- Strengthened public sector capacity to promote Cape Verde as an investment location.

- Development of human resource capacity, i.e., short-term training.

To achieve these outputs, the project will provide:

- Short-term technical assistance in areas ranging from export marketing advice for fishing cooperatives, to design and production of promotional materials such as investor handbooks and informational brochures.

- Long-term technical assistance in the form of business policy analysis and information specialists, and specialists in investment promotion and advisory services. These individuals will assist in establishing and maintaining the Center for Investment and Export Promotion.

2

- In-country and out-of-country training in marketing and business techniques for center staff, GOCV officials and local entrepreneurs.

- Funding for a project administrator operating under a personal services contract.

- Commodities such as vehicles, computers, office equipment, and publications.

The project is attempting to help Cape Verde move toward greater self-reliance through the establishment of an export led economy. By the end of the project, there should be a policy environment in Cape Verde capable of supporting export-oriented enterprises and activities which can create significant quantities of increased foreign exchange and local employment.

The USAID/Cape Verde Small Program Strategy Statement of 1988 states that two of the A.I.D. program's objectives in Cape Verde are:

- To increase the productivity of the Cape Verdean labor force; and

- To promote private domestic savings for investment and encourage foreign investment in export diversification and expansion.

This project addresses both of these objectives. Moreover, the project is specifically designed to further A.I.D. goals in the areas of technology transfer, institution-building, policy dialogue, private sector development, and donor coordination.

B. Financial Summary: The life of project funding for this project is $4 million. The first year obligation is to be $1.4 million.

Estimated Budget
($000)

Cost Element	Year 1	Year 2	Year 3	Year 4	LOP
Technical Assistance	420	588	600	404	2012
Commodities & Equipment	200	109	162	89	560
Training	90	61	92	62	305
Other (Studies, Seminars, Evaluation, Audit, Local Salaries)	406	352	171	194	1123
Total	1116	1110	1025	749	4000

In addition, the Government of Cape Verde will contribute the local currency equivalent of $522,000 in cash and /or in kind for local salaries and administrative expenses.

C. Committee Action and Findings: The ECPR confirmed that the project was socio-economically acceptable and technically sound. The ECPR determined, however, that the Project Paper's original Economic Analysis did not provide sufficient data to estimate the project's long-term impact on the Cape Verdean economy. A revised analysis was provided and is included as annex 6A of the Project Paper. No conditions precedent or covenants were added as a result of A.I.D/W review.

This project meets the criteria for Categorical Exclusion pursuant to the provisions of 22 CFR 216.2 (c)(2)(i) and 22 CFR 216.2 (c)(2)(ix) since the project consists exclusively of technical assistance, training, commodity procurement, and studies. No construction or other activities which could have an adverse environmental impact will be undertaken. See annex 4 of the Project Paper.

The Project Paper's Implementation Plan was carefully reviewed by the Project Committee which concluded that the plan is realistic and establishes a reasonable time frame for carrying out the project.

Section 611 (a) of the Foreign Assistance Act requires that, prior to obligation of funds, certain analyses be made concerning the technical, financial and legislative plans germane to the project's success. These requirements have been met. See Annex 10 of the Project Paper.

D. Special Concern: Since the Center for Investment and Export Promotion (CIEP) is the focal point of this entire project, the Project Paper contains a Condition Precedent to initial disbursement specifically addressing creation of this entity. The CP calls for the Government of Cape Verde to issue a letter of understanding establishing the CIEP, and providing for that organization's financial and administrative autonomy. A related special covenant states that the Government of Cape Verde will take all necessary steps to create and maintain the CIEP as an autonomous legal entity. See the attached authorization.

The project will be implemented through a grant agreement with the Government of Cape Verde. In the absence of a Section 121 (d) qualified Cape Verdean entity, disbursement for all project expenditures in local and foreign exchange will be handled by USAID/Cape Verde through direct procurement methods in accordance with Handbook 1, Supplement B.

4

The project budget provides $300,000 for in-and out-of-country short-term training for both government officials and CIEP staff. This training will cover introduction of more efficient procedures to improve the Cape Verdean export climate, and a range of promotion, marketing and information services skills essential for the Center's successful operation. The Project does not provide for any long-term participant training. Complementary training supporting the project purpose will also be available through the regional human resources development portfolio. The statutory checklists have been satisfactorily completed and are included as Annex 11 of the Project Paper.

The Project design team and the Project Committee considered the advisability of involving Gray Amendment organizations. It was concluded that the most appropriate contracting procedures for the Project would be full and open competition. However, the participation of Gray Amendment entities as either prime contractors or subcontractors in accordance with part 19 of the Federal Acquisition Regulations will be strongly encouraged.

The A.I.D. official responsible for the Project in Cape Verde is Mr. Thomas Luche, A.I.D. Representative. Mr. John Burns of AFR/PD/SWAP is responsible for the Project in AFR/PD.

III. Waivers: No waivers are requested in this Project.

IV. Justification to the Congress. Congress was notified at Annex 1, Page 111 of the Congressional Presentation for fiscal year 1989. Determination pursuant to FAA Section 121(d) is not required for this Project.

V. Recommendation: It is recommended that you sign the attached Project Authorization and thereby approve life-of-project funding of $4 million.

Attachments:

1. Project authorization
2. Project Paper

Clearances

AFR/PD/SWAP:MGilbert:	Draft	Date 8/14/89
AFR/TR:RCOBB	Draft	Date 8/17/89
AFR/DP:JWestley	Draft	Date 8/17/89
GC/AFR:PJohnson	[illegible]	Date [illegible]
AFR/SWA:RSimmons	Draft	Date 8/15/89
AFR/PD:AHarding	Draft	Date 8/14/89

drafted by AFR/PD/SWAP:JBurns:spe:8/14/89 5743M

5

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

PROJECT AUTHORIZATION

Name of Country: CAPE VERDE

Name of Project: Export Development Services

Number of Project: 655-0014

1. Pursuant to Sections 105, 106 and 121 of the Foreign Assistance Act of 1961, as amended, and the section entitled "Sub-Saharan Africa, Development Assistance" of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1989, I hereby authorize the Export Development Services Project (the "Project") for the Republic of Cape Verde (GOCV or "the Grantee"), involving planned obligations of not to exceed Four Million United States Dollars (US $4,000,000)in grant funds (the "Grant") over a period of four years and three months from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is four years from the date of initial obligation.

2. The Project consists of support to Cape Verde's private sector through: (a) the provision of resources to mitigate constraints to expansion of export-assisted production, trade and private sector participation, (b) creation of the Center for Investment and Export Promotion (the "CIEP"), (c) support of GOCV policy and administrative reforms that facilitate domestic and foreign investment and export activity, and (d) support of a strengthened public and private sector capacity to promote investment in Cape Verde. The Project will finance the costs of commodities, technical assistance and consulting services, conferences, site visits and other educational activities, and other services necessary to achieve Project purposes.

3. The Project Grant Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

6'

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Project shall have their source and origin in countries included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries included in A.I.D. Geographic Code 935 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of countries included in A.I.D. Geographic Code 935.

b. Conditions Precedent

(1) First Disbursement. Prior to any disbursement, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) A statement of the name of the person holding or acting in the office of the Grantee empowered to act on behalf of the Grantee, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(b) Certified copies of the Foreign Investment Law and the Industrial Development Law as passed by the National Assembly, together with a statement that both such laws have entered into force;

(c) Evidence that the appropriate Minister has proposed to the Council of Ministers a Decree Law that:

(i) Creates the Center for Investment and Export Promotion (CIEP) as a legal entity under Cape Verdean law, possessing financial and administrative autonomy;

(ii) Proposes articles of incorporation reflecting the character and structure of the CIEP, including an advisory board composed of both public and private sector advisors and an executive director.

(2) Subsequent Disbursements. Prior to the disbursement under the Grant to finance any expenses of the CIEP, or to the issuance by A.I.D. of documentation pursuant to

which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) A certified copy of the Decree approved by the Council of Ministries and signed by the President which creates the CIEP;

(b) A statement identifying the person who has been appointed to serve as executive director of the CIEP, together with a specimen signature of such person;

(c) A workplan signed by the executive director of CIEP, which includes staffing and budget and other activities to establish the CIEP as a functioning office.

c. Covenants

The Grantee covenants that:

(1) It will take all necessary actions to maintain the CIEP as a legal entity under Cape Verdean law, with financial and administrative autonomy and an advisory board composed of public and private sector advisors;

(2) Except as A.I.D. may otherwise agree in writing, studies and other activities financed under the Grant shall not be designed or used specifically to support the manufacture for export in direct competition with United States exports, of textiles, apparel, footwear, handbags, luggage, flat goods, work gloves, or leather wearing apparel.

Walter Bollinger
Assistant Administrator,
Bureau for Africa

8/25/89
Date

Clearances as Stated on
Action Memorandum

GC/AFR,PGJohnson/tim:21Aug89:79218:3052H

This Project Paper
was prepared by:

Cameron Pippitt, Project Development Officer, REDSO/Abidjan
Robert K. Rauth, Jr., Senior Consultant, The Services Group
Peter S. Boone, Senior International Economist, SRI International
Frank T. Nieder, Senior International Economist, SRI International
Margaret Alexander, Regional Legal Advisor, REDSO/Abidjan
Nicolas Kulibaba, Senior Consultant, Arthur Young Inc.
Jose Luis Pinheiro, Economist, INITIUM

ACRONYMS

AID	Agency for International Development
BCV	Bank of Cape Verde
CAD	Computer Aided Design
CIEP	Center for Investment and Export Promotion
CTT	Post and Telecommunications Company of Cape Verde
ECOWAS	Economic Community of West African States
ENAPOR	National Port Authority
EDS	Export Development Services Project
EPZ	Export Processing Zone
GDP	Gross Domestic Product
GNP	Gross National Product
GOCV	Government of Cape Verde
IBRD	International Bank for Reconstruction and Development
ILO	International Labor Organization
IPU	Industrial Promotion Unit
IQC	Indefinite Quantity Contract
MDI	Market Development and Investment (Africa Bureau's Private Enterprise Office)
NDP	National Development Plan
OAR	Office of the AID Representative
PAICV	African Party for the Independence of Cape Verde
PID	Project Identification Document
PL-480	U.S. Public Law 480
PMU	Project Management Unit
PP	Project Paper
PRE	AID's Private Enterprise Office
PSC	Personal Services Contractor
PTT	Post, Telegraph, and Telephone
PVO	Private Voluntary Organization
REDSO/WCA	AID's Regional Economic Development Services Office/West and Central Africa
UNCTAD	United Nations Commission for Trade and Development
USAID	United States Agency for International Development
UNDP	United Nations Development Program

Table of Contents

	Page
Face Sheet	
Acronyms	
Table of Contents	
I. RECOMMENDATIONS AND SUMMARY	1
A. Recommendations	1
B. Summary Findings	1
C. Summary Project Description	3
D. Alternative Strategy and Approaches	4
E. Relationship to Overall AID and GOCV Goals	6
F. Major Issues	7
II. PROJECT DESCRIPTION	11
A. Background	11
B. Other Related Donor Projects	16
C. Goal and Purpose of the Project	17
D. Project Outputs	18
1. Creation of Center for Export and Investment Promotion	18
2. Policy and Administrative Reforms	19
3. Strengthening Capacity for Promoting Investment	19
E. Project Inputs	21
III. IMPLEMENTATION PLAN	25
A. Project Organization and Management	25
B. Implementation Schedule	27
C. Procurement Plan	30
D. Monitoring and Evaluation Plan	34
IV. FINANCIAL PLAN	37
A. Cost Factors	37
B. Methods of Implementation and Financing	38
C. Summary Cost Estimate	41
D. Cost/Duration of Project Inputs	42
E. Yearly Cost Estimate	45
F. Obligation Schedule	46
V. TECHNICAL ANALYSES	47
A. Economic Analysis Summary	47
B. Social Soundness Analysis Summary	49
C. Institutional Analysis Summary	51
VI. CONDITIONS AND COVENANTS	53

ANNEXES:

1. Logical Framework
2. Map of Cape Verde
3. PID Approval Cable
4. Initial Environmental Examination
5. GOCV Request for Support
6. Economic Analysis
6A. Expanded economic Analysis
7. Institutional Analysis
8. Private Sector Environment
9. Social Soundness Analysis
10. 611(a), 611(e) and 121(d) Determinations
11. Statutory Checklist
11A. Country Checklist
12. Job Descriptions for Technical Assistance Team
13. Terms of Reference for Proposed Studies
14. Investment and Export Promotion
15. Review of Investment and Industrial Development Legal Framework
16. Access of Cape Verde Products to the European Market
17. Draft Project Authorization
18. Draft Project Grant Agreement

12

I. Recommendations and Summary

A. Recommendations

1. Grant Amount: A grant in the amount of $4,000,000 over a period of four years is recommended for authorization in the fourth quarter of FY 1989 to the Government of Cape Verde (GOCV) for the execution of the Export Development Services Project as described in the following sections of this Project Paper.

2. Waivers: As the source of funds for this project will be the Development Fund for Africa, no procurement waivers are required. The authorized source/origin of commodities and nationality of suppliers of services (contractors) being procured under this project will be AID Geographic Code 935, which includes Cape Verde However, the Project intends to obtain such goods and services from the United States to the maximum commensurate with responsible management of project financial resources.

B. Summary Findings

The Project Identification Document (PID) for this project was submitted in December 1988 and approved by the Executive Committee for Project Review in AID/Washington on February 28, 1989. Concurrence in the PID from REDSO/WCA was provided on January 27, 1989 (Abidjan 01734). State 109470 authorized the USAID to proceed to the preparation of a Project Paper. The Project Paper will receive REDSO/WCA concurrence prior to being submitted to AID/W for final approval. An Initial Environmental Examin tion was submitted with the PID and a categorical exclusion was approved by the Africa Bureau's Environmental Officer. All of the issues raised in the PID review in AID/Washington have been satisfactorily resolved during the final project design.

The project has been determined to be economically, financially and technically feasible. The GOCV agencies responsible for project execution, with the support of project-provided technical assistance, have been found to be adequate to provide the necessary administrative capability for project administration. The A.I.D. Representative has attested that the GOCV has the financial capability and human resources necessary to maintain and utilize effectively the goods and services procured under this project (611e certification). The project has been reviewed to establish that sufficient planning and analysis have been performed to provide a reasonable firm cost estimate to the U.S. Government and reasonable assurance that necessary host country legislation will be timely completed. Thus, the requirements of Section 611a of the Foreign Assistance Act, as amended, have been met.

Finally, the A.I.D. Representative has certified for 121(d) purposes, that no U.S. funds will be made available to the host government.

This project conforms with and supports both the GOCV's Development Plan and the USAID's Small Program Strategy Statement. The Social Soundness, Economic and Institutional Analyses indicate that the project will be of substantial benefit to the population of Cape Verde who are expected to be indirect beneficiaries of the project. The direct beneficiaries of the project will be those individuals who are actually employed or are trained by the project. Ultimate beneficiaries are expected to be the unemployed and underemployed population of Cape Verde who will receive training and employment as a result of the economic activities generated by the project. Thus, the project confirms to Congressional requirements that direct project assistance to the most needy.

The project meets all other applicable statutory criteria. The Statutory Checklist can be found in Annex 11.

C. Summary Project Description

The long-term goal of this project is to enable Cape Verde to earn foreign exchange through an export-led growth strategy and increased private sector participation in the economy. The purpose of the project is to provide support to Cape Verde's private sector by mitigating constraints to expanding export-oriented production, trade and private sector participation. By the end of the project, there should be in Cape Verde a policy environment able to support export-oriented enterprises and activities which can create significant quantities of increased foreign exchange and local employment. The cost of the project will be $ 4 million over a four-year life-of-project with $ 1.4 million obligated in the first year.

The project has three planned outputs:

1. The Creation of a Center for Investment and Export Promotion;

2. Recommendations for Policy and Administrative Reforms;

3. Strengthening Capacity to Promote Investment in Cape Verde; and

4. Development of Human Resource Capacity.

In order to accomplish all four of these outputs, a Center for Investment and Export Promotion is to be established. The CIEP will be an autonomous institution with both public and private sector participation. Its activities will be divided into three sectors:

1) Research and Policy/Project Analysis
2) Promotion and Marketing
3) Technical Advisory Services

Several activities and studies to assist the GOCV to actively promote export-oriented investment activities are expected to be initiated both before and after the CIEP is established. These will involve the provision of short-term technical assistance and studies on a number of subjects of vital interest to Cape Verde, including: transshipment, export processing zones, information services/teleport, fishing, tourism, Customs revision, and relevant preferential access agreements. The project calls for two long-term U.S. technical specialists within the CIEP who will advise the CIEP staff on the establishment and development of all aspects of investment and export promotion. In addition, they will help facilitate and coordinate the provision of AID resources to be used for training, studies, short-term TA, and the attendance at conferences, seminars and trade missions by public and private sector individuals.

The project has been closely planned with the GOCV, in particular the Ministry of Cooperation and Planning which is the sponsoring ministry. The project has also been closely coordinated with other donors, particularly the UNDP and the World Bank which have supported related activities in the recent past and maintain an active interest in the

progress of the program for export and investment promotion.

D. Alternate Approaches to Project Design:

The large number of complex variables underlying the Cape Verdean economy make it difficult to design a cohesive project strategy. In fact, no project could hope to address all of the issues relating to generating foreign exchange and employment, as well as increasing the role of the private sector. At a conceptual level, assistance in investment and export promotion could follow two basic formats. On the one hand, the project could have focused solely on the creation of an investment and export promotion center. In effect, this strategy would have fostered a demand for increased export-oriened investment, along with helping to improve the overall business environment. On the other hand, the project design could have concentrated on the supply side; thereby allowing the Cape Verde economic environment to be strengthened through the development of specialized mechanisms such as a transshipment center, teleport, or export processing zone.

The problem with either of these approaches alone is that they focus on only one side of the issue. Pure promotional activities, without the establishment of mechanisms to attract investment, are likely to result in a situation where investors are attracted to Cape Verde, but the nation cannot ultimately provide the necessary facilities for success. This failure to meet private sector-oriented needs would merely set the stage for a languishing program. Thus, the need for a multi-faceted approach encompassing promotion, research and policy development, institutional strengthening, and the coordination and/or preparation of identification, prefeasibility, and feasibility studies for the creation of investment and export-generating mechanisms.

There were also a number of alternatives in terms of the CIEP itself. Instead of creating an altogether new organization, the project paper team considered funding an already existing institution such as the Industrial Promotion Unit (IPU). The IPU, which is part of the Ministry of Industry and Energy, has already played a key role in the development of investment-oriented legislation. Despite this significant achievement, the IPU has been constrained by inter-ministerial rivalries. As this project envisions a number of activities outside the formal scope of the Ministry of Industry -- transshipment, teleports, tourism, and fisheries for example -- it was decided that the promotion center needed to claim a wider mandate.

The USAID and the project paper team similarly considered funding the soon-to-be established National Chamber of Commerce as a vehicle to promote investment and export activities. This organization is intended to represent private sector interests in Cape Verde. Two factors ruled out the Chamber as the focus for the project. Firstly, the present statute to establish the Chamber is considered to be somewhat vague and gives the GOCV wide latitude over the organization's actions. In addition, it is difficult to measure the representational strength of the private sector within the Chamber since public and parastatal

organizations will also be allowed membership. Secondly, even the likely private sector members of the Chamber have limited experience in investment and export promotion. For these reasons, USAID and the project design team decided against establishing the promotion center within the National Chamber of Commerce in order to create a wholly new institution that can be properly organized, autonomous, and remain largely outside of inter-ministerial rivalries.

Another factor considered was the appropriate placement of the CIEP on the GOCV organization chart. As discussed above in regard to the Ministry of Industry, placement of the CIEP within any one ministry would limit its ability to carry out its functions with other relevant ministries. This is critical, as much of the technical advisory service, research and policy development functions require amiable relations. Good relations among the relevant ministries are important, and because of this, having the CIEP report to an interministerial economic council was discussed, but rejected. Promotional agencies in other developing countries that report to similar councils have been hampered by a lack of strong direction. To allow CIEP to maximize its power and flexibility, the recommendation of the creation of an autonomous organization outside the control of any one ministry has been accepted by the GOCV.

Lastly, the team faced the issue of the composition of the Advisory Board. It was felt by the project team that an Advisory Board solely composed of private sector representatives would have little influence and thus restrict the organization's ability to offer technical advisory services or offer policy recommendations. On the other hand, it was important that the Advisory Board consist of more than government representatives from the appropriate ministries and agencies; private sector input is vital to the success of this project. Hence, USAID and the project design team believe that both public and private sector representation is appropriate and advantageous for this project in the Cape Verdean context.

E. Relationship to Overall AID and GOCV Goals

The USAID/Cape Verde strategy, as presented in the Small Program Strategy Statement of 1988, views the basic problem of the Cape Verdean economy as one of a lack of foreign exchange earnings resulting from a poor resource base and low labor productivity. The strategy, therefore, seeks to accomplish the following three objectives:

- increase the productivity of the Cape Verdean labor force;

- promote private domestic savings for investment and encourage foreign investment in export (foreign exchange earning capacity) diversification and expansion;

- improve the agriculture and natural resource base to maximize agricultural exports and enhance the "platform" on which other export-oriented development can occur.

This represents an evolution of the prior strategy by adding a critical element of foreign exchange earning capacity and private sector development to earlier investments in natural resources and agricultural development. It also supports the liberalization process in the economy and offers a broad range of opportunities for policy dialogue. The principal activities of the AID program, including this project, are being focused on these three key objectives.

This strategy was accepted by AID/Washington during the June 1988 ABS review and approved in State 188367 of June 11, 1988.

The Export Development Services project is consistent with the above described strategy and, moreover, is specifically designed to further AID goals in the areas of technology transfer, institution-building, policy dialogue, private sector development, and donor coordination.

F. Major Issues:

During the PID review a series of issues were raised concerning the proposed project described in the PID. The project described in this Project Paper has responded constructively to all these concerns.

1. Scope of the Project. The ECPR concluded that the scope of the project outlined in the PID was too broad and that private sector support not related to export activities should be excluded. Support of these activities are not included in the final project. The focus of the project is exclusively on the development of export-oriented activities. While much of the project's activities are devoted to investment promotion, this is done to develop new export industries, since the existing domestic economic base does not currently have the capability to significantly expand export production or revenues. Given the continued private sector orientation of the project, the local private sector's efforts to develop export industries, alone or through joint-ventures, are also supported.

2. Phased Implementation. The project as described in the Project Paper follows a phased implementation of activities similar to that recommended in the PID review. Rather than supporting the implementation of export activities before their feasibility is fully understood, the project concentrates on the generation of information on export industries and the support of a business environment that is conducive to the development of competitive export industries.

The major focus of the project is the development of an investment and export promotion institution that will provide three primary functions: policy and project analysis to support export industries; direct promotion of investment in and exports from Cape Verde; and advisory services for investors to provide information and to facilitate investment approvals. This export and investment promotion center will be provided with resources to allow it to respond to changing conditions and opportunities. In addition, resources are provided in a phased manner, such that in the initial stages, efforts will concentrate on staff development and follow-up work to initial studies and procedural reforms. If successful in these efforts, the Center will have the capability to support specific export projects, and devise more extensive promotional campaigns.

Specific export projects such as export processing zones, information services/teleport and fisheries development are also supported under the project, but initial support is limited to market and feasibility analyses. Only when the results from these and other necessary subsequent analyses are completed and reviewed, will decisions to move forward on implementation be taken. In any case, the EDS project will provide funds only for technical assistance, studies and training in support of these projects. Capital investment support will have to come from private, government or other donor sources.

3. Donor Cooperation. The project design team has reviewed closely the current and planned activities of other donors. Based on this review the project has been designed to complement their current programs in support of private sector and export development and to allow future programs in this area to build upon the pathbreaking role of the EDS project. Smaller programs will be able to provide technical assistance training and trade promotion support through CIEP, while larger programs could provide funds for the more expensive physical infrastructure that may be necesary for some export programs, such as an industrial estate export processing zone. Other donor representatives universally and enthusiastically support the objectives and mode of the EDS project. In addition, some indicated that they have tentative plans for complementary new programs.

4. Project Management. Following PID review recommendations, a full-time project-financed PSC to oversee project administration and the utilization of USAID resources will be selected. This person will be located in Praia for the full duration of the project and will be hired as soon as possible after the project agreement has been signed. (See Section III. A. Project Organization and Management.)

5. Financial Markets. Financial markets are in need of reform in Cape Verde. The primary problem is the lack of competition to the banking monopoly of the state-owned Banco de Cabo Verde, which serves as the country's central bank, development bank and commercial bank. While the lack of competition in the financial sector is an obstacle to private sector growth, the conditions faced by the local private sector are not as dire as was reported in the PID. The vast majority of credit goes to the private sector, even though industry is dominated by the public sector. The most recent Banco de Cabo Verde figures indicate that over two-thirds of the net credit disbursed since 1984 has gone to the private sector. (See Annex 8, Private Sector Environment, for more details on financial services to the private sector.)

While the private sector does have access to credit, financial services are poor. Delays for loan processing and access to foreign exchange are unnecessarily long, and no export financing or insurance facilities are available. The EDS project will provide technical assistance and training to help the Banco de Cabo Verde establish these services.

It should be noted that the GOCV recognizes most of the problems in the financial sector and has taken some tentative steps to correct them. In December 1988, constitutional changes were adopted that ended the mandated state control of the banking and insurance industries. While no private banks to serve the local market and compete with the Banco de Cabo Verde have yet been established, they are now legally possible. In addition, the GOCV is proceeding with a program to establish an offshore banking sector.

6. Monitoring and Evaluation. A thorough and timely monitoring and evaluation program has been built into the project design. (See Section III. D., Monitoring and Evaluation Plan.) In addition to providing timely and periodic reports to USAID on project progress and the effectiveness of USAID inputs, the M&E plan includes the development of a management information system at CIEP. This MIS system will be fully integrated into the operations of CIEP to allow for continuous monitoring and evaluation of CIEP activities. Access to the databank of this system will also improve the effectiveness of the more extensive mid-term and final project evaluations.

7. Institutional Analysis. One of the major questions that had to be resolved in the design of the EDS project has been the institutional focus and location of the project. After a thorough review of options, it was determined that the most effective means to meet the project's objectives was through the establishment of a new autonomous joint public-private agency dedicated to investment and export promotion (see Alternative Approaches and Strategies). This agency would provide the GOCV with the necessary institutional focus that its current export development strategy lacks. In addition to meeting institution-building objectives, the creation of CIEP also provides USAID with a vehicle to effectively channel resources to other GOCV agencies and the private sector which should be involved in a successful investment and export development program.

8. Training. Training will play an important role in the EDS project. The lack of certain managerial skills and marketing experience is a significant obstacle for the development of export industries by the local private sector. Government officials also need training to learn more efficient procedures to improve the export climate. Finally, CIEP staff will need some formal training in a range of promotion, marketing and information services skills. The EDS project will provide support in all these areas. The budget provides for $300,000 of training, to be provided on short-term basis in- and out-of-country. No long-term participant training is included. Complementary training supporting the project purpose will also be available through the regional human resources development portfolio (HRDA, AFGRAD, etc.).

9. Public and/or Private Implementing Agencies. During the project design, the effectiveness of private sector organizations were evaluated. It was determined that at this time, no private sector organizations with the capabilty to undertake effective investment and export promotion activities exist. The nascent National Chamber of Commerce has not yet been established and the focus and make-up of the organization remain ambiguous. Given the absence of an effective private sector organization, it was decided to help establish a new autonomous joint public/private investment and export promotion agency. It was also determined that no existing government agency or ministry had the necessary capabilities. Moreover, to locate these functions in one ministry could lead to inter-ministerial rivalries that would reduce the effectiveness of the organization. (See Annex 7 Institutional Analysis for a detailed description of the reasons for the institutional framework of the project.)

Although no private sector organization was deemed capable of being the primary implementing institution of the project, the private sector will play a very important role. The private sector will have significant representation on an advisory board of the CIEP. In addition, project resources will be channelled directly to the private sector, largely through the Advisory Services section of the CIEP. Support for development at the Chamber of Commerce will also be provided through the CIEP as appropriate.

II. PROJECT DESCRIPTION

A. Background

Cape Verde is an archipelago of ten fairly widely separated islands about 400 miles off the coast of Senegal. The total land area of the islands, only nine of which are inhabited, is 1522 square miles, about the size of Rhode Island. Total estimated population is approximately 360,000. The capital (Praia), the main industrial center and seaport (Mindelo), and the international airport (Sal Island) are all on different islands in a triangular configuration separated by 135 miles or more of ocean. In general, the islands lie in the Sahelian climatic zone. Winds carrying dust from the Sahara sweep the islands for several months each year. Cape Verde has recently suffered from a severe drought which lasted from 1967 to 1985.

Cape Verde became independent from Portugal on July 5, 1975 and has been governed by a moderate civilian regime under the leadership of President Aristides Pereira since that time. For the first five years of its existence, Cape Verde was in a union with Guinea-Bissau which ended following a coup in Guinea-Bissau in 1980. The country possessed a significant number of experienced administrators at independence compared to the other Portuguese colonies and it has since enjoyed political stability and a virtual absence of corruption.

The development strategy of the Government of Cape Verde prior to and during the 1982-85 period of the First Development Plan aimed at "attaining maximum rates of economic growth consonant with internal and external financial stability." Activities, therefore, concentrated on necessary infrastructure development and on creating a capable administration. The current Second Development Plan (1986-90) is similar to the First Plan but focuses more specifically upon balancing regional development, encouraging private savings and investment, and promoting production in areas where Cape Verde has a comparative advantage. The Second Plan also pays more attention to selecting projects that will have an immediate or near-term impact on economic growth and exports.

The economy can also be characterized by the scope and depth of its problems. The country has no mineral or fuel deposits. Export receipts only cover some 3 to 7 percent of import costs and the country imports from 70 to 90 percent of its food needs. Most of the food needs are covered by international donor assistance. Aid inflows from foreign assistance programs plus emigrant remittances sustain this massive trade deficit. Foreign aid finances almost all government investment and the internal deficit has amounted to about one-half of Gross Domestic Product (GDP) in some years. GDP was approximately $145 million in 1986 and GDP per capita was, therefore, about $415. In spite of the problems of extended drought, limited endowment of productive land and natural resources, and relatively high dependency on external support, economic progress has been more than satisfactory. The real GDP per capita growth rate was 5.3 percent from 1973 to 1983 and 5.9 percent during the 1980 to

1986 period. The composition of GDP has gradually shifted toward commerce and transport and away from agriculture during this period. Moreover, there has been significant social progress since independence. Early success in expanding primary education has provided a strong basis for the current program of adult literacy which currently stands at 40 percent. Health conditions in Cape Verde are good in comparison to other countries at similar per capita income levels. Life expectancy is among the highest, at 63 years, for any country in this category. At 70 per 1000, infant mortality is fairly low and the ratio of doctors per 1000 population is well above average. There is little malaria or other tropical diseases.

This relative success has been attributed to several factors:

1. Prudent economic policies and careful management of public finances by a well-led and stable government in a politically moderate, mixed economy.

2. Favorable geographic location in the trans-Atlantic shipping and air transport lanes. Cape Verde provides services to international ships and airlines, including major ship repairs. Public investments in infrastructure development for the service sector have been primarily used for developing the infrastructure for these services.

3. Substantial remittances from Cape Verdeans who have either emigrated or temporarily live or work overseas. Remittances (about $25 million per year) have amounted to about 20-30 percent of the GDP each year since independence and they are a major contributor to GNP and other growth and social development aspects of the economy.

4. Stable currency and domestic price stability. The Cape Verdean Escudo is freely traded within the country and its exchange rate is pegged against the currencies of its major trading partners. The Escudo devalued by about 26 percent from 1980 to 1986 but its real effective exchange rate remained constant during the same period. There is no black market currency exchange in Cape Verde. Prices of goods and services are almost entirely market determined. With few exceptions, the government does not set prices nor provide direct subsidies.

5. Prudent government use of foreign assistance for development investment purposes and efficient selection and management of public investment programs and projects. Cape Verde has kept its debt service obligations low and its overall balance of payments position is strong. The government relies on the IMF, the World Bank and donors to review its development plans and economic policies. Cape Verde welcomes IMF advice but has not yet had to avail itself of that organization's lending facilities.

6. Self-reliant rural development. Foreign assistance grants and food aid for local currency generations are used to finance labor-intensive soil and water conservation and management activities and other rural works and infrastructure projects. As much as 86 percent of the funds for rural investment projects now come from foreign assistance and food aid programs. Only about ten percent of the food is given away free, and

that is only for the very poorest and most needy segments of the population.

As a direct result of these policies and practices, Cape Verde's economic performance has been impressive. Inflation has declined from 18-21 percent in the late 1970's and early 80's to 14 percent in 1984 and 8 percent in 1986. Lower inflation over the past three years, together with an increase of 3.5 percent in savings interest rates, has increased domestic savings and remittances held in savings accounts. The interest rate on savings deposits had been a constant 6.5 percent since independence and, given inflation, this meant negative real interest rates on savings. Credit interest rates were also increased to more positive real levels in December 1985, leading to more efficient resource allocation and fewer imports of non-essential goods.

Government revenues have also been increasing about 20-25 percent per year since 1985 because of recent improvements in tax collections and a switch from fixed to ad-valorem tariffs on imports of nonessentials. Tax revenues are derived primarily from Customs, which provides about half of the government's revenue.

Government market interventions are limited to the control of a very few basic consumer goods, monitoring wholesale and retail markups, and subsidizing electricity, water and public transport fees. Except for power and desalinization, parastatals are intended to be profit making and to operate without direct subsidies.

In an effort to foster economic growth, promote greater efficiency and increase labor productivity, the GOCV is carrying out three major reform programs aimed at improving the performance of the existing system. An agrarian reform, having already redistributed former Portuguese plantations and capped rents payable by tenants, is now initiating a consolidation of scattered plots through a process of survey and registration. An education reform is focusing upon teacher training and increased literacy rates. Some 90 percent of children ages 7-10 are enrolled in school but overall literacy is still only 40 percent. A program of adult literacy is being carried out and increased attention is being paid to the high drop-out rate following the compulsory first four grades. The third major reform concerns public administration. In spite of the steady decline over the past decade in both their numbers and real wages, the civil service remains honest and relatively capable. The reform envisages that the parastatal structure will be reorganized and redirected toward greater efficiency.

More importantly, the country is now undergoing a period of major policy reform, including a significant opening towards the private sector. The recently concluded Third Party Congress of the PAICV debated and endorsed this new approach which is expected to have a long-term impact on the

progress of the project. While it is difficult to gauge the importance of policy pronouncements in the political arena, it is nevertheless significant for a single party state with a strong social program. Moreover, it is equally significant that representatives of the major commercial associations were invited to address the Congress, and that their input was listened to. In the past, the organized private sector, as represented by these associations, was isolated from government policy debates, and often at odds with the government concerning their principal sphere of activity, the importation of consumer goods. Other developing countries, when forced by necessity to open and liberalize their economies, have often done so without the kind of commendable public reorientation of economic policy as is now occurring in Cape Verde

A similar public commitment to the creation of viable export industries and services also represents an important change in policy emphasis. Beyond a mere public relations level, the government has taken concrete steps to realize this initiative. Many of these steps are still in the early stages of formulation, including conceptual definition, the drafting of legislation, and obtaining of consensus and agreement among the entities involved and which are subject to differing perspectives from various elements within the government. The principal initiatives relevant to this project include the following:

1) Reduction of parastatal role. The government is pragmatically considering the reduction of its participation in some parastatals, for example, the shipping companies. In others such as the clothing producer, Morabeza, it has reduced a former majority position to that of a minority one. While this does not represent an across-the-board policy of privatization, and several state-owned enterprises have even increased their sphere of activity, it is evidence of the government's flexibility to reduce the parastatal role when it appears to be an effective approach to management problems.

2) Steps leading to the development and approval of a foreign investment code. As of May 1989, the GOCV was in the process of approving such a code as well as an external industrial investment law and statute which have been under study and development for some time and which will constitute the basis for future foreign investment. Their approval by the National Assembly is expected to take place in June 1989. The lack of a defined set of "rules of the game" has long been an obstacle to the attraction of foreign private investment. While the government has been able to negotiate the terms of investment with major foreign investors on a case-by-case basis, the lack of a defined code has been a deterrent to the ability of local firms to attract joint venture partners, and to small and medium investors who

might have been interested in Cape Verde. This legislative package provides the basis for a unified set of incentives to promote export industries, small enterprises, artisanal and cooperative sectors, "new" industries, and enterprises located outside the principal population centers. This legislation should improve the investment climate considerably from a regulatory standpoint, and go a long way towards the rationalization of an otherwise complex and constrictive legislative framework for business inherited from the colonial administration.

3) Revised Customs legislation for "industrial entrepots." This new law is being developed with a view to implementing a set of regulations which promote export industries. Its principal elements include the suspension of duties on goods to be assembled or otherwise processed for re-export and other measures.

4) Offshore Banking Law. This new law will permit the establishment of offshore banking in Cape Verde. Although Cape Verdean citizens are not permitted to take advantage of this legislation, it is nevertheless indicative of Cape Verde's interest in opening its economy to the outside world. Foreign banks have begun to take some interest in this new provision of the law and have made serious inquiries.

These specific policy initiatives appear to be pragmatically developed and formulated. The export incentives and foreign investment regulations, for example, were developed with outside technical assistance. Useful advice was provided by key business community members from Mauritius and site visits by GOCV representatives to Senegal, Tunisia and Mauritius. They contain the foundation for the attraction of foreign investment and the creation of viable export industries such as provision for 100 percent foreign ownership, capital repatriation, duty exemption on imports for the export sector, a pragmatic set of labor regulations, and efficient use of tax exemptions. These policy reforms provide the framework within which the Export Development Services Project can function effectively.

B. Other Related Donor Projects

The GOCV has informed the donor community that the World Bank and USAID are being asked to play the leading role in the development of the private sector in Cape Verde. In addition, UNDP agencies have and will continue to be involved in private sector and export support programs on a smaller scale. All of the donors so far involved in these areas have expressed a strong willingness to coordinate their activities with USAID. This coordination should enhance the effectiveness of each donor's program.

The World Bank (IDA) and the UNDP provided an SDR 4.1 million credit to Cape Verde in 1985 with the aim of improving the country's capacity to identify, prepare and promote industrial projects. Under the project, technical assistance was provided to the Bank of Cape Verde to appraise and finance projects. A line of credit of SDR 3.2 million was set up in the Bank for small-scale industrial projects. As of May 1989, the entire line of credit had been committed. Under the same project, technical assistance was also provided to the Industrial Promotion Unit (IPU) in the Ministry of Industry and Energy to identify and promote projects. The IPU has been instrumental in drafting the new foreign investment legislation.

The UNDP/UNCTAD is supporting a two-year project within the Ministry of Commerce to encourage exports. The project's objectives are to: i) develop the exports of products currently manufactured in Cape Verde for which excess capacity is believed to exist; ii) develop concrete legislative, administrative, and financial measures to encourage export activities; iii) help develop a national body of officials trained in international trade procedures especially preferential access opportunities offered by the EEC, Lomé Convention, ECOWAS, U.S., etc.; and iv) institutional support within the Ministry as well as interministerial coordination.

In light of rapidly changing export promotion legislation and policy, and other proposed and existing projects, the UNDP/UNCTAD is refocussing the project's objectives toward training of nationals in new non-traditional export activities. As such, visits have been proposed for Cape Verdean trade officials to Barbados, Jamaica and the Dominican Republic. These countries could serve as models for Cape Verde's development of non-traditional export activities, through the use of export processing zones, teleport/information services, tourism and transshipment activities. The UNDP/UNCTAD program is complementary to the export enhancement efforts proposed in this project.

A pilot program to promote small-scale industry in Praia and Mindelo is starting up in 1989 under the supervision of the Ministry of Industry and Energy. The project is being funded by the Government of Switzerland with ILO implementation. Project goals are skills development, generation of productive employment, and diversification of production. Microenterprises to receive support are bakeries, furniture-makers and car repair shops.

C. Goal and Purpose of the Project

The long-term goal of the Export Development Services Project is to enable Cape Verde to earn foreign exchange through an export-led growth strategy and increased private sector participation in economic growth. This cannot be accomplished within the limited timeframe of the project; in spite of remarkably rapid progress on the part of the GOCV, a minimum of ten years will be required in order to achieve that objective. Consequently, this project is merely the first phase of what is expected to evolve into a broader program of support. That eventuality will be largely conditioned both on success in this project and on the progress of Cape Verde in evolving toward an economy more open to the private sector and foreign investment.

Progress toward accomplishment of the goal will be indicated by greater economic activity of the private sector, particularly as indicated by an increasing level of exports. Measurable indicators of progress will include:

1) the value of exports of goods and services both as a percentage over previous levels and in absolute terms; 2) the amount of exports as a percentage of the GNP; and 3) the other traditional measures of economic progress such as higher per capita and national income.

Progress toward goal achievement is contingent upon the following set of circumstances: 1) that the GOCV will continue to remain open to private sector development and initiatives; 2) the continuation of political stability and responsible government and 3) adequate levels of foreign assistance being maintained.

The purpose of the project is to provide support to Cape Verde's private sector by mitigating constraints to expanding export-oriented production, trade and private sector participation. At the end of the four-year span of this project, there should be existent in Cape Verde established institutional structures able to provide significant quantities of foreign exchange and local employment. Achievement of success will be contingent upon the Government of Cape Verde continuing to foster appropriate foreign investment policies, as has been the case recently. It will also require that other donors (World Bank, the United Nations, ADB, etc.) continue to actively support related private sector development activities.

D. Project Outputs

In its efforts to promote economic growth and reduce economic dependency in Cape Verde, the project will address a broad spectrum of issues and conditions related to investment and commercial activity. Project outputs, which are to be both qualitative and quantitative in nature, will include:

1) The creation of the Center for Investment and Export Promotion;

2) Recommendations for policy and administrative reforms which facilitate and enhance investment and export activity:

3) Strengthened public and private sector capacity to promote Cape Verde as an investment location; and

4) Development of human resource capacity.

The most critical component of the project activity contributing to these outputs will be a program of institutional development aimed at facilitating pre-investment decision-making and the investment approval process. Past experience elsewhere in the developing world suggest the quantifiable results may be modest during the earliest years of the project. However, in addressing the sequence of conditions and procedures necessary for investment promotion, the project will initially improve efficiency of the investment process. This, in turn, may evolve into yet a further marketable aspect of the Cape Verdean investment environment.

1. Institutional Development

The project will assist GOCV efforts to increase export activity by helping to establish and manage a national Center for Investment and Export Promotion.

The CIEP will be an autonomous institution with a mandate to facilitate the establishment of new commercial ventures in Cape Verde and to coordinate the new investment approval process. The GOCV will be assisted in establishing the Center as a central clearing-house for new investments, particularly for export-oriented industry.

Oversight of the Center will be provided by an Advisory Board, which may include representatives of GOCV ministries (e.g. Industry, Commerce, Agriculture, Finance), relevant agencies (Customs Service, Bank of Cape Verde), and of the local business community (e.g. Chamber of Commerce, Sotavento and Barlavento island business associations).

The Center, which will include a headquarters in Praia and a field office in Mindelo, will be composed of three functionally-oriented divisions, corresponding roughly to the sequence of concerns and processes that are critical to the achievement of the project purpose:

a. the Project and Policy Development Division will be responsible for studies, market research, management information systems, monitoring and evaluation, policy analysis and development;

b. the Promotion and Marketing Division will provide assistance to governmental and private organizations, facilitating efforts to attract and inform prospective international and domestic investors;

c. the Advisory Service Division will provide assistance to investors and GOCV agencies by facilitating the investment approval process and by providing training to public officials and private entrepreneurs.

It is expected that by the end-of-project CIEP will have developed and implemented self-financing mechanisms to increase the financial independence of the Center. These mechanisms could include local and foreign private sector member fees and payment for services. While these sources of revenues should not be expected to end the Center's dependence upon outside sources of income, they could contribute significantly to meeting the CIEP's operating expenses.

2. Recommendations for Policy and Adminstrative Reforms

In establishing an information management system, the project will be well-placed to respond to requests from GOCV and commercial organizations to monitor and evaluate the Cape Verdean business climate. The Policy and Project Development Division of the CIEP will coordinate specific sectoral marketing studies (described eslewhere in the PP), evaluations of commercial policies, regulations and procedures, and recommendations for reforms. This assistance may arise form requests by particular ministries or agencies of the GOCV, or the domestic or international business community. Problems identified by the monitoring and evaluation efforts of the project might also become the object of such analysis.

The effectiveness of the CIEP is conditional on the definition of the CIEP as an autonomous body having a significant role to play in the country's economic life. This relatively activist status will allow the CIEP to be instrumental in providing governmental and parastatal authorities, as well as the business community, with credible and pragmatic guidance to improve the efficacy of investment and export policies and procedures.

3. Strengthening Capacity to Promote Investment in Cape Verde

At the present time, Cape Verde's competitive merits as an investment location remain largely undefined and unpromoted. No single promotional philosophy or strategy currently exists to facilitate the efforts of the variety of government agencies and business organizations to attract investment or enhance markets for existing products and services.

In order to compensate for this deficiency, the project will assist the GOCV to formulate both information resources and marketing strategies for promotional efforts. The guiding tenet for this aspect of project activity will be that the highest rate of return on promotional efforts will likely result form marketing to specific sectors of international business for whom Cape Verde offers particular advantages. This approach will enable the GOCV to avoid high-cost general promotion efforts of the type that have produced poor results in other developing nations.

Technical assistance toward this end will concentrate, first, on the establishment of a reliable data base within the Policy and Project Development Division of the CIEP, allowing it to respond to the information needs of prospective investors and GOCV policy-makers. Secondly, assistance will be provided to the Marketing and Promotion Division for the development of a pragmatic, cost-effective promotional strategy. This effort will initially concentrate on addressing the needs of investors who have already made the decision to evaluate prospects for specific projects in Cape Verde. As the project evolves, generic and sector-specific information and promotional materials will be produced for use by existing outreach organizations (e.g. Ministry of Commerce, Chamber of Commerce, Embassies and Consultants) and Cape Verdean media. The project may also formulate and test promotional efforts aimed at attracting investment from the principal Cape Verdean immigrant communities in North America and Europe.

In addition to its specific promotional and marketing activities, the project will contribute in a more general way to establishing a national awareness of Cape Verde's business environment. The variety of training activities, studies, and facilitative efforts carried out by the CIEP will also serve an information "extension" function, enhancing the ability of public officials, civil servants, and private citizens to better promote Cape Verde.

The final, and critical, thrust of programming will assist the Advisory Services Division of the CIEP to act as a liaison between prospective investors and GOCV authorities. Although the existing administrative environment precludes the establishment of a "one-stop investment approval shop", the Center will serve as Cape Verde's principal contact agency for investors' in-country efforts. In addition to acting as a centralized information agency, liaison with regulatory agencies, legal and banking professionals, and members of the business community could all be coordinated by the CIEP. Depending upon its eventual legal status, CIEP might also play an ombudsman role on behalf of prospective investors vis-a-vis the GOCV.

4. Development of Human Resource Capacity

It has been observed that the educational structure in Cape Verde is not currently adequate to meet Cape Verde's goals of making the country competitive internationally in the export of goods and services. In spite of remarkable and commendable progress in reducing illiteracy, the limited human resource capacity remains a problem which will have a continuing impact upon the project. There are only two high schools in Cape Verde, one in Praia and the other in Mindelo. There are over 3200 enrolled in both and overcrowding is a serious problem. There is one technical school in Mindelo with 700 students which addresses some of the basic business and vocational needs, yet it is not sufficient for the whole country, in spite of the currently rather low level of business development and industrial output. International donor agencies have selectively supported individuals in obtaining a university degree in the U.S. or Europe, since there are no universities in Cape Verde. However, a recently approved ADB sector loan provides financing for an additional technical school and a new business school. In 1983, there were approximately 1000 Capa Verdeans pursuing university degrees but very few of these were in business or vocational training while many more were in the field of public administration.

In order to begin the process of addressing this very deep-seated problem, the project will take several initial steps:

1) Review the possibilities of various innovative and long-term solutions to the problem including a tele-university, private sector-sponsored vocational training, direct support to the emerging educational institutions in Cape Verde for specific training needs, etc. The project can only support the initial exploration of such solutions through short-term consultants and studies. Their financing must come from sourcesa externel to this project (although it might include eventual U.S. project support at some time in the future, particularly if that solution was firmly based in the private sector).

2) Short-term training activities in the U.S. or elsewhere which will expose private sector individuals to various opportunities for greater knowledge and/or skill development.

3) Cooperation with other U.S. training activities in Cape Verde, in particular, the Human Resources Development project which is required to place an emphasis on providing training opportunities to the private sector.

4) The educational/training opportunities inherent in the seminars, conferences and missions to which Cape Verdeans will be exposed under the project. The emphasis here will be on private, local entrepreneurs who will be given access to trade, marketing and production techniques which can be introduced into the evolving economic setting in Cape Verde.

E. Project Inputs

(Costs and duration of inputs are detailed in the Financial Plan.)

1. Inputs Provided Before the Establishment of the CIEP:

Several technical assistance projects and studies to support GOCV export policy and project development are expected to be initiated before the CIEP is operational and fully staffed. Some of these projects can begin as soon as the Project Agreement is signed. It is expected that the CIEP will support follow-up work on these projects leading to the implementation of the most promising activities. The terms of reference for these initial technical assistance projects and studies are detailed in Annex 13.

Short-term Technical Assistance:

a. Assistance to Cape Verde's Port Authorities to Support Transshipment Services and General Port Operations.
b. Analysis and seminar on Preferential Access to Export Markets.
c. Reform of Customs Procedures and Operations to Support Export Industries and Services.
d. Export Marketing Advice for Fishing Cooperatives.

Studies:

a. Market Analysis of Transshipment Services.
b. Project Identification for an Export Processing Zone Regime.
c. Review of Legislative and Regulatory Environment for Export Development and Foreign Investment.
d. Market Analysis of European and North American Tourism Markets.
e. Sector Survey of Offshore Information Services/Teleport.

Program Management: To oversee project financing and facilitate the provision of USAID resources, a Project Administrator will be hired to work for USAID in Praia. This person should be in place as soon as possible after the signing of the Project Agreement.

2. Inputs Provided to and through the CIEP:

Once the CIEP is established, almost all project inputs will be provided directly to, or channelled through, the CIEP to GOCV agencies and private entrepreneurs. The specific terms of reference for the short-term technical assistance, training and studies provided by the project will be determined by CIEP staff to meet the specific needs and demands of the GOCV, the private sector and the Center itself.

Long-Term Technical Assistance: (See Annex 12 for the detailed job descriptions for these positions.)

a. Specialist in business policy analysis and information systems. Responsible for establishment and, initially, operation of the Policy and Project Development Division of the CIEP. Also responsible for the initiation and operation of the CIEP's management information system. Assist in professional training of the Cape Verdean Director of Project and Policy Development Division.

b. Specialist in investment promotion and advisory services. Responsible for the establishment and, initially, operation of the Promotion and Advisory Services Divisions of the CIEP and assist in professional training of the Cape Verdean directors of these divisions.

The senior of the two long-term advisors will also serve as Chief of Party and counterpart to the Executive Director of the CIEP. In addition to management responsibilities of the project, the Chief of Party will also be the primary advisor to the Executive Director on the overall development of and strategic planning for the Center. The resident long-term technical assistance team will be responsible for developing terms-of-reference and appropriate expertise for short-term technical assistance.

Short-term Technical Assistance:

a. Development of promotional strategies.
b. Design, establishment and update of management information systems (MIS).
c. Design and production of promotional materials, including investor handbooks and informational brochures.
d. Coordinated policy and project assistance with GOCV agencies. Long-term advisor on policy/project analysis would supervise and manage work. Projects would include:
   -- follow-up to initial work on export projects, EPZs, teleports, customs reform etc.
   -- additional assistance to be determined through discussions with and request by GOCV agencies. Topics might include:

Banco de Cabo Verde (BCV): development of export financing and insurance operations and improvement of existing international finance operations.

Ministries of Finance and Commerce, and BCV:
Design and establishment of an investment promotion campaign with the US-Cape Verdean community, including development of an appropriate financial mechanism to pool financial investments.

Studies:

Sectoral export market studies, policy analyses and follow-up to initial studies.

Topics to be determined by Center staff based on needs revealed by discussions with entrepreneurs and GOCV officials. Long-term advisor on policy/project analysis will supervise and manage this effort.

A significant portion of the funds provided for this input is expected to be used for required technical assistance and training to support implementation of projects identified by these analyses.

Training:

Out-of-Country:
Trade, marketing & production techniques for CIEP staff, GOCV officials and local entrepreneurs at the World Trade Center in New York City; Overseas site visits to export and investment promotion institutions (Mauritius, the Dominican Republic, Singapore, etc.)

In-Country:
Seminars for local entrepreneurs on export marketing, joint ventures, export finance and other topics to be developed by the CIEP staff based on discussions and requests from entrepreneurs.

Commodities:

Vehicles (3) and spare parts: 1 sedan each in Praia and Mindelo, and an additional station wagon in Praia. Replacement vehicles to be purchased three years later.

Office furniture for 8 rooms: 6 1/2 in Praia and 1 1/2 in Mindelo.

Computers: 4 PC's and software with networking and electrical surge protection devices. 2 modems. 1 desk-top publishing system with software for promotional materials.

Office equipment and spare parts: 2 Fax machines, photocopiers, telephones and air conditioning units (5).

Books, publications and documents: As information is the principal working requirement and the principal product of the Center, it will require extensive materials to keep abreast of market and technological developments. Given Cape Verde's mid-ocean location, transportation by air for many of these materials will be required.

Promotional materials and supplies: The production costs of promotional materials in all media are very high. Given these costs and the limited effectiveness of pro-active promotion until other aspects of investment promotion are operating effectively, funding for these commodities is scheduled to start at modest levels and to increase steadily as CIEP's effectiveness and the investment climate of Cape Verde improves.

General and Administration:

The GOCV is being requested to support the following local support costs on an increasing rate basis until all costs of this nature are covered by the GOCV by the end of the project.

Local Staff:
- Executive Director
- Division Heads (3)
- Mindelo Manager
- Administrative Officer/Bookkeeper
- Secretaries (4): 3 in Praia, 1 in Mindelo
- Messenger/Driver (2)

Offices:
Rent including maintenance, utilities and telephone service. Offices in Praia will have 6 1/2 rooms and in Mindelo 1 1/2 rooms.

Travel: In-country travel will be frequent, between Praia and Mindelo and to other islands. Out-of-country travel should be rather limited, as promotional activities are expected to be concentrated on locally based activities. Many of the external promotions are expected to be conducted by Cape Verdean Embassy personnel. In addition, highly targeted campaigns should limit amount of external travel.

Other:

Seminars & Conferences: Substantial sums will not be spent on these types of inputs. However, an annual conference will be held to bring together private and public sector officials with project personnel and consultants to discuss the business environment, especially regarding the development of export industries and foreign investment.

Trade Missions: Funds will be available to send a limited number of CIEP, GOCV or private sector officials on trade missions. Experience in other developing countries in the initial stages of export development has shown that these missions are only successful when the objectives are highly targeted.

Evaluations and Audit: Funds are provided for a mid-project and an end-of-project evaluation. Funds are also set aside for an audit, if necessary.

III. Implementation Plan

A. Project Organization and Management

In order to assure that the project successfully accomplishes the project purpose and achieves the outputs described above, a Project Management Unit (PMU) may be created at the outset of the project subject to further review by USAID. The PMU would allow for continuous supervision of all project activities, provide coordination among the USAID, the Ministry of Planning and the other ministries directly concerned with the project, and initiate desirable and planned-for project activities before the creation of the CIEP. It will also be able to begin the monitoring and evaluation of project results to assure that they are consistent with the Project Paper and Project Agreement. Project management will be the responsibility of the Executive Director of the Center for Investment and Export Promotion with the assistance of the Chief of Party of the resident technical assistance team.

As soon as the Project Agreement is signed, the USAID will recruit a Project Administrator whose exclusive duties will be to support this project. The Project Administrator will be hired under a long-term personal services contract funded from the project. He/she will report to and be supervised by the USAID's General Development Officer. That individual will have Portuguese language capability and a solid knowledge of AID project procedures. Overall management of the project, as well as the other projects in the USAID's portfolio, will be the responsibility of the General Development Officer.

USAID/Praia is a "Schedule B" mission whose implementation actions, including Project Agreements and amendments, Project Implementation Letters and budgets, are subject to concurrence by the REDSO Director in Abidjan. In addition, the project will benefit from REDSO's procurement, contracting. legal, accounting, program and project officer services, including REDSO's Office of Private Sector Development. Requirements for REDSO support will be updated annually at the Scheduling Conference held each September in Abidjan.

Although it is one of the project objectives to create a permanent Center for Investment and Export Promotion, project activities initially will be the responsibility of the PMU in order to maintain the current momentum. Some or all of the staff will ultimately be assigned to the Center. The Center will have an Executive Director appointed by the GOCV. This individual will be supported by the project staff, including a special Monitoring and Evaluation Unit reporting directly to the Executive Director. An important task of the Monitoring and Evaluation Unit will be the establishment of a management information system, the coordination of quarterly reports, the preparation of monitoring and evaluation reports, and the holding of an annual in-country conference.

a. Management Information System - A Management Information System (MIS) will be developed to provide timely reliable data and reports for supervision, control, and decision-making. The MIS will focus upon progress being made in producing outputs and achieving the project purpose through the use of project furnished resources. It will review and project the flow of finance, equipment, supplies, technical assistance, local personnel, training and other resources and their allocation to different uses. The MIS will be supervised and managed by the Research and Policy/Project Analysis Division of the CIEP. A description and evaluation of the MIS will be submitted to the GOCV and AID within six months of the beginning of the project and updated at 6 month intervals. They will provide the basis for USAID's Project Implementation Reports for the project.

b. Quarterly Reports - The M&E Unit will also coordinate preparation of the quarterly reports which will focus upon progress being made in the achievement of individual work plans. This information will be furnished to the Executive Director and Chief of Party enabling them to take timely action where deviations from accepted work plans have been noted.

c. Monitoring and Evaluation Reports - These will focus upon the work of the Center including progress being made in the achievement of studies and research, policy reform measures being considered, investment proposals and contact received, investments actually made, their size and scope, etc.

d. In-country Conference - In-country conferences will be held annually for the purpose of presenting and discussing the findings and progress of the project. The annual conference will involve project personnel and officials from AID and the GOCV, as well as other interested parties. Papers will be presented and formal discussants will be appointed. An important aim of the conferences will be to focus on specific policy issues requiring action. The results of these conferences will be to guide the Center in designing further studies and actions required to move the policy issues towards resolution. The conferences may take place in Praia or Mindelo.

B. Implementation Schedule

The following is a list of implementation actions to be carried out by the project, when those actions are expected to occur, and the party or parties responsible for carrying out the action.

Activity Description	Responsible Party	Projected Date
FY 89		
Project authorized	AID/W	Jul 89
Project Agreement signed	USAID/GOCV	Aug 89
REDSO Scheduling Conference Abidjan	REDSO/WCA	Sep 89
PIO/T issued for Project Administrator	USAID	Sep 89
FY 90		
Project Administrator recruited	USAID	Oct-Nov 89
Executive Director appointed	GOCV	Oct 89
Proj Admin develops work plan	Proj Admin	Nov 89
PMU established with office, purchase of local furniture, equipment & supplies, as required	Proj Admin	Nov/Dec 89
REDSO/Contract TDY	REDSO/WCA	Dec 89
PIO/T prepared for major TA contract	ProAdm./USAID	Dec 89
PIO/T issued for 1st two IQC studies	ProAdm/GOCV	Dec 89
REDSO/Procurement TDY	REDSO/WCA	Jan 90
RFP for major TA contract issued	USAID/REDSO/AID/W	Feb 90
1st two IQC studies begin	Consultants	Feb 90
CIEP legally created	GOCV	Feb 90
PIO/Cs issued for house & office furniture, vehicles, office equip.	ProAdm/USAID	Feb 90
PMU assets transferred to CIEP	PMU	Mar 90
1st two IQC studies completed and submitted	Consultants	Mar 90

PIO/Ts for 3rd and 4th IQC study issued	ProAdm/GOCV	Mar 90
TA proposals submitted	AID/W	Apr 90
TA contractor selected	USAID/GOCV	May 90
3rd and 4th IQC studies begin	Consultants	May 90
Contract negotiations	AID/W	Jun 90
PIO/T for 5th IQC study issued	ProAdm/GOCV	Jun 90
3rd and 4th studies completed and submitted	Consultants	Jul 90
Major TA contract signed	AID/W-Contr	Jul 90
U.S. commodities/vehicles arrive	ProAdm/USAID	Aug 90
5th IQC study begins	Consultants	Aug 90
ProAg amendment signed	USAID/GOCV	Aug 90
Two TA specialists arrive Cape Verde	Contr	Sep 90
Scheduling Conference Abidjan	REDSO	Sep 90
----------FY 91----------		
5th IQC study completed and submitted	Consultants	Oct 90
TA Specialists prepare work plans	Contr	Oct/Nov 90
MIS developed with Executive Director	Contr	Dec 90
CIEP requests 4 studies through TA team	CIEP	Dec 90
Branch office established in Mindelo	CIEP	Jan 91
Mindelo staff hired	CIEP	Feb 91
4 studies completed and submitted	Consultants	Mar 91
First annual CIEP conference	CIEP	Apr 91
Investment promotion program planned	Contr/CIEP	May 91
2nd ProAg amendment signed	USAID/GOCV	Aug 91
Scheduling Conference Abidjan	REDSO/WCA	Sep 91
CIEP requests 3 studies through TA team	CIEP	Dec 91

----------FY 92----------		
Mid-project evaluation	USAID/GOCV	Sep 91
Second year work plans developed	Contr	Oct 91
3 studies completed and submitted	Consultants	Mar 92
Second annual CIEP conference	CIEP	Apr 92
Annual investment promotion program	CIEP	May 92
Scheduling Conference Abidjan	REDSO/WCA	Sep 92
----------FY 93----------		
Third year work plans developed	Contr	Oct 92
2 studies requested through TA team	CIEP	Dec 92
2 studies completed and submitted	Consultants	Mar 93
Third annual CIEP conference	CIEP	Apr 93
Annual investment promotion program	CIEP	May 93
End-of-project evaluation	USAID/GOCV	Jun 93
Departure of long-term TA	Contr	Sep 93
Project completion date		Sep 93

C. Procurement Plan

All procurement under the Export Development Services project is financed under the Development Fund for Africa (DFA) and thus subject to the AID/Washington Procurement Guidelines issued April 4, 1988.

1. General Procurement Responsibilities:

a. GOCV: The Ministry of Planning and Cooperation is the coordinating agency for the project. However, the only direct involvement of the Ministry in the commodity procurement financed by the project will be the approval of PIOs. A Procurement Services Agent will be employed under a direct contract to furnish procurement services to the project.

b. USAID/Cape Verde: Contracting for most project commodities and services will be undertaken by USAID/Cape Verde, primarily through the PSA for the commodities. The USAID Project Administrator will initiate procurement actions in coordination with the project's Executive Director and with the approval of the Ministry of Planning. In those instances where contract costs exceed the Mission's contracting authority, the contracting will be completed by REDSO/WCA or AID/Washington. Procurement of project commodities and services by USAID/Cape Verde will be AID-direct contracting and will therefore be carried out in accordance with the Federal Acquisition Regulation (FAR) and AID Acquisition Regulation (AIDAR).

2. Procurement of Technical Services:

a. Technical Assistance Contract: Technical services will be provided by a contractor consortium made up of one main contractor supported by additional sub-contractors, a pattern similar to that now commonly used by AID and REDSO for PRE services. The contractor will provide two long-term technical assistance personnel for three and one half years (42 person-months) each and 48 person-months of short-term technical services. Job descriptions for the two long-term experts can be found in Annex 12. Short-term technical services are described in Section II E of this Project Paper. In addition, the contractor will furnish or obtain technical studies for the project. Tentative terms of reference, subject to review and approval by the GOCV, are included in Annex 13. The contractor will also arrange for short-term training programs in the United States and in third countries (Brazil, Portugal, etc.) as appropriate. The contractor will also organize seminars and conferences in Cape Verde and elsewhere and arrange for attendance at or participation in trade missions, exhibitions and fairs on behalf of the CEIP and the GOCV as requested. The total cost of this contract for three and one-half years has been estimated to be $ 1,720,000.

b. Project Administrator PSC: The project will finance the costs of a personal services contract for a Project Administrator for the duration of the project. Total cost for the 45 person-month contract is estimated at $325,000.

c. Evaluation/Audit: There will be two evaluations during the course of the project. One of these will be a mid-term evaluation at the end of two years of project implementation and a final project evaluation is scheduled to take place before the departure of the technical assistance team. Costs of these evaluations are estimated at $45,000 each. The evaluations will be procured through a REDSO/WCA or an AID/Washington IQC contractor or other appropriate contracting arrangements.

An additional $30,000 has been set aside in case an audit is determined to be required for the project. The non-federal audit can be contracted using one of the Regional Inspector General's Non-Federal Audit IQCs. The RIG Office in Dakar would be responsible for preparing the scope of work for the audit and for the management of the selected contractor although the audit would be financed by the project.

3. Commodity Procurement:

The authorized source/origin for commodities financed with funds provided by this project is AID Geographic Code 935. However, procurement from U.S. sources will be maximized. As shown below, the total budget for commodities is $559,000 plus $10,000 for purchasing services. It is anticipated that approximately $380,000 of this amount will be procured from U.S. source/origin (Code 000).

The following illustrative list of commodities will be procured by the project:

	Estimated Cost	Planned Source/Origin
(a) Vehicles:		
Sedans (4)	$ 63,000	Japan/Western Eur.
Station wagons (2)	$ 41,000	Japan/Western Eur.
Parts	$ 31,000	Japan/Western Eur.
(b) Office Furniture	$ 24,000	U.S.
(c) Computers	$ 60,000	U.S.
(d) Office Equipment (Fax, typewriters, copiers)	$ 20,000	U.S.
(e) Air Conditioners	$ 8,000	U.S.
(f) Books and Publications	$ 28,000	U.S.
(g) Promotional Materials	$175,000	U.S./Cape Verde
(h) Shelf items	$ 93,000	Various
(i) Computer/equipt maint.	$ 16,000	U.S./Cape Verde
(i) PSA fees (services)	$ 10,000	U.S.
Total	$569,000	

4. Methods of Financing Commodity Procurements:

Commodity procurement will be carried out by four methods:

a) Procurement Services Agent: A direct contract will be executed with a U.S. procurement services agent for procurement of office furniture, personal computers and other office supplies and equipment. The PSA will be obtained in accordance with procedures set out in the AID Handbooks. The USAID has successfully and satisfactorily used experienced PSA contractors who are already familiar with obtaining similar commodities for delivery to Cape Verde.

The PSA contract will specify, inter alia, procurement requirements, freight forwarding, consolidation of procurement, shipping, insurance, follow-up and reports as part of the PSA scope of work. Payment of the PSA fee will be by direct reimbursement by REDSO/WCA, WAAC. Payment to commodity suppliers (including transportation and insurance) will be by letters of credit issued against an AID/W-established bank letter of commitment to the PSA's selected bank.

The PSA will follow the procurement procedures in the AID Handbooks. The PIO/C to obtain the PSA contract and to reserve funds for the commodities will be prepared in accordance with Handbook 15, Appendix 5A.

Procurement will be initiated as soon as possible after signing of the Project Agreement. The Regional Office of Procurement, REDSO/WCA will be called on to assist in implementing the procurement process. Procurement rules and regulations concerning competition, shipping, insurance and marking will be observed in conformance with AID handbooks.

(b) AID-direct procurement: It is anticipated that USAID/Cape Verde will procure the project vehicles and shelf items and that such procurement will be in accordance with the the FAR and AIDAR. Although not anticipated under this project, in instances where the commodity contract exceeds the contracting authority of USAID/Cape Verde ($100,000) the contract will be executed by AID/W or REDSO/WCA.

(c) Shelf-item procurement: Approximately $90,000 is budgeted for shelf-item procurement. Shelf items will consist primarily of locally available office supplies, printing materials and other small items needed for the project. Shelf-item procurement will be in accordance with Handbook 1, Supplement B, Chapter 18. However, the DFA procurement guidelines state that the HB 1B, Chap 18 limitations on the value of commodities procured from Code 899 countries are not applicable to the DFA. All other shelf-item rules still apply.

(d) Contractor procurement: The technical assistance contractor will be required to make certain procurements, particularly for publications, subscriptions and documents, concerning which the contractor will be expected to have a certain expertise. Approximately $28,000 will be set aside in the contractor's budget for these procurements which are expected to take place during the entire length of the project. The contractor will also have a small emergency supplies procurement element to handle equipment breakdowns, etc. Contractor procurement will be in accordance with the appropriate AID Handbook.

Prices paid for locally procured commodities will be no more than the lowest available competitive prices and purchases will be in accordance with good commercial practices. Commodities on the local market that are imported from non-free world countries are not eligible for AID financing

A specific PIO/C for shelf items will be established to maintain account of the commodities procured and received under the shelf-item budget.

5. Transportation:

U.S. shipping will be required to the extent possible. However, due to infrequent U.S. flag carriers to Cape Verde, it is anticipated that substantial non-U.S. flag vessels will be used. In order to comply with the Cargo Preference Act, the PSA will be required to ship on U.S. flag vessels and to request a certificate of non-availability of U.S. flag vessels in accordance with Handbook 1, Supplement B, Chapter 10, from M/SER/OP/TS on a case-by-case basis when U.S. vessels are not available.

6. Delivery Schedule:

The PSA contractor will be informed of the delivery schedule in the PSA contract. Customs clearance and documentation requirements are established and have been in use under other AID projects in Cape Verde.

7. Special Commodity Requirements:

All vehicles listed in paragraph 3 above will be of non-U.S. source. This is necessary due to lack of adequate maintenance, service and spare parts in Cape Verde for U.S.-manufactured vehicles. Such local service and spare parts availability is essential for support of these project vehicles and does exist for non-U.S. manufactured makes.

D. Monitoring and Evaluation Plan

1. Project Monitoring

Project monitoring will be exercised through a Project Administrator hired by USAID/Praia. The Project Adminstrator will work closely with the CIEP to ensure that project implementation plans and objectives are being met. Monitoring will follow the logical framework (see Annex 1) which establishes objectives, outputs, objectively verifiable indicators and means of verification.

The contractor chief-of-party will be responsible for the preparation of quarterly progress reports and semi-annual Project Implementation Reports detailing project activities, outputs and problems to be resolved. In accordance with OAR/CV office policy, project review meetings will be held monthly to review and direct project implementation. The A.I.D. Representative or General Development Officer will chair these meetings.

The Project Administrator will also call on other A.I.D. monitoring support as needed. This will include:

a. REDSO in Abidjan, which can provide implementation support services upon request for such matters as procurement, legal, contracting and project officer and other services. These requests are coordinated annually for the coming year at the September Scheduling Conference held in Abidjan;

b. The REDSO Controller's Office will review disbursement and reimbursement request for conformity with A.I.D. regulations and will ensure that adequate financial controls are exercised;

c. AID/W resources of the PRE Bureau and the Africa Bureau MDI.

2. Mid-Term Evaluation and End-of-Project Evaluation

The project design has specifically included a mid-term project evaluation scheduled for the end of project year two. This important exercise will assess mid-term performance against original objectives as described in the PP logical framework and the Project Agreement. It will examine the validity of project assumptions as expressed in the logical framework of the PP, assess the efficiency and appropriateness of project management techniques and procedures; review the quality, number, and appropriateness of project activities vis-a-vis those originally called for; assess the level of demand shown for various project components; and evaluate host country and USAID responses to project initiatives. The evaluation will then make recommendations for changes in design or implementation, as required.

An end-of-project evaluation will assess the overall impact of the project in terms of its effectiveness in carrying out project objectives, providing recommendations for appropriate follow-up activities after the PACD.

3. Information Requirements and Criteria for Monitoring and Evaluation

Monitoring and evaluation activities will be facilitated in this project through the establishment of an internal management information system in the CIEP. This data base, located within the CIEP Policy and Project Development Division, will play a key role in both day-to-day management of the CIEP and in the development of the Center's programming activities.

Two levels of information which relate directly to monitoring and evaluation needs will be accessible through the CIEP management information system.

Input and output data will monitor resources provided by the project (inputs) and the direct results of the use of those resources (outputs)

The information generated for input/output monitoring will be used by project managers and others to assess the quality and quantity of inputs and outputs, to identify problems in a timely manner, and to make subsequent modifications in project implementation. Examples of monitioring at this level include assessing information of the number and quality of technical assistants provided, studies and assessments undertaken, strategies developed, entrepreneurs or government officials trained, etc.

The second level, impact data, will provide information required to monitor impact (monitoring at the purpose/goal level as expressed the logical framework). This will contribute to efforts to determine the extent to which the project structure and programming contributes directly to the accomplishment of its ultimate objectives. Examples include such things as numbers of new investments approved by the GOCV and the resulting employment and income generation, improvements in the policy environment for private enterprise, and quantifiable efficiencies that are introduced into the investment and export processes.

The design of this project makes it possible to identify a wide variety of impact indicators, including the following:

a. Policy Environment/Business Climate

- Number and quality of activities targeted at analyzing or revising the GOCV policy and business climate, including administrative and procedural changes to enhance the performance of the export sector;

- Evidence of increased investment and exports, including the number of new firms, transactions, or sectoral orientations of business which result from changes in policy and administrative performance.

b. Sectoral Development

- Number and quality of policy, regulatory, and feasibility studies conducted for the expansion of private sector activitiy, including sectoral feasibility studies for transshipment entrepots, teleports export processing zones, tourism, or commercial fishing.

c. Enterprise and Export Market Development

- Number of investment inquiries, site visits, and approved applications which are facilitated by the CIEP;

- Number and size of enterprises created or expanded;

- Number of newly-developed export markets, and revenues generated by them.

d. Technical Assistance to Cape Verdean Organizations and Agencies

- Number and quality of project-generated initiatives for improvements in the administrative, regulatory, or policy environment;

- Number and quality of cooperative promotional and marketing efforts initiated with GOCV ministries, agencies, delegations, and private businesses;

- Volume of increase in investments from, or exports to, targeted countries or business sectors.

e. Training and Support Activities

- Number and quality of business development seminars, strategy development and training sessions initiated, conducted, or assisted by the project;

- Number of persons trained (by type of training) as the result of project activities.

4. The Importance of Exogenous Variables on Project Performance

The ultimate performance indicators of investment and export promotional activities are the volume of new investments and the export revenues derived from those investments. However, project evaluators must bear in mind that investment decisions are based on a wide variety of factors, including exogenous variables which are beyond the influence and scope of this project.

Such factors will include the geographical and political competitiveness of other nations, and macro-level factors such as global economic and monetary developments which could enhance or have a detrimental effect on the competitiveness of Cape Verdean goods. It is, hence, difficult to predict with any degree of accuracy the specific impact of promotional efforts in the highly competitive global marketplace.

For this reason, the PP design has emphasized the element of institutional and policy development. This focus will allow the Cape Verdean government to enact policies which enhance the nation's competitiveness as an investment site, and which position goods and services to become competitive in an evolving global environment.

5. Assessment of A.I.D. Monitoring and Evaluation Capacity

Although AID/CV is a Schedule B mission with limited staff, the appointment of the Project Administrator, support from REDSO, and provision for an internal management information system within the project will facilitate the required project monitoring and evaluation functions.

IV. Financial Plan

A. Cost Factors:

The budget projections for the project reflect the estimated cost of the inputs required to achieve the outputs described in the Project Description. All budget items in the first year are shown at current prices. Subsequent years are based upon current prices plus a 5 percent estimated inflation rate compounded annually for both the U.S. and Cape Verde. This rate is in conformity with World Bank and IMF projections of inflation in the United States and locally and the assessment of the Project Design Economist. In converting local expenditures from Cape Verdian Escudos to dollars, an exchange rate of $1 = 78 Esc. is used. Details on the cost factors employed for major categories, where not itemized, are provided below.

1. U.S. Technical Assistance (including housing and contract overhead)

Long-term US: (2)	$ 180,000 per year each
Short-term US:	$ 15,000 per month

2. Personal Service Contractors (No contract overhead)

Long-term US:	$ 130,000 per year
Long-term third country:	$ 80,000 per year

3. Training

Long-term US:	$ 25,000 per year
Short-term US:	$ 10,000 per month

4. Commodities and Equipment

Costs in this category of expenditure are based upon C.I.F. Praia prices, less duties and taxes. The quantities and prices of commodities and equipment to be purchased are shown in the Procurement Plan (Section IIIC). In most cases,the price of each item is estimated individually. For a few categories of commodity, however, standard factors are used to estimate the cost component.

These are as follows:

-- Office furnishings	$ 3,000 per room
-- Vehicles (non-US)	
Sedan	$ 15,000 each
Station Wagon	$ 20,000 each
-- Operation/Maintenance of Vehicles	$ 5,000 per vehicle/year
-- House furniture	$ 35,000 per set
-- Gasoline	40 escudos/liter
-- House Rental (3 bedroom)	$ 5,000 per year

5. Local Salaries

Most of the local personnel costs under this project will be GOCV contributions. Their costs have been estimated on the basis of salary information available to the USAID for the different categories of GOCV personnel. These estimates at times may not be precise because:

a) It is not always certain what level of employee will occupy particular positions;

b) There are many non-salary benefits based on seniority, family size, location of work, etc. that cannot be projected in advance;

c) The relatively high percentage of these benefits vis-a-vis a relatively low salary in the GOCV system.

With the exception of the personnel who will be permanently stationed in Mindelo, the project will pay per diem for project personnel when they are working away from Santiago Island (Praia). Per diem is expected to cost approximately $500 per year per person and will be in conformity with local prevailing practice and rates.

B. Methods of Implementation and Financing

Technical assistance under the project will be furnished through: 1) a direct contract with a group (consortium) of economic consulting firms for long- and short-term services and studies, 2) personal services contracts for the Project Assistant and some of the short-term consulting services, and 3) a direct contract with a Procurement Services Agent. The Government of Cape Verde does not have the technical background to manage a complex host-country contract with sub-contracts with U.S. firms and organizations. Therefore, direct contract mechanisms will be used. However, the GOCV will participate in contractor and sub-contractor selection and in review and approval of all scopes of work or terms of reference as well as PIO/T approval. The direct payment method of reimbursement will be employed for the contractors through Letters of Commitment and other AID Handbook 19 authorized methods of disbursement.

All training costs under the project will be funded either by direct payment to the institution or organization providing third-country training or by the transfer of funds to the Master Disbursing Account in AID/Washington for any long-term participants. There is, however, no long-term participant training planned in this project.

All commodity costs under the project will be funded either by direct payment to the supplier or by payments under a Letter of Commitment with a Procurement Services Agent.

The cost of project evaluations, audits, studies not otherwise provided for, and other miscellaneous costs associated with the project will be covered by direct payment to the supplier of those goods and/or services.

Although the GOCV is expected to be able to fully support the local contribution to the project without additional outside assistance, USAID/Praia may make available local currency from conversion of dollar components under the Other Costs element or, if appropriate, generated from the sale of P.L. 480 food commodities for the reimbursement of costs of goods and services if deemed necessary for the prudent administration of the project.

In light of the potential risks in this multi-contract project, the general unfamiliarity of Cape Verdian institutions with US accounting practices, and the limited availability of Government of Cape Verde audit personnel to provide oversight, it has been determined that an audit provision should be included within this project. According, a separate line item element of $30,000 is set aside for an audit as required.

Total U.S. costs for the project over its four-year life span are expected to be $4 million. The initial obligation in the fourth quarter of FY 1989 is to be $1.4 million. The value of GOCV contribution will be approximately $522 thousand in local currency equivalent and in kind. The following table shows in matrix form the proposed methods of implementation and the AID payment process.

Methods of Implementation and Financing

Element Description	Method of Implementation	Method of Financing	Amount
1. Technical Assistance	Direct Contract	Direct Payment	1,687
	Personal Service Contract	Direct Payment	325
	IQC Work Order	Direct Payment	604
2. Training	Direct Placement (S&T/IT, in-country and third country)	Direct Payment	305
3. Commodities	Purchase Order	Direct Payment	135
	Direct Contract	Direct Payment	50
	Procurement Agent (fees)	Direct L/Com	10
	Procurement Agent (commodities)	Bank L/Com	364
4. Other:			
Seminars, etc.	Direct Contract	Direct Payment	50
Local salaries/ admin costs		Direct Payment	350
Evaluation	Direct Contract	Direct Payment	90
Audit	Direct Contract	Direct Payment	30
		TOTAL	$ 4,000

C. Summary Cost Estimate

Export Development Services Project

($ 000)

	U.S.	GOCV	Total	
Technical Assistance:	2012	-	2012	44.5
Long-Term	(1487)	-	(1487)	32.8
Short-Term	(525)	-	(525)	11.7
Commodities and Equipment	559	-	559	12.4
Training	305	-	305	6.7
Other:	1124	522	1646	36.4
Studies	(604)	-	(604)	13.3
Seminars, Conferences, Missions	(50)	-	(50)	1.1
Local salaries, Administration	(350)	(522)	(872)	19.3
Evaluation	(90)	-	(90)	2.0
Audit	(30)	-	(30)	0.7
TOTAL	4,000	522	4,522	100.0

E. Yearly Cost Estimate of Expenditure

Export Development Services Project
($ 000)

	1990		1991		1992		1993		Total	
	U.S.	GOCV	U.S.	GOCV	U.S.	GOCV	U.S.	GOCV	U.S.	GOCV
Technical Assistance:	420	-	588	-	600	-	404	-	2012	-
Long-Term	(240)	-	(462)	-	(484)	-	(301)	-	(1487)	-
Short-Term	(180)	-	(126)	-	(116)	-	(103)	-	(525)	-
Commodities & Equipment	200	-	109	-	162	-	89	-	559	-
Training	90	-	61	-	92	-	62	-	305	-
Other:	406	35	352	101	171	161	194	225	1124	522
Studies	(270)	-	(175)	-	(80)	-	(79)	-	(604)	-
Seminars, Conferences, Missions	(10)	-	(10)	-	(15)	-	(15)	-	(50)	-
Local salaries, Admin.	(126)	(35)	(124)	(101)	(76)	(161)	(23)	(225)	(350)	(522)
Evaluation	-	-	(43)	-	-	-	(47)	-	(90)	-
Audit	-	-	-	-	-	-	(30)	-	(30)	-
TOTAL	1116	35	1110	101	1025	161	749	225	4000	522

F. Obligation Schedule

Export Development Services Project

FY 1989	$ 1,400,000
FY 1990	1,000,000
FY 1991	1,600,000
FY 1992	--
	$ 4,000,000

VI. A. Economic Analysis (Summary)

Economic Overview and Rationale for the EDS Project

Since independence Cape Verde has enjoyed strong economic growth. Real GDP growth has averaged over 7 percent, or over 4 percent in per capita terms. By 1988 per capita income reached approximately $500, almost double the level at independence. Relative to the experience of most other African nations whose economies have stagnated, Cape Verde's consistently strong economic growth is especially impressive.

This strong performance is due to both large inflows of foreign aid and emigrant remittances and sound macro-economic policies which have led to the relatively efficient use of these resources. Policies have included: restrained monetary policies, a careful husbanding of public expenditures, and the maintenance of a competitive exchange rate. While the economy has performed well, it suffers from a range of structural weaknesses, which lead one to question the sustainability of the past performance without a change in the country's economic strategy toward a more open and outward-oriented direction.

These characteristics include: an excessive dependency on foreign aid and emigrant remittances, a small and geographically dispersed national market, an under-utilized labor force, a very weak natural resource base and a continued lack of basic infrastructure. Only by turning outward will the nation have markets large enough to fuel competitive industries, and provide full employment for most of its labor force. Similary, in the initial stages of the development of a significant export sector, only by turning outward to foreign investors can Cape Verde obtain the capital and expertise necessary to establish competitive export enterprises. The government of Cape Verde recognizes the need for this change in economic strategy, and has already begun the process of transforming the national economy through policy and regulatory reform. EDS is designed to support the government's and the local private sector's efforts to successfully implement a more open and outward oriented economic environment.

Economic Impact

The primary outputs of this project, the establishment of an investment and export promotion institution and assisting the country to create a better environment for export industries and foreign investment, do not lend themselves to quantified economic analysis. While the ultimate purpose of the project is to boost the country's export earnings through increased foreign and domestic investment, the role of the project is to encourage and facilitate the development of these export industries.

While the economic impact of the project itself cannot be measured directly, the economic developments that it will facilitate will have substantial positive effects with minimal costs. The costs of the project are essentially limited to direct project expenses. Additional costs are minimal, as the primary Cape Verdean input into the development

of export industries will be labor, which at this time is highly under-utilized. Accordingly, for this project, expected employment under this project is a benefit, since the resource was not being used previously.

Other economic costs for the building of facilities and machinery will be financed by foreign investors, and thereby not come from national income or AID. The increased pressure on already overstretched infrastructure, such as water and electricity, need not be an economic cost to the project, as enterprises would be willing to pay the full economic cost to use these facilities.

The benefits of the development of export industries generated by foreign investment are obviously very significant. They will lead to dramatic increases in national income through the Cape Verdean input of labor, utilities, and indirectly fiscal revenues. In most other countries, assembly export industries, even without the use of significant amounts of local primary inputs, have employment multiplier effects of around 2. Accordingly, the employment impact of the project will be much greater than the employment needs of export industries.

Since this project concentrates on institution building, the benefits will continue beyond the end-of project. Indeed, most of the benefit from the project in terms of increased foreign investment and export revenues will come once the first phase of the project is over, as the work of the Center for Investment and Export Promotion continues and its initial investment in promotion, policy development and advisory services begin to bear fruit. The experience of other countries has been that the return from effective promotional activities usually takes several years to become evident.

B. Technical Summary: Social Soundness

The EDS Project is consonant with the GOCV social and economic program and, over the long run, will address several of the most critical social problems of Cape Verde's people.

Since independence, Cape Verde has registered significant improvements in key indicators of social and economic well-being. Nonetheless, a complex web of serious problems remains, including many of which are structural or historical in nature. This is particularly true with regard to high levels of unemployment and high rates of internal and outward migration. While emigration has resulted in an extraordinary flow of remittances, these have proven to be more of a stop-gap response to micro-level socio-economic needs than a solution to economic crisis on the national level.

While Cape Verde's principal social problems are similar to those of other nations in the developing world, they emerge from conditions and historical circumstances that are, in most respects, country specific.

The Cape Verde archipelago is limited in both the availability of productive land and the variety of exploitable natural resources.

As a result of cyclical drought and famine, demographic history is characterized by cycles of growth and decline, due to episodes of high drought-related mortality and consequential outward migration.

The dispersion of the population among eleven islands mitigates against social and economic integration, and poses serious barriers to internal communication and transportation. This also prevents the creation of centralized infrastructure and economies of scale in industry and services.

One of the greatest social dilemmas facing the GOCV is the problem of unemployment. According to the 1980 census, of the 53.8 percent of the population that is classified as "economically active" (i.e. able and of working age), nearly 30 percent were recorded as unemployed and 39.8 percent were only temporarily employed.

Efforts to promote increased investment and exports of goods and services may be expected to result in increased employment and household income. The net effect of this development, both in the micro-economic and social domains, will be to raise standards of living and fortify existing social structures.

Industries most likely to be attracted to Cape Verde will include light manufacturing, assembly, and services of the type that are found in export processing zones in Asia, Central America, and in the Caribbean. Typically, these industries employ a high proportion of women workers.

The capacity of Cape Verdean society to absorb new employment is extensive, given the extremely high rates of unemployment and

underemployment that have long characterized the nation. Although concerns might arise regarding the prospect of drawing women with dependent children into the working force, the high dependency ratios that are characteristic of Cape Verde suggest an abundance of available care-takers at the household and community levels.

CIEP efforts to increase exports will not be limited to urban and semi-urban areas. A variety of rural-based industries (e.g. artisanal fishing, tourism, and extraction) will benefit from CIEP promotional efforts. Because these industries currently operate far below capacity, the direct effects of enhanced marketing capability could be to stabilize employment and income in these sectors.

Prospects for negative impact of project activities are practically nil for the anticipated life of the project and over the medium-term. A "best case scenario" of project impact could, however, set in motion a process of rapid economic growth and development that would have profound effect on Cape Verde over the long-term. Such a scenario, developing over a period of ten to fifteen years, could give rise to concerns regarding uncertainties of absortive capacity for new industry, possibly erratic demand for services in the apparel and textile-related industries, increased population in urban and semi-urban areas, and a possible reversal of emigrant movement.

C. Technical Summary: Institutional Analysis

Although the ideological orientation of the GOCV is conservative and pragmatic, it is host to a broad spectrum of opinion regarding the role of the private sector in national development. The national debate over economic and political liberalization is focused more than anything on the pace of change. While there is some concern regarding the possibly erosive effects of increased foreign investment on national economic autonomy, there is consensus with the PAICV on the need to bolster foreign exchange revenues by increasing exports.

Liberalization initiatives which have emerged during the past year include a new foreign investment code, a new law of association which makes possible the formal emergence of professional constituencies in a variety of economic fields; liberalization of the operations of the Bank of Cape Verde; offshore banking legislation; and proposed laws according greater political autonomy to municipalities.

At present, adminstration and oversight of investment and exports is divided among a wide variety of agencies, including sectoral and line ministries, state secretariats, the national bank, and the customs service. No single agency is charged with responsibility for coordinating or facilitating investment and exports, nor does there exist a single source of information regarding procedures and processes.

The Cape Verdean private sector may be characterized by its limited size and by the large proportion of small retail and import businesses of which it is constituted. Large-scale businesses are few in number, and nearly all of these include a greater or lesser proportion of GOCV equity. Until recently, only two formal private sector associations existed, dominated by import and retail businesses. However, a draft charter for a National Chamber of Commerce, Industry, Agriculture and Handicrafts has been proposed by the GOCV. While support for the creation of a chamber of commerce is widespread in Cape Verde, controversy exists regarding concerns that it not become an organ of offical intervention in private sector activity.

The selection of an appropriate institutional locus for project activity has been derived from an objective evaluation of institutional and programming needs, based upon models provided by successful institutions in other developing nations.

The focus of project activity will be the Center for Investment and Export Promotion, an independent agency established by government decree and enjoying fiscal and adminstrative autonomy. Technical and adminstrative oversight will be provided by an Advisory Council, which will include representatives of both the government and the private sector. Internal management of the CIEP will be provided by an Executive Director.

The Center, which will include a headquarters in Praia and field office in Mindelo, will be composed of three functionally-oriented divisions, corresponding to the sequence of processes that are critical to the achievement of the project purpose:

a. The Project and Policy Development Division will be responsible for studies, market research, management information systems, monitoring and evaluation, policy analysis and development.

b. The Promotion and Marketing Division will provide assistance to governmental and private organizations, facilitating efforts to attract and inform prospective international and domestic investors. It will also produce informational and promotional materials, possibly on a cooperative and cost-sharing basis, with business associations and representative organizations.

c. The Advisory Service Division will provide assistance to investors and GOCV agencies by facilitating the investment approval process and by providing training to public officials and private entrepreneurs. Although the existing administrative environment precludes the establishment of a "one-stop investment approval shop", the Center will serve as Cape Verde's principle contact agency for investors' in-country efforts. In addition to acting as a centralized information agency, the Advisory Services Division would also act as a liaison with regulatory agencies, legal and banking professionals, and members of the business community.

VI. CONDITIONS AND COVENANTS

Conditions Precedent. Disbursement of funds will be governed by Conditions Precedent in substance as follows:

First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) A statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(b) Certified copies of the Foreign Investment Law and the Industrial Development Law as passed by the National Assembly, together with a statement that both such laws have entered into force;

(c) A letter of understanding signed by the appropriate Minister promising to propose to the Council of Ministers a Decree Law that:

(i) creates the Center for Investment and Export Promotion (CIEP) as a legal entity under Cape Verdean law, possessing financial and administrative autonomy;

(ii) proposes articles of incorporation reflecting the character and structure of the CIEP agreeable to the Parties including an advisory board composed of both public and private sector advisors, and an executive director.

Additional Disbursements. Prior to disbursement under the Grant for expenditures other than those covered by Section 4.3 below, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) For technical assistance, including contracts for advising, consulting and training services, a formal request to A.I.D. from the appropriate ministry, agency or other group specifying the services required;

(b) For participant training and conference attendance evidence of the candidate's background, qualifications and acceptance for training by the relevant institution, together with a description of the course of study or comparable agenda, including schedule and budget;

For travel, a proposed itinerary for identified veller, together with a statement of the purpose of travel and budget;

(d) For other expenditures, such documentation as A.I..D. may reasonably require.

Disbursement for CIEP. Prior to disbursement under the Grant for any expenses of the CIEP including but not limited to procurement of commodities, and services, for CIEP, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., the following:

(a) A certified copy of the Decree approved by the Council of Ministers and signed by the President, to create the CIEP substantially in the form described in the letter of understanding referred to in Section 4.1 above;

(b) A statement identifying the person who has been appointed to act as executive director of the CIEP together with a specimen of his or her signature;

(c) A workplan including staffing and budget signed by the executive director of CIEP providing for activities required to establish the CIEP as a functioning office.

Disbursement Mechanisms.

In the absence of a Section 121(d) qualified Cape Verdean entity, disbursement for all project expenditures in local and foreign exchange will be handled by USAID/Cape Verde through direct procurement methods in accordance with Handbook 1, Supplement B. At such time as the Center for Investment and Export Promotion is established, the Project will make use of REDSO/WAAC services to set up and certify accounting procedures

within the Section 121(d) requirements. It is anticipated that the Agreement and Authorization will then be amended to permit disbursement, at least of CIEP's annual operating expenses, to a CIEP bank account under standard advance/liquidation procedures.

Covenants In addition to the standard General Covenants, the Project Grant Agreement will contain Special Convenants in substance as follows:

Center for Investment and Export Promotion. The Grantee will take all steps consonant with Cape Verdean law to create and maintain the CIEP as a legal entity having financial and administrative autonomy and an advisory board composed of public and private sector advisors. The CIEP shall be established with the following authorized funtions:

(a) to provide and/or coordinate research, information management and analysis relevant to export development;

(b) to promote international and domestic investment in Cape Verde and support promotional efforts by other public and private sector bodies;

(c) to advise both investors and governmental agencies in the development and use of a regulatory structure for investment.

CIEP Records and Reports. The Parties agree to provide the CIEP with such technical assistance, personnel and other resources as may be necessary to ensure that CIEP:

(a) Maintains financial books and records in accordance with generally accepted accounting principles regularly applied, which books and records shall be accessible to authorized representatives of A.I.D. at such times as A.I.D. may reasonably request;

(b) Provides the Parties with financial reports and reports of its undertakings and accomplishments on at least an annual basis.

Site Visits, Conferences, Training. The Grantee agrees that all individuals participating in site visits, training conferences and like activities under the Project will be selected by fair competitive procedures based on their qualifications and abilities to contribute to Cape Verdean economic development.

Export Development Limitations. Except as A.I.D. may otherwise agree in writing, the Parties agree that studies and other activities financed under the Grant shall not be designed or used specifically to support the manufacture for export in direct competition with United States exports, of textiles, apparel, footwear, handbags, flat goods such as wallets, work gloves or leather wearing apparel.

Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas of constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

1. Logical Framework
2. Map of Cape Verde
3. PID Approval Cable
4. Initial Environmental Examination
5. GOCV Request for Support
6. Economic Analysis
7. Institutional Analysis
8. Private Sector Environment
9. Social Soundness Analysis
10. 611(a), 611(e) and 121(d) Determinations
11. Statutory Checklist
12. Job Descriptions for Technical Assistance Team
13. Terms of Reference for Proposed Studies
14. Investment and Export Promotion
15. Review of Investment and Industrial Development Legal Framework
16. Access of Cape Verde Products to the European Market
17. Draft Project Authorization
18. Draft Project Grant Agreement

ANNEX I

Logical Framework
Export Development Services Project

drafted:5/31

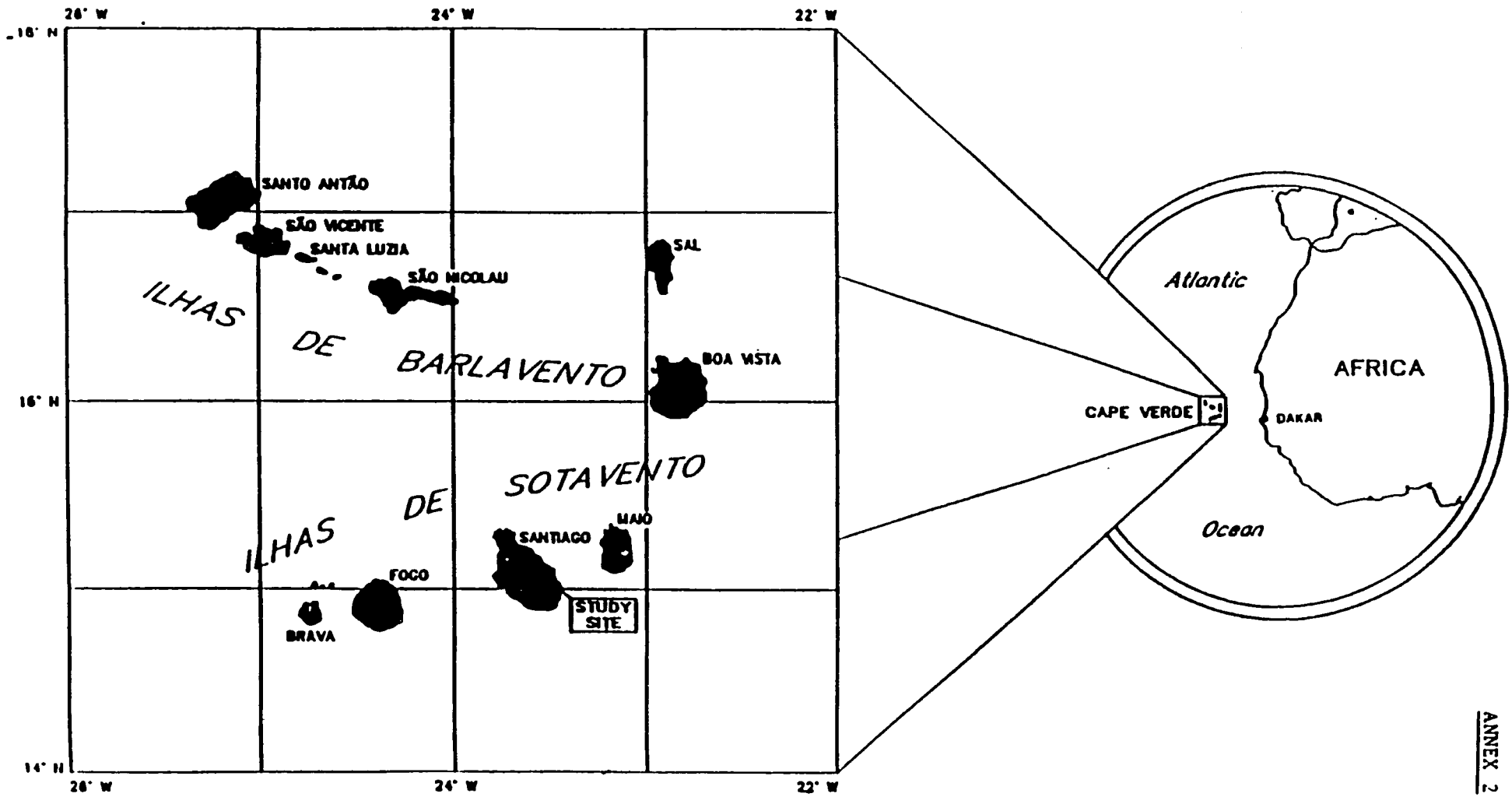
NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Goal: To enable Cape Verde enhance its capacity to earn foreign exchange through an export-led growth strategy and increased private sector participation in economic growth.	1. Value of exports of gds & svs increases as a % and in absolute terms 2. Exports as % of GNP incr. 3. Higher per cap and national income 4. Greater levels of foreign investment	GOCV, World Bank and IMF reports	1. GOCV will continue to remain open to private sector development and initiatives 2. Continuation of pol. stability & responsible govt. 3. Adequate for. assist maint.
Purpose: To provide support to Cape Verde's private sector by mitigating constraints to expanding export-oriented production, trade and private sector participation.	End of Project Status: Policy environment able to support enterprises & activities able to create significant foreign exchange & local employment	1. Project evaluations 2. IMF reports 3. GOCV statistics	1. GOCV will continue to foster appropriate foreign investment policies 2. Other donors continue to support related private sector development activities
Outputs: 1. Center for Investment and Export Promotion established on a permanent basis 2. Recommendations for policy and administrative reforms 3. Strengthened promotional capacity via: Market studies Feasibility studies Promotional activities Specific studies 4. Human resource development	Magnitude of Outputs: 1. One autonomous CIEP with three divisions 2. Reforms in laws, statutes, regulations with impact on exports and investments. 3. Teleport Transshipment Export Processing Zone Tourism Fishing Markets studies et al 4. Seminars, conf. and missions	1. Project evaluations 2. Contractor reports 3. USAID/GOCV records	1. Ministry of Cooperation and Plan remains supportive of project and private sector initiatives 2. Other ministries remain supportive of the private sector and the project

drafted:5/31

Logical Framework
Export Development Services Project

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Inputs: Activities and Types of Resources	Level of effort		
1. U.S.:	$ 4,000,000	1. Contractor quarterly reports 2. Semi-annual Project Implementation Reports 3. REDSO/WAAC records	1. Suitable US personnel with acceptable language capability 2. Adequate USAID management structure established
Technical Assistance	2,011,000		
Commodities	559,000		
Training	305,000		
Other	1,656,000		
2. GOCV:	$ 522,000 local currency equiv. or in kind		
Personnel			
Office space			
Recurrent costs			

ARCHIPÉLAGO DE CABO VERDE



MAP No.1

ANNEX 2

70

[illegible]

R [illegible] MAR 88

FM SECSTATE WASHDC

TO AMEMBASSY PRAIA PRIORITY

INFO AMEMBASSY [illegible]

UNCLAS STATE [illegible]

AIDAC [illegible] FOR [illegible]

E.O. 12356: N/A

SUBJECT: [illegible] APPROVAL OF CAPE VERDE EXPORT PROMOTION PID AND PL 480 TITLE II SECTION 206 AMENDMENT

1. PID FOR THE EXPORT PROMOTION PROJECT WAS APPROVED AT THE ECPR [illegible] 1988. SEPTEL WILL REPORT ON THE [illegible] REVIEW AND PROVIDE SPECIFIC GUIDANCE FOR PROJECT PAPER DEVELOPMENT.

2. THE PL 480, TITLE II SECTION 206 AMENDMENT WAS APPROVED AT THE AFRICA BUREAU LEVEL AT THE ECPR MARCH 2, 1988. BUREAU WILL NOW REQUEST FVA TO SUBMIT THE REQUEST FORMALLY TO THE DCC. SEPTEL WILL REPORT ON DECISIONS TAKEN AT THE ECPR. BAKER

Best Available Document

71

Best Available Document

[illegible]

DRAFTED BY: AID/AFR/CD [illegible]
APPROVED BY: AID/AA/AFR [illegible]
AID/AFR/CD [illegible]
AID/DP [illegible] (DRAFT) AID/GC [illegible]
AID/AFR/TR/ANR [illegible] (DRAFT) AID/PPC [illegible]
AID/AFR/SWA [illegible] (DRAFT) AID/AFR/DR [illegible]
AID/MDI [illegible] (DRAFT)
AID/AFR/DP [illegible] BRUNETT (DRAFT)

[illegible]

R [illegible] AIR 80
FM SECSTATE WASHDC
TO AMEMBASSY PRAIA PRIORITY
INFO AMEMBASSY BISSAU [illegible]

UNCLAS STATE [illegible]

AIDAC BISSAU FOR RDSO

E.O. 12065: N/A

SUBJECT: CAPE VERDE EXPORT PROMOTION PID [illegible] AID/W REVIEW.

REF: STATE [illegible]

1. THE ECPR FOR THE AID/W PID REVIEW OF SUBJECT PROJECT WAS HELD ON FEB 28, 1979. THE PID WAS APPROVED. AFR/DR DIRECTOR TIM BORK CHAIRED THE MEETING WHICH WAS ATTENDED BY REPRESENTATIVES OF PPC/PD, PPC/PDPR, GC/AFR, AFR/MDI, AFR/TR/ANR, AFR/SWA, AFR/PD, AFR/DP, STATE AF, AND CAPE VERDE A.I.D. REP. TOM LUCHE. DECISIONS TAKEN AT THE ECPR ARE DISCUSSED BELOW.

2. SCOPE OF THE PROJECT. THE ECPR CONCLUDED THAT THE SCOPE OF THE PROJECT AS SET OUT IN THE PID IS EXCESSIVELY BROAD. CONSEQUENTLY THE COMPONENT OF THE

PID THAT PROPOSES DIRECT SUPPORT TO PRIVATE ENTERPRISES AND COOPERATIVES WHICH ARE NOT RELATED TO EXPORT DEVELOPMENT IS TO BE DROPPED. THE INCLUSION OF DIRECT SUPPORT TO SUCH PRIVATE ENTERPRISES WOULD TEND TO DILUTE [illegible]

[illegible]

12

Best Available Document

[illegible] EFFORT TO [illegible] A [illegible] EFFORT WILL [illegible] THE [illegible] [illegible] PARTS OF THE PROJECT AND [illegible] BE [illegible] [illegible] WITHSTANDING IF THERE IS A FOLLOW-ON ACTIVITY IN FUTURE [illegible].

[illegible] IMPLEMENTATION [illegible] ON BEHALF OF THE PROJECT [illegible] ASSISTANCE TO PRIVATE ENTERPRISE DEVELOPMENT IN THE REGION. THE BASE FOR [illegible] THAT THERE [illegible] A [illegible] APPROACH TO IMPLEMENTATION OF THE ACTIVITY. THE [illegible] OF THE SPECIFIC INVESTMENT [illegible] THE SITE IS NOT [illegible] AT THIS TIME, AND A GREAT DEAL REMAINS TO BE DONE IN TERMS OF ESTABLISHING THE PROCESS. PRECONDITIONS FOR SUCCESSFUL INVESTMENTS. THE FIRST PHASE OF THE PROJECT SHOULD CONCENTRATE UPON KNOWLEDGE GENERATION, ANALYSIS, STRATEGY DEVELOPMENT AND IMPROVING THE POLICY AND REGULATORY ENVIRONMENT TO CREATE AN APPROPRIATE INCENTIVE STRUCTURE. THE SPECIFIC AREAS FOR INVESTMENT PROMOTION (I.E. EXPORT PROCESSING ZONES (EPZ), TRANSHIPMENT SERVICES, FISHERIES SECTOR, AND INFORMATION PROCESSING) SHOULD BE TREATED AS ILLUSTRATIVE. PARTICULAR INVESTMENT PROMOTION EFFORTS IN ANY OF ALL OF THESE AREAS WOULD ONLY BE MADE DURING THE SECOND PHASE OF THE PROJECT, FOLLOWING THE KNOWLEDGE GENERATION AND CREATION OF PRECONDITIONS BROUGHT ABOUT DURING THE FIRST PHASE.

IN THIS CONTEXT, THE PROJECT PAPER DESIGN SHOULD FOCUS HEAVILY UPON ESTABLISHING AN ANALYTICAL FRAMEWORK, I.E., THE MAPPING OUT OF A CLEAR PROCESS WHICH PROVIDES FOR THE SYSTEMATIC COLLECTION OF DATA RELEVANT TO EXPORT PROMOTION IN CABO VERDE, ANALYSIS OF THE DATA, THE DEVELOPMENT OF STRATEGIES FOR ADDRESSING CONSTRAINTS IDENTIFIED BY STUDIES AND ANALYSES, AND ESTABLISHING BENCHMARKS FOR MEASURING THE DEGREE OF ACHIEVEMENT OF OBJECTIVES OF THE PROJECT. THIS SUGGESTS THAT THE PP DESIGN TEAM WILL NEED TO INCLUDE INDIVIDUAL(S) WITH A STRONG TECHNICAL BACKGROUND AND PRACTICAL EXPERIENCE IN PUTTING INTO PLACE THE PRECONDITIONS FOR THE TYPES OF EXPORT-LED GROWTH THAT THE FID ENVISIONS. THE PPE BUREAU PEDS PROJECT IS A GOOD RESOURCE THAT CAN BE ACCESSED FOR THESE SKILLS.

THE PHASED IMPLEMENTATION APPROACH RAISES SOME CONCERN WITH RESPECT TO ENSURING THAT THE PROJECT HAVE

SUFFICIENT DEFINITION TO SATISFY ALL IAI REQUIREMENTS. THERE ARE AT LEAST TWO POSSIBLE SCENARIOS FOR AUTHORIZATION AND OBLIGATION OF THE PROJECT. UNDER THE FIRST SCENARIO, THE PP DESIGN WOULD PROVIDE SUFFICIENT DEFINITION AND SPELLING OUT OF INTERVENTIONS TO ALLOW THE ENTIRE ACTIVITY TO BE AUTHORIZED AND OBLIGATED. IF THIS

[illegible]

Best Available Document

[illegible] AND [illegible] A [illegible] AMENDMENT OR NEW PROJECT WHEN THE [illegible] ARE [illegible] CERTAIN [illegible] THAT THE PROJECT WOULD BE AUTHORIZED [illegible] WITH [illegible] SPECIFICITY [illegible] A FIRST [illegible] WITH SUBSEQUENT OBLIGATIONS OCCURRING INCREMENTALLY. [illegible] THE APPROVAL OF ANNUAL [illegible] DETAIL TO THE LATER STAGES OF THE PROJECT [illegible] THAT THERE [illegible].

WE UNDERSTAND THE MISSION'S DESIRE TO DESIGN THE PROJECT IN SUCH A WAY THAT IT REMAINS DEMAND DRIVEN AND IS SUFFICIENTLY FLEXIBLE TO RESPOND TO EVOLVING CIRCUMSTANCES. NONETHELESS, THE ESSENTIAL POINT OF THE ABOVE DISCUSSION IS THAT THE PP DESIGN MUST PROVIDE AS MUCH SPECIFICITY AS POSSIBLE TO JUSTIFY INITIAL AUTHORIZATION AND OBLIGATION, AND THAT OTHER MECHANISMS (E.G., AMENDMENTS), ARE AVAILABLE IF CHANGING CONDITIONS NECESSITATE FUTURE MODIFICATIONS.

4. DONOR COORDINATION. GIVEN THE NATURE OF THE PROJECT AND THE MODEST LEVEL OF RESOURCES THAT A.I.D. HAS AVAILABLE, IT WILL BE EXCEPTIONALLY IMPORTANT TO MAINTAIN VERY CLOSE TIES WITH OTHER DONORS AND POTENTIAL DONORS IN THIS SECTOR. FOR EXAMPLE, IN ORDER TO ATTRACT PRIVATE INVESTORS, EPZS ARE LIKELY TO REQUIRE COSTLY IMPROVEMENTS IN PHYSICAL INFRASTRUCTURE THAT WOULD REQUIRE OTHER DONOR FINANCING. IT IS THEREFORE IMPORTANT NOT ONLY THAT PP DESIGN TAKE OTHER DONOR ACTIVITIES INTO ACCOUNT, BUT ALSO THAT THE PROJECT'S IMPLEMENTATION STRATEGY ENSURE CONTINUOUS CONSULTATION AND COLLABORATION (E.G., JOINT STUDIES) WITH OTHER DONORS.

5. BUDGET CONCERNS AND PROJECT MANAGEMENT. THE LACK OF A PROJECT BUDGET IN THE PID MADE IT DIFFICULT TO DETERMINE THE RELATIVE WEIGHT OF THE VARIOUS PROJECT INPUTS, AND IT WILL OF COURSE BE NECESSARY TO DEVELOP A COMPLETE BUDGET FOR THE PROJECT PAPER. THE ECPR ALSO CONCLUDED THAT IN ORDER TO ADDRESS CONCERNS OVER THE MANAGEMENT BURDEN THAT THE PROJECT WOULD PLACE UPON THE SMALL USAID/CAPE VERDE STAFF, ADDITIONAL ASSISTANCE FOR PROJECT ADMINISTRATION SHOULD BE BUILT INTO THE PROJECT BUDGET. THE PROJECT PAPER WILL ALSO NEED TO INCLUDE A COMPLETE PROCUREMENT PLAN (SEE STATE 1719[illegible]).

[illegible] WELL FUNCTIONING FINANCIAL MARKETS THAT ENSURE PRIVATE SECTOR ACCESS TO CAPITAL AND PROVIDE AN ARRAY OF [illegible] TO THE [illegible]

Best Available Document

[illegible] PREPARED. ALTHOUGH THIS ISSUE WILL BE ADDRESSED DURING [illegible] IMPLEMENTATION, IT IS SO FUNDAMENTAL TO THE SUCCESS OF THE PROJECT THAT IT SHOULD ALSO BE GIVEN PARTICULAR ATTENTION DURING PP DEVELOPMENT.

[illegible] MONITORING AND EVALUATION [illegible] THAT THE MISSION IS NOW PLANNING ON THIS AREA.

8. INSTITUTIONAL ANALYSIS. PP DESIGN SHOULD FOCUS UPON GENERAL INSTITUTIONAL QUESTIONS. AT A MINIMUM, THIS (PP) SHOULD: (A) CLEARLY DEFINE THE ROLE OF THE VARIOUS CARIBBEAN INSTITUTIONS (BOTH PUBLIC AND PRIVATE) THAT COULD BE INVOLVED IN THE PROJECT; (B) IDENTIFY KEY INSTITUTIONAL CONSTRAINTS THAT WOULD DIRECTLY OR INDIRECTLY AFFECT EXPORT PROMOTION; AND (C) DETERMINE THE BEST PLACED INSTITUTION(S) FOR THE TECHNICAL ASSISTANCE AND TRAINING. THERE IS ALSO CONCERN ABOUT THE LARGE NUMBER OF INSTITUTIONS THAT THE MISSION WILL BE WORKING WITH IN THIS AND THE OTHER PROJECTS IN THE PORTFOLIO. GIVEN THE ABOVE POINTS AND THE SMALL SIZE OF THE MISSION STAFF, PARTICULAR ATTENTION SHOULD BE PAID TO INSTITUTIONAL CONCERNS AS EARLY AS POSSIBLE DURING PP DESIGN.

9. TRAINING. THE PID IS VAGUE ABOUT PLANS FOR TRAINING UNDER THE PROJECT. THE PROJECT PAPER SHOULD ANALYZE TRAINING NEEDS AND DETERMINE WHETHER THEY WOULD BEST BE MET UNDER THIS OR UNDER ANOTHER PROJECT, E.G. [illegible] SHORT TERM TRAINING IS CONSIDERED MOST APPROPRIATE FOR THIS ACTIVITY.

10. PUBLIC AND/OR PRIVATE IMPLEMENTING AGENCIES. THERE WAS CONSIDERABLE DISCUSSION DURING THE REVIEW OF THE MERITS OF PROVIDING ASSISTANCE DIRECTLY TO A PRIVATE SECTOR ORGANIZATION (E.G. CHAMBER OF COMMERCE) RATHER THAN THROUGH A GOVERNMENT ENTITY SUCH AS THE INDUSTRIAL PROMOTION UNIT. WHILE IT IS RECOGNIZED THAT THIS IS NOT NECESSARILY AN EITHER OR QUESTION AND THAT SOME FORM OF ASSISTANCE TO BOTH PUBLIC AND PRIVATE INSTITUTIONS MAY TURN OUT TO BE APPROPRIATE, IT WAS CONCLUDED THAT THE PROJECT SHOULD MAXIMIZE THE USE OF PRIVATE SECTOR ENTITIES AS WELL AS TAKE STEPS TO ENSURE PRIVATE SECTOR ACCESS TO PROJECT RESOURCES. THE PP TEAM SHOULD FOCUS ON AND FURTHER ANALYZE THIS ISSUE.

11. [illegible] AUTHORIZATION [illegible] THE [illegible]

Best Available Document

[illegible]

[illegible]

[illegible]

ANNEX 4

INITIAL ENVIRONMENTAL EXAMINATION
or
CATEGORICAL EXCLUSION

PROJECT COUNTRY: Cape Verde

PROJECT TITLE: Export Promotion/Private Sector Development Project (655-0014)

FUNDING: FY(s) LOP US$ 4,000,000.00

IEE PREPARED BY: Robert W. Hanchett
Regional Environmental Officer
REDSO/WCA

ENVIRONMENTAL ACTION RECOMMENDED:

Positive Determination	
Negative Determination	
Categorical Exclusion	XXX
Deferral	

SUMMARY OF FINDINGS:

All project activities are eligible and recommended for categorical exclusion pursuant to the provisions of 22 CFR 216.2(c)(2)(i) and 22 CFR 216.2(c)(2)(ix) since the project consists exclusively of technical assistance, training, commodity procurement, and studies; and no construction or other activities which could have an adverse environmental impact will be undertaken.

CLEARANCE:

AID Representative: Thomas C. [illegible] Date: 1/31/89

CONCURRENCE:

Bureau Environmental Officer: Bessie L. Boyd, AFR/TR/ANR APPROVED: x DISAPPROVED: DATE: 5/16/89

CLEARANCE:

GC/AFRICA: [illegible] DATE: 8/14/89

Department of State

INCOMING TELEGRAM

Annex 5 - GOCV Request for Assistance

PAGE 01 PRAIA 01968 021821Z 0367 003168 AID5332
ACTION AID-00

ACTION OFFICE AFPD-04
INFO AFFW-04 AFCW-03 AAAF-03 GC-01 GCAF-01 ES-01 RELO-01
AMAD-01 /019 A0

INFO LOG-00 AF-00 CIAE-00 EB-00 DODE-00 /000 W
172673 030518Z /38

R 021815Z AUG 89
FM AMEMBASSY PRAIA
TO SECSTATE WASHDC 5960 --
INFO AMEMBASSY ABIDJAN

UNCLAS PRAIA 01968

AIDAC

SECSTATE FOR AFR PD AND AFR/SWA
ABIDJAN FOR REDSO WCA PDO

E O 12356 N/A
SUBJECT CAPE VERDE EXPORT DEVELOPMENT SERVICES
- PROJECT (655-0014)

1 FOLLOWING IS TRANSLATION OF JUNE 15, 1989
LETTER FROM GOCV DIRECTOR OF BILATERAL
COOPERATION TO OAR/CV OFFICIALLY REQUESTING
SUBJECT PROJECT ASSISTANCE
QUOTE
SUBJECT PROJECT FOR EXPORT DEVELOPMENT
DEAR SIR
- FOLLOWING THE VARIOUS EXCHANGES OF
INFORMATION BETWEEN THE MINISTRY OF PLANNING AND
COOPERATION AND USAID/PRAIA OVER THE ABOVE
SUBJECT, AND THE VARIOUS MISSIONS THAT LEAD TO
THE IDENTIFICATION AND FORMULATION OF A RELATED
PROGRAM, I HEREBY AND THROUGH YOUR OFFICE MAKE
AN OFFICIAL REQUEST FROM THE GOVERNMENT OF CAPE
VERDE TO THE GOVERNMENT OF THE UNITED STATES OF
AMERICA TO PROVIDE SUPPORT TO THE IMPLEMENTATION
OF THE MENTIONED PROGRAM WITHIN THE FRAMEWORK OF
THE BILATERAL COOPERATION RELATIONS BETWEEN THE
TWO COUNTRIES.
- WE EXPECT SOON TO BE ABLE TO COMMUNICATE OUR
COMMENTS ON THE "PROJECT PAPER" SUBMITTED DURING
THE MEETING ON THE FIFTH (5TH) OF THIS MONTH.
- PLEASE ACCEPT MY BEST WISHES.
- DIRECTOR OF BILATERAL COOPERATION
- JOSE LUIS ROCHA
END QUOTE

2 MISSION ASSUMES THIS MSG WILL SERVE AS ANNEX
5 OF THE PROJECT PAPER.
PENNER

ANNEX 6
ECONOMIC ANALYSIS

Economic Overview and Rationale for the EDS Project

Since independence Cape Verde has enjoyed strong economic growth. Real GDP growth has averaged over 7 percent, or over 4 percent in per capita terms. By 1988 per capita income reached approximately $500, almost double the level at independence. Relative to the experience of most other African nations whose economies have stagnated, Cape Verde's consistently strong economic growth is especially impressive. While the economy has performed well, it suffers from a range of structural weaknesses, which lead one to question the sustainability of the past performance without a change in the country's economic strategy toward a more open and outward-oriented direction.

These characteristics include: an excessive dependency on foreign aid and emigrant remittances, a small and geographically dispersed national market, an under-utilized labor force, a very weak natural resource base and a continued lack of basic infrastructure. Only by turning outward will the nation have markets large enough to fuel competitive industries, and provide full employment for most of its labor force. Similarly, in the initial stages of the development of a significant export sector, only by turning outward to foreign investors can Cape Verde obtain the capital and expertise necessary to establish competitive export enterprises. The government of Cape Verde recognizes the need for this change in economic strategy, and has already begun the process of transforming the national economy through policy and regulatory reform. EDS is designed to support the government's and the local private sector's efforts to successfully implement a more open and outward oriented economic environment.

Economic Policies

Cape Verde's strong economic performance to date is the result of several factors. The most important of these has been the maintenance of sound macro-economic policies and a careful husbanding of public resources. Economic management has been characterized by its practical nature. Cape Verdean policy makers have demonstrated a willingness to take the difficult steps necessary to tackle problems.

Monetary and credit policies have been restrained, keeping inflation below 10 percent during most of the 1980s and below 5 percent in 1987. For several years local interest rates were negative in real terms. In 1985 rates were increased and with the decline in inflation have become positive in real terms, and thereby more competitive internationally. To attract more emigrant remittances, special emigrant remittance accounts denominated in foreign currency and paying market rates were established. These

competition, it is likely that financial services would improve.

To the government of Cape Verde's credit, most of these problems are recognized and steps have been taken or are planned to address them. EDS will support many of these reform efforts, especially those that help to create a more export-oriented and open economic environment.

Economic Structure and Logic for an Export and Investment Promotion Project:

While economic policy management has led to a relatively efficient use of resources, large inflows of foreign aid and emigrant remittances have provided the primary impetus to the economy. Foreign aid in most years has been equal to almost 50 percent of GDP, while remittances total between 10 and 20 percent of GDP. As these ratios indicate, Cape Verde is excessively dependent on external sources of income. Since Cape Verde cannot control the flow of these funds, its dependence on them places the country in a vulnerable position. The aforementioned macroeconomic policies and public investment policies have led to an efficient use of these inflows, an achievement rarely obtained by other developing nations. However, unless a domestic source of income generation is developed, this past performance cannot be sustained without continued increases in foreign income inflows, an unlikely prospect.

Even though its economic performance has been strong, the economy is extremely unbalanced and suffers from severe structural weaknesses. Reflecting the economy's dependence on foreign income flows, the Cape Verde economy is overwhelmingly concentrated in services (commerce, transport and public services), which constitute approximately 60 percent of GDP. Agriculture still employs over half of the labor force, but is declining rapidly as percent of domestic production -- from one third in 1980 to one-fifth. This rapid decline is due to Cape Verde's long drought and the rapid growth in the services sector fueled by aid and remittance inflows. Manufacturing and fishery production are both increasing but each still account for only about 4 percent of GDP.

Mirroring its high foreign income flow, Cape Verde suffers from chronically high trade deficits (about 60 percent of GDP). Exports, even though they have doubled since 1980, are still minimal, totalling less than 4 percent of GDP or $8.5 million in 1987. Imports have also grown sharply. In 1987, they totalled almost 55 percent of GDP in 1987, resulting in a trade deficit slightly exceeding half of GDP, the lowest level in several years.

In addition to reducing its dependence on foreign income inflows the need for the Cape Verdean economy to increase its export orientation is required for several other reasons. Local markets are extremely small and dispersed amongst its ten islands. With a population of only 340,000 and a relatively low per capita

is expensive and unreliable, while telecommunication and transportation costs are high, and for the latter infrequent. Some of these obstacles will be overcome only over time as the country develops. However, some, such as electricity and water, will require the use of generators and large storage systems or even small desalinization systems at the plant level. For larger enterprises the costs of these systems and other capital costs are beyond the resources of local entrepreneurs or parastatals. Foreign investors, however, have access to sufficient funds of capital and the expertise needed to finance and manage these systems.

Cape Verde's general lack of capital is another basic reason for the need to attract foreign investors to develop an export industry. To date, Cape Verde has relied heavily on foreign aid and remittances for its investment financing. Since these flows cannot be expected to continue indefinitely, other sources of finance must be developed. Foreign investment is a key area, as it brings not only capital but also the managerial and technical expertise to be combined with local labor to build a successful export industry. It is this package of inputs which makes foreign investment key to the success of Cape Verde's development of a successful export sector, and the reason that a primary component of the EDS program will be the promotion of foreign investment in Cape Verde.

Economic Impact

The primary outputs of this project, the establishment of an investment and export promotion institution and assisting the country to create a better environment for export industries and foreign investment, do not lend themselves to quantified economic analysis. While the ultimate purpose of the project is to boost the country's export earnings through increased foreign and domestic investment, the role of the project is to encourage and facilitate the development of these export industries. The project is designed to play a supportive and catalytic role. Without the project, and especially the development of the Center for Investment and Export Promotion, foreign investment and exports would be less, but the magnitudes cannot be measured.

It is expected that significant amounts of foreign investment and a large increase in foreign exchange earnings will develop in Cape Verde by the end of the project. The input of the EDS project in promoting these developments should be important, but in the final analysis these economic activities will take place because the economic conditions for their development are appropriate. The Cape Verdean people and government are the ones that ultimately create these conditions, while the project is designed only to assist them in their efforts. By assisting them in creating these conditions and providing resources to publicize their accomplishments, this project will play a vital role. The project's activities, especially those of the Center for Investment

EDS Project End-of Project Economic Objectives

1. Exports

   -- By the end-of project in 1993, net exports (actual exports less the value of imported imports) from light manufacturing activities should increase by $3.9 million or total over 1 percent of GDP, compared to current levels of around $0.5 million.

   -- There should also be strong indications of new plants coming on stream that should allow for a 50 percent increase in 1994.

2. Employment

   -- Employment in the labor-assembly light manufacturing export sector should total 1500 persons or 1.5 percent of the labor force by 1993, with indications of a large increase in 1994.

3. Foreign Investment

   -- Foreign investment in the labor-assembly light manufacturing export sector should reach $1.7 million by 1993. Cumulatively, foreign capital invested in this sector should total $3.7 million. It is understood that much of this foreign capital will not be in the form of foreign direct investment, but in the form of imported machinery and equipment and different forms of foreign lending.

These economic targets are based on the assumption of adequate policy performance by the GOCV in support of an outward-oriented and open economic strategy. Adequate policy performance assumes that half of the measures on the attached Cape Verde Export Development Services Project Policy Agenda are implemented. With better policy performance, these economic objectives would be increased. With excellent policy performance, these objectives would be doubled. (See Economic Impact for more detailed information.)

Cape Verde Export Development Services Project
Policy Agenda

Introduction

In order to ensure the successful implementation of the Export Development Services Project, certain key policy reforms will be necessary. Although GOCV has made substantial progress in recent years in improving the investment and export policy environment, additional policy and regulatory reforms will be necessary to ensure that investment and exports increase as planned. Although it is not envisaged that CIEP will be a policy-making body, it is expected to play a critical research and advisory role, advising Government on all policy matters relating to investment and export promotion.

A summary of the key policy measures required to encourage investments and exports is presented in the paragraphs below. First, policy measures which have a direct impact on the project are presented. These are policies directly affecting levels of investments and exports in the non-traditional sector. Second, more general private sector reforms are presented. These measures will not have a direct impact on project activities per se, but will indirectly support project activities by making the overall Cape Verdean policy environment more efficient and conducive to private sector activities. The main beneficiaries of reforms in this area will be the Cape Verdean private sector, particularly merchants, manufacturers and traditional exporters.

I. Policy Measures Directly Affecting the Project

Investment Regulations

Although the legal framework for investments has been substantially improved in recent years (see PP Annex 15), some adjustments will still be required during the course of the project. Specifically, it would be simpler and more transparent if the Foreign Investment Code were more comprehensive than the present situation whereby five separate statutes govern investment and numerous cross-references to other laws are made in the Code. As an example, the investment approval process is not specified in the Code, but is described in subsidiary regulations such as the Industrial Statute.

Another example where refinements are required is the time table for investment approvals. Although the procedures for

CAPE VERDE
EXPORT DEVELOPMENT SERVICES PROJECT
POLICY AGENDA

Policy Reform Measures Directly Affecting the Project

Issue	Reform Measures	Agency Responsible	Target Date
1. Investment Regulations	Make Foreign Investment Code more comprehensive	Ministry of Cooperation and Plan CIEP - strong advisory role	end-1990
2. Business Approval Process	Specify approval process in Foreign Investment Code, develop timetable for awarding of incentives	Ministry of Cooperation and Plan, CIEP	end-1990.
3. Access to Foreign Exchange	Establish foreign exchange retention accounts	Central Bank, CIEP advisory role	mid-1991
4. Streamlining of Customs	Substantial reduction in customs clearing time and simplification in classification system	Ministry of Finance, CIEP advisory role	end-1990
5. Trade Policy	Abolition of importing and exporting permit requirements	Ministry of Commerce, Tourism, and Transport	mid-1991

CAPE VERDE
EXPORT DEVELOPMENT SERVICES PROJECT
POLICY AGENDA

Policy Reform Measures Directly Affecting the Project (Continued)

Issue	Policy Measures	Agency Responsible	Target Date
6. Export Financing	Establish investment, preshipment (working capital), and shipment export financing services in local financial institutions	Central Bank, Ministry of Finance, CIEP advisory role	end-1991

General Private Sector Reforms

Issue	Policy Measures	Agency Responsible	Target Date
1. Access to Foreign Exchange	Wider public access to foreign exchange through auction or free market allocation	Central Bank	end-1992
2. Pricing Policy	De-control of prices to encourage greater investment	Ministry of Commerce, Tourism, and Transport	end-1992
3. Credit Policy	Increase of credit allocation to private sector - target of 85 percent	Central Bank	end-1992

incentives -- is given no specific deadline. The awarding of incentives should be completed within a specified time period, otherwise substantial delays could occur, and in some cases investors would deterred, reducing overall investment levels.

Many of the refinements necessary for the investment legislation will be reviewed in the legislative and regulatory review to be funded under the project (see PP Annex 13 page 4).

Access to Foreign Exchange

Article 10 of Foreign Investment Code guarantees foreign investors access to foreign exchange for repatriation of capital and profits, or for servicing of offshore debts. However it is specified in the Code that access to foreign exchange can be delayed up to 60 days (or up to two years in exceptional cases). These kinds of delays would be totally unacceptable to investors. Many other countries which have incentive programs to encourage exports have established foreign exchange retention accounts. Under these schemes, exporters are allowed to retain a specified percentage of their export earnings (often about 30 percent) in foreign exchange accounts for purchasing imports, debt servicing, or remitting profits. Such a policy is highly recommended for Cape Verde in order to attract sufficient levels of investment and encourage efficient export operations.

Streamlining of Customs

In order to encourage targeted levels of investment and exports under the project in a free-zone, low-regulation environment the efficiency of the Customs Service in Cape Verde will need to be dramatically improved. Therefore, the proposed study to be funded by the project (see PP Annex 13 p.13), which will explore ways of streamlining customs procedures, is of high priority. Currently, delays of up to several months in clearing goods through customs are reported by Cape Verdean businessmen. One of the factors causing delays is the extremely complex and archaic customs classification system. At a minimum, a "fast-track system" will be needed for EPZ exporters under the project. EPZ operators will require maximum customs clearing times in the order of one day.

Trade Policy Reforms

Currently separate permits are required for each individual import or export order. Unless the importers or exporters are in Praia, the process can take from 2-3 weeks. In order to introduce an efficient and competitive framework for exporting, trade policy regulations will need to be liberalized. One alternative would be to issue general import and export licenses for longer periods such as five years and lift the requirement for individual permits.

86

Financing

In the early stages of the project, it is envisaged that a large percentage (about 90 percent) of the investment and working capital requirements of the exporting firms will come from offshore sources. However, as the benefits to exporting under the incentive scheme become more evident, it is expected that higher levels of local capital will be invested in non-traditional export activities. As such, the banking system will be expected to play an increasingly more important role in the development of export activities. Investment, working capital (pre-shipment export financing) and shipment financing services will be needed to accommodate export financing needs. (Funding is programmed in the project budget to help Cape Verdean financial institutions establish export financing capabilities.)

II. General Private Sector Reforms

Liberalization of Foreign Exchange Policy

Access to foreign exchange in Cape Verde is limited (see PP Annex 8 p.8). Foreign exchange ceilings are set by sector for both government and private users. Individual ceilings are then set by the government ministry relevant to that activity. Criteria for foreign exchange allocation are based heavily on past usage, which can act as a "barrier to entry" to potential new entrants to various economic activities. To ensure new businesses and othersn access to foreign exchange, a more transparent and open system should be introduced. One option would be an auction system similar to Ghana's. Alternatively, given the smallness of the Cape Verde economy and consequently the narrowness of any local foreign exchange market, a system with a flexible-pegged foreign exchange rate, but with open access to foreign exchange, could be introduced.

Pricing Policy

Although the prices of non-traditional exports are not subject to control, many of the basic commodities sold in the local market are fixed by the govvernment, which could have an indirect impact on non-traditional exporters. If the prices of the basic inputs and raw materials needed by non-traditional exporters are controlled, it could lead to shortages in supply, whether stemming from local production or imported materials. Because the government is not in position to monitor prices in an effective way, and because price controls can be a deterrent to investment, the government should consider developing a more flexible pricing policy which both stimulates investment and controls costs through price competition.

67

Credit Policy

In the past, a large percentage of domestic credit was allocated to the public sector (central government and parastatals). For example, in 1984, only 40 percent of the stock of domestic credit outstanding was held by the private sector. The situation is improving, however, as by the end of 1988, 48 percent of the stock of domestic debt was held by the private sector. Given that a very high correlation exists between economic growth and percentage of credit allocated to the private sector in developing countries,[1] it would seem advisable for Cape Verde to adopt a medium-term target of 85 percent of the domestic credit allocation to the private sector. This level is consistent with private sector allocation levels in other developing countries which have achieved high economic growth rates.

[1]See Keith Marsden "Private Enterprise Boosts Growth" in Journal of Economic Growth Vol. No.1; 1986.

88

Economic Impact of EDS Project
Summary Table

Scenario: CIEP Established -- Adequate Performance	1993 (End-of Project)	2000
Increased Exports ($ Millions)	3.9	31.1
(as Percent of GDP)	1.1%	6.4%
Increased Employment (000's) both direct and indirect effects	3.1	22.2
(as percent of total labor force)	1.6%	9.9%
Increased Foreign Investment ($ Millions)	1.7	2.6
Cost-Benefit Analysis Economic Rate of Return through year 2000		27%

Scenario: CIEP Established --Excellent Performance	1993 (End-of Project)	2000
Increased Exports ($ Millions)	7.8	62.1
(as Percent of GDP)	2.3%	12.8%
Increased Employment (000's) both direct and indirect effects	6.2	44.4
(as percent of total labor force)	3.5%	19.8
Increased Foreign Investment ($ Millions)	3.4	5.2
Cost-Benefit Analysis Economic Rate of Return through year 2000		40%

Note: Above numbers detail impact of project activities, especially those of CIEP, compared to a scenario where CIEP is not established.

81

ECONOMIC IMPACT

Introduction

The impact and success of the EDS project, specifically the success of CIEP in promoting investment in Cape Verde for the establishment of export activities, will depend heavily on CIEP's success in working with the GOCV to implement policy and regulatory changes to create a more attractive business climate. Without an institution such as CIEP to serve as a catalyst for needed policy reform and ombudsmen for a liberalized and outward-oriented economic regime, the likelihood of Cape Verde successfully continuing along this route is greatly lessened. Moreover, without CIEP to inform the world business community of these changes and to help them take advantage of the opportunities in Cape Verde, the benefits from the strategy will come much more slowly. In short, without CIEP it is unlikely that Cape Verde will be able to implement successfully an outward-oriented and open economic strategy, but even with CIEP, success will depend largely on a continually improving policy environment. However, final control over most of these business and economic policies that determine this envrionment rests in the hands of other GOCV agencies.

To assess the economic impact of CIEP, given that much of its success is dependent on actions of institutions outside of its control, economic impacts are assessed under three different scenarios of overall policy performance.

Scenario 1: CIEP is not established. As a result the economic environment does not improve. However, recent export incentives lead to an improved export performance of existing export industries, but a foreign-investment led labor assembly sector does not develop.

Scenario 2: CIEP is established. Adequate performance. Policy improvements continue but slowly. Less than half of the recommendations listed in the Suggested Policy Agenda are implemented by the end-of-project.

Scenario 3: CIEP is established. GOCV policy performance is excellent. Three-quarters of the policy recommendations are implemented by end-of-project, and CIEP receives full cooperation from other GOCV agencies. Under this scenario, twice as many firms are expected to invest in Cape Verde for labor-assembly export operations.

The economic impact of CIEP is expected to grow gradually. Given the lack of knowledge in the international business community about Cape Verde, the fact that it has official socialist traditions, and that relatively poor transportation and communication links with major markets will take time to improve, foreign investment and the subsequent development of export industries are expected to develop gradually. Accordingly,

90

although the impact of CIEP should be clearly evident in terms of exports, employment and investment by the end-of-project in 1993, even with adequate policy performance, the most significant impact will be felt in following years, as knowledge about Cape Verde becomes more widespread and obstacles are removed.

Moreover, the experiences of other countries with similar types of institutions and programs, even in the most successful countries, such as the East Asian NICs, and more comparable island nations such as Mauritius, Barbados and St. Lucia, indicate that it is only three to five years after export and investment promotion institutions and strategies are established does rapid expansion of exports and employment begin. Investment and export promotion has a significant gestation period. (See attached note on experience of other developing nations with investment and export promotion.)

The economic impacts desscribed below were estimated through a procedure that evaluated the performance of and structure of enterprises in the labor-assembly sector of other small island nations and applied these experiences to Cape Verde. An explanation of the methodology used in forecasting the impact of this project and a table (Table 6) detailing the elements of the forecast is attached at the end of this section. It should be noted that the assessment of the economic impact of the EDS project concentrates on the development of a foreign-investment led labor-assembly light manufacturing export industry. This is where the greatest potential lies and where CIEP is expected to concentrate its efforts.

Exports: Reduced Dependence (See Tables 2 and 3)

CIEP is forecast to have a large positive impact on Cape Verde's export production. Even with adequate performance CIEP activities should lead to the development of a significant labor-intensive light manufacturing export sector. By end-of-project in 1993, net exports (excluding cost of imported inputs) are forecast to reach almost $4 million, and $31 million by 2000. With a 5 percent annual real increase in GDP and consequent 5 percent real increase of imports, the trade deficit which in 1989 is forecast by the IMF to be 36 percent of GDP, is forecast to fall to 35 percent by 1993 and 29 percent by the year 2000. Without CIEP, it is forecast to remain at 36 percent throughout the period. Exports as a percent of GDP are forecast to triple to over 9 percent of GDP by the year 2000, while they would remain at the current level of 3 percent without CIEP.

In addition, to leading to the development of an export assembly sector, CIEP should also help to increase the growth of non-traditional exports and service exports. CIEP's direct role in these sectors' performance will not be as important. However, if CIEP is not established, the policy climate to support the growth of these industries will be worse, and therefore, growth would be less. In the service sector, prospects are already good,

91

Table 2
Effect of CIEP on Cape Verde Balance of Payments
(as percent of GDP)

Scenario 1: CIEP not established

	1988	1989	1993	2000
Exports	1.6%	2.9%	2.9%	2.9%
of which: labor-assembly	-	-	-	-
Imports	-39.5%	-38.9%	-38.9%	-38.9%
Trade Balance	-37.9%	-36.0%	-36.0%	-36.0%
Current Account	0.7%	0.1%	-4.9%	-11.6%

Scenario 2: CIEP established, adequate performance

	1988	1989	1993	2000
Exports	1.6%	2.9%	4.1%	9.4%
of which: labor-assembly	-	-	1.1%	6.4%
Imports	-39.5%	-38.9%	-38.9%	-38.9%
Trade Balance	-37.9%	-36.0%	-34.8%	-29.5%
Current Account	0.7%	0.1%	-3.0%	-2.8%

Scenario 3: CIEP established, adequate performance

	1988	1989	1993	2000
Exports	1.6%	2.9%	5.2%	16.1%
of which: labor-assembly	-	-	2.3%	12.9%
Imports	-39.5%	-38.9%	-38.9%	-38.9%
Trade Balance	-37.9%	-36.0%	-33.6%	-22.8%
Current Account	0.7%	0.1%	-1.8%	3.8%

92

Table 3

Effect of CIEP on Cape Verde Balance of Payments

($ Millions, from 1990 constant prices)

Scenario 1: CIEP not established.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Exports	4.2	8.2	8.6	9.0	9.5	10.0	10.5	11.0	11.5	12.1	12.7	13.4	14.0
Traditional	3.7	7.7	8.1	8.5	8.9	9.4	9.8	10.3	10.8	11.4	11.9	12.5	13.2
Non-traditional	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.3	0.9
Imports	-104	-110	-115.5	-121.3	-127.3	-133.7	-140.4	-147.4	-154.8	-162.5	-170.6	-179.2	-188.1
Trade Balance	-99.8	-101.8	-106.9	-112.2	-117.8	-123.7	-129.9	-136.4	-143.2	-150.4	-157.9	-165.8	-174.1
(as % of GDP)	(37.9)	(36.0)	(36.0)	(36.0)	(36.0)	(36.0)	(36.0)	(36.0)	(36.0)	(36.0)	(36.0)	(36.0)	(36.0)
Services (net)	20.8	22.2	23.3	24.5	25.7	27.0	28.3	29.8	31.2	32.8	34.4	36.2	38.0
Private Transfers	39.3	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.3	38.8
Official Transfers	41.6	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1
Current Account	1.9	0.3	-3.7	-7.9	-12.2	-16.9	-21.7	-26.8	-32.1	-37.7	-43.6	-49.8	-56.2

Scenario 2: CIEP established, adequate performance.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Exports	4.2	8.2	8.9	10.0	11.6	14.0	17.3	20.8	25.4	30.1	35.1	40.2	45.7
Traditional	3.7	7.7	8.1	8.5	8.9	9.4	9.8	10.3	10.8	11.4	11.9	12.5	13.2
Non-traditional	0.5	0.5	0.6	0.6	0.7	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4
Light-Manf.	0	0	0.3	0.9	2.0	3.9	6.7	9.6	13.6	17.7	22.0	26.4	31.1
Imports	-104	-110	-115.5	-121.3	-127.3	-133.7	-140.4	-147.4	-154.8	-162.5	-170.6	-179.2	-188.1
Trade Balance	-99.8	-101.8	-106.6	-111.3	-115.8	-119.7	-123.1	-126.6	-129.4	-132.4	-135.5	-138.9	-142.4
(as % of GDP)	(37.9)	(36.0)	(35.9)	(35.7)	(35.3)	(34.8)	(34.1)	(33.4)	(32.5)	(31.7)	(30.9)	(30.1)	(29.4)
Services (net)	20.8	22.2	23.9	25.7	27.6	29.6	31.9	34.3	36.8	39.6	42.6	45.8	49.2
Private Transfers	39.3	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.3	38.8
Official Transfers	41.6	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1
Current Account	1.9	0.3	-2.8	-5.8	-8.3	-10.2	-11.3	-12.4	-12.6	-12.9	-13.1	-13.3	-13.6

Scenario 3: CIEP established, good performance.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Exports	4.2	8.2	9.2	10.9	13.7	18.0	24.2	30.7	39.6	48.3	57.7	67.4	77.7
Traditional	3.7	7.7	8.1	8.5	8.9	9.4	9.8	10.3	10.8	11.4	11.9	12.5	13.2
Non-traditional	0.5	0.5	0.6	0.7	0.8	0.9	1.0	1.2	1.3	1.5	1.8	2.0	2.3
Light-Manf.	0	0	0.6	1.7	4.0	7.8	13.4	19.2	27.2	35.4	44.0	52.8	62.2
Imports	-104	-110	-115.5	-121.3	-127.3	-133.7	-140.4	-147.4	-154.8	-162.5	-170.6	-179.2	-188.1
Trade Balance	-99.8	-101.8	-106.3	-110.4	-113.7	-115.7	-116.2	-116.7	-115.4	-114.2	-112.9	-111.8	-110.4
(as % of GDP)	(37.9)	(36.0)	(35.8)	(35.4)	(34.7)	(33.6)	(32.2)	(30.8)	(29.0)	(27.3)	(25.7)	(24.3)	(22.8)
Services (net)	20.8	22.2	23.9	25.7	27.6	29.6	31.9	34.3	36.8	39.6	42.6	45.8	49.2
Private Transfers	39.3	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8
Official Transfers	41.6	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1	41.1
Current Account	1.9	0.3	-2.5	-4.9	-6.2	-6.1	-4.4	-2.6	1.3	5.3	9.5	13.8	18.6
GDP	263	283	297.2	312.0	327.6	344.0	361.2	379.2	398.2	418.1	439.0	461.0	484.0

because of already announced plans for a large expansion of the tourism industry on Sal island. CIEP is expected to increase the annual growth rate of the service sector from 5 percent to 7.5 percent. Increased growth by the very small existing non-traditional export sector has a neglible balance-of payment impact.

The net effect of CIEP on Cape Verde's current account is sizeable. Without CIEP, the current account deficit is forecast to balloon to over $56 million in constant 1990 dollars, while with adequate performance by CIEP, the current account would increase, but to a much more manageable $13 million.

Under both scenarios, Cape Verde would need other sources of finance either donor assistance, increased remittances or lending to be able to achieve a 5 percent GDP growth target. Without CIEP, the amounts of additional funds would be extremely difficult to obtain. Official transfers would have to increase by almost 140 percent in real terms, while with CIEP the necessary increase would be only 32 percent over 10 years. With CIEP, Cape Verde's relative dependence on foreign aid would actually fall. Even if the increased current account deficit was financed totally by official transfers, official transfers as a percent of GDP would fall to 11 percent by the year 2000, compared to the current level of 16 percent, while without CIEP official transfers would have to increase to over 20 percent of GDP by the year 2000.

With excellent performance, which is not an unlikely outcome, labor-assembly exports are forecast to be double that of those under the adequate performance scenario. Other exports are forecast to remain at the same levels as those with adequate performance, since CIEP is not concentrating its activities in promoting these other areas. Under ecellent performance scenario, Cape Verde would be able to achieve 5 percent GDP growth and actually reduce the real level of official transfers it receives. By the year 2000, Cape Verde is forecast to run a $19 million current account <u>surplus</u>, and its trade deficit would fall to about 23% of GDP. By 1993, exports are forecast to reach 5 percent of GDP, and 16 percent by 2000.

<u>Employment</u>

Following the growth of the labor-assembly sector, the employment impact of CIEP is forecast to be significant as well. Even with adequate performance, direct employment in this new export sector is expected to reach 1550 persons by 1993, while with excellent performance it would be double this amount. By the year 2000, employment in the sector is forecast to exceed 11,000 persons with adequate performance, and over 22,000 with excellent performance.

These estimates are in line with the experiences of comparable countries. St. Lucia, for example, which has an effective investment and export promotion program, and a better educated English speaking labor force, but also a labor force less than half

94

that of Cape Verde, reached an employment level of 1500 persons in the labor assembly sector five years after they initiated the promotion program. Similarly, Barbados, with much better transportation and communication ties with foreign markets, better existing infrastructure and a much better educated labor force, achieved employment levels of 20,000 after 7 years.

Using a conservative employment multiplier of one additional person employed due to the spillover effects from the growth of the export sector, the total employment impact of CIEP activities begin to represent a sizeable portion of the labor force. With adequate performance, the total employment impact reaches almost 3100 persons by end-of-project in 1993 and over 22,000 by the year 2000. With excellent performance, the numbers would be twice as large. With adequate performance, the employment impact would equal about 10% of the total labor force by the year 2000, and 20% with excellent performance.

Even with this potentially dramatic employment impact, it is likely that Cape Verde will still suffer from severe under-employment of labor resources. Currently, 70 percent of Cape Verde's labor force is under-employed. Since employment generated by the establishment of export industries could generate jobs for 20 percent of the labor force by the year 2000 under a relatively opitimistic scenario, unless other sectors generate substantial employment increases, close to half the labor force is likely to be underemployed by the year 2000.

Investment

It is expected that CIEP activities will also lead to substantial increase in foreign investment. However, due to already announced hotel expansion plans, foreign investment is expected to increase sharply even without CIEP. Foreign investment in labor-assembly export industries is expected to be significant. Through 1993, 90 percent of investment funds in this sector are expected to come from foreign sources. By the year 2000, only 60 percent of new investments are expected to come from foreigners, as lcoal Cape Verdean entrepreneurs take a greater role in export activities.

Table 4
Foreign Investment
(Difference between Scenarios Reflects Foreign Investment due to CIEP Activities)

	1988	1989	1993	2000
	($ Millions)			
Without CIEP	-0.4	0.7	3.4	5.0
Adequate Performance	-0.4	0.7	5.1	7.6
Excellent Performance	-0.4	0.7	6.8	8.3

Through 1993 most labor-assembly enterprises will be solely foreign owned, with about 25 percent being joint ventures. No solely Cape Verdean owned enterprises are expected. By the year 2000, about half of new enterprises are expected to be joint-ventures, and about 15 percent are expected to be 100 percent Cape Verdean owned and operated.

It should be noted that much of the foreign investment for export activities will not show up in balance-of-payment statistics as direct investment. Much of it will be in the form of imports of machinery and equipment which the Central Bank often fails to account as foreign investment because no foreign exchange was transferred. In addition, a significant portion of investment funds will come in the form of lending both from foreign fiancial insitutions and lending from parent companies to Cape Verdean subsidiaries.

Overall Economic Activity

The increase in exports, and spillover effects of these export activities promoted by CIEP will have a very significant impact on overall economic activity. Increased export activity alone is expected to be equal to 6 percent of GDP in the year 2000, under adequate performance and 12 percent with excellent performance. Even by 1993, increased economic activity from exports would be equal to 1.2% and 2.4% of GDP respectively. With a conservative spillover effect of one to one, these numbers would double. Due to restraints on the countries balance-of-payments, the full effect of these spillover effects will not be felt, as they would lead to unfinanceable levels of imports.

Cost-Benefit Analysis (See Table 5)

By catalyzing large amounts of economic activity in an economy with severe underemployment, the project generates a very large surplus of benefits over costs. Under the adequate performance scenario, the Economic Rate of Return of the project through the year 2000 is estimated at 27 percent. This does not include the benefits accrued from increased service exports which cannot be tied as directly to CIEP activities. With excellent performance the Economic Rate of Return of the project rises to 40 percent. It should be noted that by the end-of-project in 1993 the benefits do not yet exceed costs, as the costs of establishing CIEP are concentrated in these early years, while the benefits continue to increase through the year 2000.

Benefits are defined as the domestic value added by labor-assembly export activities. Spillover effects were not included, as one could not clearly identify the costs associated with these spillover activities. Costs of export activities included both

96

Table 5
Cost-Benefit Analysis
($ 000's, 1990 prices)

Scenario 2: Adequate Performance

	1990	1991	1992	1993	1994	1995	1996	1997	1990	1999	2000
Project Costs	1601	2282	3527	4954	6895	8515	11718	14012	16393	18864	21428
AID	1116	1110	1025	749							
GOCV	35	101	161	225	400	400	400	400	400	400	400
Private Costs											
Investment	300	612	1248	1910	2923	2981	4054	4135	4218	4302	4388
Production Labor	45	138	328	621	1072	1540	2179	2843	3533	4249	4992
Indirect Labor	45	138	328	621	1072	1540	2179	2843	3533	4249	4992
Overhead	60	184	437	828	1429	2054	2905	3791	4710	5665	6656
Benefits 1/	280	857	2039	3863	6668	9583	13559	17690	21980	26435	31060
Net Benefits	-1321	-1425	-1488	-1091	-227	1068	1841	3678	5587	7571	9632
IRR	27%										
NPV ($ 000's)	5885										

Scenario 3: Excellent Performance

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Project Costs	2051	3353	5868	8933	13389	16630	23036	27624	32386	37328	42455
AID	1116	1110	1025	749							
GOCV	35	101	161	225	400	400	400	400	400	400	400
Private Costs											
Investment	600	1224	2497	3820	5845	5962	8108	8271	8436	8605	8777
Production Labor	90	275	655	1242	2143	3080	4358	5686	7065	8497	9984
Indirect Labor	90	275	655	1242	2143	3080	4358	5686	7065	8497	9984
Overhead	120	367	874	1655	2858	4107	5811	7581	9420	11329	13311
Benefits 1/	560	1714	4078	7726	13336	19167	27118	35380	43961	52871	62120
Net Benefits	-1491	-1639	-1789	-1207	-54	2537	4082	7756	11574	15543	19665
IRR	40%										
NPV ($ 000's)	16386										

1/ Benefits equal net exports, i.e domestic value added from labor-assembly export activities.

(private costs). Detailed cost data from the Dominican Republic, where wages are about equal to that of Cape Verde, were used to identify these enterprise costs.

Given that underemployment is 70 percent, a "shadow wage" of 15 percent of wages, excluding fringe benefits, was used to measure the economic cost of production employment. This lowered the economic costs of the "project" significantly below the financial costs to the enterprise. Since the opportunity cost to the economy of using this labor is so low because of its abundance, this relatively low "shadow wage" is justified. Indeed, some might argue that with such high underemployment the "shadow wage" should be zero, or that the labor used should be counted as a benefit.

Apart from production employees, economic costs were equal to financial costs. Costs were based on employment levels and rates were based on standard ratios between unskilled wages. Indirect labor, technical and supervisory personnel cost 45 percent of production employee wages, while overhead is equal to 60 percent. Investment is equal to actual investment, which was based on the assumption that plants in a low-wage environment such as Cape Verde require a capital to labor ratio (K/L) of about 3 to operate efficiently, i.e. for every production worker employed, capital equal to three times there annual wage is necessary.

The cost-berefit analysis indicates that in economic terms this project is very valuable, even under the moderately non-optimistic adequate performance scenario. Using a discount rate of 12 percent, the Net Present Value of the project is $5.9 million under the adequate performance scenario and over $16.4 million under the excellent performance scenario.

Forecasting Methodology (See Table 6)

To forecast the impact of the project through the year 2000 in an integrated fashion, a model was developed that systematically related investments, employment, costs and exports of a probable labor-assembly light manufacturing export sector. These different components of export activities were tied together by evaluating the experience of this sector in other small island nations.

The methodology first estimated the number of exporting firms investing each year. The average plant size was estimated to grow gradually from 50 production employees/per firm in the first two years to 150 per plant by the fifth year, which is slightly less than the average of the Dominican Republic and Mauritius, but comparable to other very small island nations such as Barbados and St. Lucia. Then based on the cost of production labor, one could beign estimate other production costs. In an labor assembly operation, production labor is the basic production component, and therefore other costs are a function of them. Finally, adding a pricing margin one can use the production labor costs to forecast the domestic value added of export production. This value also

Table 6

Economic Impact Forecasts
(Monetary values in constant 1990 prices)

Scenario 2: Adequate Performance

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
New Firms	2	4	4	6	6	6	8	8	8	8	8
Production Employment/Firm	50	50	100	100	150	150	150	150	150	150	150
Wage:unskilled($ 000/year)	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2
Capital/Labor Ratio(K/L)	3	3	3	3	3	3	3	3	3	3	3
Investment($000's)	300	612	1248	1910	2923	2981	4054	4135	4218	4302	4388
Sector 1/											
Capital($000's)	300	912	2160	4071	6993	9974	14028	18164	22382	26684	31072
Production Employment	100	300	700	1300	2200	3100	4300	5500	6700	7900	9100
Prod. Labor Costs($000's)	100	306	728	1380	2381	3423	4242	6318	7850	9441	11093
Fringe Benefits($000's)	30	92	218	414	714	1027	1453	1895	2355	2832	3328
Indirect Labor($000's)	45	138	328	621	1072	1540	2179	2843	3533	4249	4992
Overhead($000's) 2/	60	184	437	828	1429	2054	2905	3791	4710	5665	6656
Margin($000's)	75	230	546	1035	1786	2567	3632	4738	5888	7081	8320
Net Exports($000's) 3/	280	857	2039	3863	6668	9583	13559	17690	21980	26435	31060
Employment	118	355	831	1548	2629	3716	5172	6637	8113	9599	11097
Multiplier Employment	118	355	831	1548	2629	3716	5172	6637	8113	9599	11097
Total Employment	236	710	1662	3097	5257	7432	10343	13274	16226	19199	22193

Scenario 3: Excellent Performance

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
New Firms	4	8	8	12	12	12	16	16	16	16	16
Production Employment/Firm	50	50	100	100	150	150	150	150	150	150	150
Wage:unskilled($ 000/year)	1.00	1.02	1.04	1.06	1.08	1.10	1.13	1.15	1.17	1.20	1.22
Capital/Labor Ratio(K/L)	3	3	3	3	3	3	3	3	3	3	3
Investment($000's)	600	1224	2497	3820	5845	5962	8108	8271	8436	8605	8777
Sector 1/											
Capital($000's)	600	1824	4321	8141	13986	19948	28057	36327	44763	53368	62145
Production Employment	200	600	1400	2600	4400	6200	8600	11000	13400	15800	18200
Prod. Labor Costs($000's)	200	612	1457	2759	4763	6845	9685	12636	15700	18882	22186
Fringe Benefits($000's)	60	184	437	828	1429	2054	2905	3791	4710	5665	6656
Indirect Labor($000's)	90	275	655	1242	2143	3080	4358	5686	7065	8497	9984
Overhead($000's) 2/	120	367	874	1655	2858	4107	5811	7581	9420	11329	13311
Margin($000's)	150	459	1092	2069	3572	5134	7264	9477	11775	14162	16639
Net Exports($000's) 3/	560	1714	4078	7726	13336	19167	27118	35380	43961	52871	62120
Employment	236	710	1662	3097	5257	7432	10343	13274	16226	19199	22193
Multiplier Employment	236	710	1662	3097	5257	7432	10343	13274	16226	19199	22193
Total Employment	472	1420	3324	6193	10515	14864	20687	26549	32452	38398	44387

1/ Sector items represent the cumulative investment(capital) and total annual costs, exports and employment of of the labor-assembly export sector. It totals the cumulative effects of additional firms to the sector.

2/ Overhead includes, reinvestment and maintenance to cover 10% annual straight line depreciation.

3/ Net Exports is the domestic value added of the export. It does not include imported inputs.

represents net exports or export value less imported inputs.

It should be noted that this method to estimate the value-added or net exports by building up the domestic costs of production and adding a pricing margin is corrobated by other data. In Mauritius it was found that from 1981 through 1986, when wages were comparable to current levels in Cape Verde, the value-added from light manufacturing exports(exports from Export Processing Zones) remained an almost constant ratio of 2.8 times the cost of the production labor employed in the Zones. The adding of costs and pricing margins results in this same ratio.

Investment levels were estimated by using a rule of thumb that an enterprise must invest three times the cost of labor to emp loy that unit of labor, i.e. a capital to labor ratio (K/L) of three. Accordingly, in Cape Verde where the annual wage of production labor is $1000, one must invest $3000 in machinery, buildings and other captial costs. For a factory of 50 production workers, the investment cost would be $150,000. As production wage increases with assumed productivity increases, the investment costs of a plant would increase as well.

100

Experience of Other Countries in Investment and Export Promotion

Due to the numerous causal factors affecting business decisions, it is impossible to measure the precise impact of investment and export promotion centers on the growth of investments and exports in any given country. Nevertheless, experience indicates that nearly all developing countries which have succeeded in achieving sustained growth of trade and investment have established promotion agencies. In the cases of such nations as South Korea, the Republic of China (Taiwan), Singapore, the Dominican Republic, Thailand and Mauritius, impressive expansions in trade and investment activities were catalyzed and sustained by the involvement of promotion centers. In addition to their important promotional functions, these organizations have played central roles in directing policy changes toward more open and outwardly-oriented strategies. The next section summarizes the institutional experience of several countries in the area of investment and export promotion. This is followed by a number of important lessons learned in these and other nations.

Country Experiences

1. Taiwan. The origins of trade and investment promotion in Taiwan date back to the late 1950s, when a series of policy reforms were undertaken to achieve economic stability and provide greater incentives for private investors. The Council for International Economic Cooperation and Development (CIECD) was created in 1963, succeeding the Joint U.S.-Chinese aid organization and becoming the lead agency for investment promotion. This government agency has evolved over the years to become the Industrial Development and Investment Center (IDIC), which administers the system of approvals for investment incentives, and the Joint Industrial Investment Service Center (JIISC - a subsidiary agency within IDIC), which carries out marketing campaigns and provides assistance to prospective investors. The IDIC/JIISC are located in the Ministry of Economic Affairs. Other government ministries are represented on the IDIC in reaching approvals for investment incentives. The promotional arm, JIISC, has always remained relatively "lean" in terms of staff size, accounting for a professional staff size on the order of 20-30 individuals.

Taiwan's trade promotion institutions were formed largely in the late 1960s and early 1970s, just as exports of nontraditional goods began their "take-off" stage. These include the Board of Foreign Trade (BOFT), a government agency, the China External Trade Development Council (CETDC - currently called CETRA), a promotion organization supported by business organizations and exporters, and

101

the Far East Trade Service, an independent non-profit institution. These organizations provide a wide range of promotional and information services to Taiwanese exporters.

These promotional organizations are supported by a number of important auxiliary entities in Taiwan. These include the Export Processing Zone Authority (EPZA) -- Taiwan's first export zone was established in 1965, the Hsinchu Science-based Industrial Park, the Industrial Technology Research Institute (ITRI), and the China Productivity Center. Each of these organizations plays an important role in efforts to promote private investment and exports.

2. South Korea. Trade promotion in Korea is carried out primarily by the Korea Trade Promotion Corporation (KOTRA) and the Korea Foreign Trade Association (KFTA). KOTRA was founded in 1962 by the government, well before the nation's successful export push. KOTRA's mandate is to stimulate economic growth through trade expansion. KFTA is a private, nonprofit organization, composed of Korean manufacturers, exporters and importers. Both KOTRA and KFTA offer a considerable range of services to exporters, including market intelligence, promotional campaigns and training.

3. Singapore. The Economic Development Board (EDB) of Singapore has had primary responsibility for trade and investment promotion in Singapore since it was established in 1965. While it still retains many important functions, especially investment promotion, others have been "spun off" to other independent statutory boards. For example, trade promotion is now the charge of the Singapore Trade Development Board (STDB), a statutory board under the Ministry of Trade and Industry, and by Intraco, a public trading company. STDB was created as a result of lobbying by the private sector in Singapore. Ownership and management of industrial estates, an important source of economic activity, are governed by the Jurong Town Corporation. The EDB has become recognized as one of the most effective investment promotion agencies.

4. Thailand. Investment promotion in Thailand is carried out by the Board of Investment (BOI), a government agency chaired by the Prime Minister. The BOI was established in 1955, and is charged not only with promotion, but also with administration of the nation's attractive incentives policies. Export promotion is the domain of the Department of Export Promotion (DEP) a department within the Ministry of Commerce.

5. Other Countries. Most countries seeking to expand exports and private investment possess ongoing promotion organizations. Many of these agencies are supported by A.I.D. funding and technical assistance. These include the Investment Promotion Council and CEDOPEX (export promotion) in the Dominican Republic, the Investment Promotion Centre in Kenya, the Investment Promotion

Council in Panama, and BKPM (investment promotion) in Indonesia. These and similar organizations are all charged with providing a series of promotional activities, engaging in relevant policy discussions, and offering services to traders and investors.

Lessons Learned

Research on investment and export campaigns in other countries has identified a number of lessons and principles which should underlie promotion efforts. Many of these principles could be used a guidance for the establishment of CIEP in Cape Verde.

1. In successful countries, investment and promotion centers have become actively engaged in policy formulation, focusing on "getting the policy environment right" before or during active promotion. Examples of effective countries where promotion agencies became involved in policy include Taiwan, Thailand, Ireland and Singapore. In Taiwan and the Dominican Republic, for example, promotion agencies have also acted as ombudsmen and advocates for private investors and developed and nurtured domestic constituencies in support of private sector initiatives.

2. The most effective investment and export promotion agencies have begun at small sizes and have expanded gradually corresponding to increases in volume of investment and export activities. Examples of successes in this area include the Dominican Republic, Taiwan, and Panama. Excessively large agencies were created in Ghana, Egypt, Bangladesh, Indonesia, and Jamaica.

3. Successful agencies maintain modest or at least reasonable expectations regarding the results of their activities in the form of new investments, exports and jobs. Modest initial returns were anticipated in the Dominican Republic, Taiwan, and Costa Rica, for example, whereas excessive expectations led to problems in Egypt, Jamaica and the Eastern Caribbean.

4. Effective promotion organizations have developed servicing capabilities and basic promotional materials prior to engaging in active forms of overseas promotional activities. If they do not, they will not be able to respond effectively to inquiries resulting from promotional efforts. Countries which have failed to develop adequate support services before engaging in promotion include Egypt, Kenya, and Haiti.

5. Investment and export promotion activities should be grounded in a strong understanding of national economic advantages and disadvantages, in absolute terms and in comparison to competitors. In this way marketing can aim at filling specific market "niches" in which the country is or can be competitive. Singapore and Thailand are two nations which have successfully targeted promotional efforts. Mauritius and the Dominican Republic have also found important market "niches."

102

[illegible] INSTITUTIONAL ANALYSIS

[illegible]. The Political Context of Cape Verdean Institutions

The structure of Cape Verdean government is based on the constitution of 1980, which which followed dissolution of Cape Verde's union with Guinea-Bissau.

The ideological character of the government is defined in the constitution as being sovereign, democratic, non-sectarian (la[illegible]), unitary, anti-colonial and anti-imperialist. These principles are manifest in the nation's single political party, the African Party for the Independence of Cape Verde (PAICV), which is headed by a 35-member National Council, elected by the party rank and file. Although pluralistic inroads in representative government have been made in recent years (25 per cent of National Assembly representatives are currently independent), membership in the PAICV remains a practical pre-requisite for political mobility.

The ideological and programmatic agenda of the PAICV is formulated by a nine-member Political Commission which includes the President, the Prime Minister, the President of the National Assembly, and six other appointed officials. The Political Commission is empowered to make major party decisions during the interim periods between sessions of the National Council.

Cape Verde's constitution provides for a representative government, comprising three branches.

The <u>legislative</u> branch of the government, the National Popular Assembly, is constitutionally defined as the supreme organ of the state, and is charged with formulating the fundamental internal and external policies of the PAICV. The Assembly is directed by a steering committee headed by the president of the legislature and including four elected members.

The 63 members of the legislature ("<u>deputados</u>") are elected by universal suffrage for five-year terms, and meet for several weeks twice each year.

The <u>Executive</u> branch is composed of the President, who is the head of state and the armed forces, and the Council of Ministers, all of whom are elected by the National Assembly. The Council of Ministers, presided over by the President, consists of the Prime Minister, who heads the government, and thirteen cabinet ministers.

At the present time, the Prime Minister also serves as Minister of Planning and Cooperation, and of Finance. He is assisted in these functions by three deputy ministers. In addition, five secretaries of state are appointed. Historical experience suggests that secretariats of state often serve the function of developing "proto-ministries," which may in due course evolve into full-fledged portfolios. At present, secretaries of state manage

Best Available Document

portfolios for public administration, the merchant marine, rural development, fisheries, and an uncircumscribed function within the Ministry of Foreign Affairs.

Following a 1986 reorganization of the government, ministerial portfolios exist in the following domains:

-Finance;
-Justice;
-Planning and Cooperation;
-Local Administration and Urban Affairs;
-Commerce, Transportation and Tourism;
-Rural Development and Fishing;
-Industry and Energy;
-Public Works;
-Health, Labor and Social Welfare;
-Information, Culture and Sports;
-Education
-Armed Forces and Security; and,
-Foreign Affairs.

Within the Council of Ministers a variety of sub-cabinet committees are convened on a regular or occasional basis. One of these, the Inter-Ministerial Committee on Economic Sectors, is of particular importance to this project in that it serves as the executive organ which deliberates on foreign investment applications.

The Cape Verdean Judiciary is headed by a Supreme Court (National Court of Justice) which is comprised of three justices who are appointed by the executive, and six additional justices. Lower courts exist at the regional and local district levels. Separate courts exist to try civil and criminal cases. The legal code is a mixture of Roman Law jurisprudence, modified Portuguese codes, international laws and conventions, and the Constitution of the Republic of Cape Verde. Key provisions of the legal code include freedoms of petition, political expression, and religion; the constitutional separation of church and state; prohibition of extradition of Cape Verdean citizens; and a ban on capital punishment.

Local administration in Cape Verde is a matter of considerable importance, given that the nation is comprised of eleven separate islands (nine of which are inhabited) which differ greatly in natural resources, population, and economic productivity. Fourteen regional administrative units include three incorporated municipalities (Mindelo, Praia, and San Felipe), and eleven rural conselhos. The conselhos include a total of thirty-two unincorporated borough/township-like freguesas which play a central role in the planning and implementation of community-based development programs. In addition to their local administrative role, the freguesas also serve as legislative districts in National Assembly elections.

While in the past municipal mayors have always been appointed by the executive branch of the government, the PAICV has recently indicated support for democratization of local administration. Proposed legislation would, for the first time, provide for direct election of municipal leaders by their constituents.

Regional councils are self-governing with respect to local legislative affairs, although the courts are endowed with authority to supercede local laws.

II. The Changing Government Role in Private Sector Development

Although the ideological orientation of the PAICV is, by and large, conservative and pragmatic, it is host to a broad spectrum of opinion regarding the role of the private sector in national development. The evolving nature of PAICV views is exemplified in the First and Second National Development Plans, in the decisions of the 1988 Third PAICV Congress, and in the evolving structure of government institutions.

A. The First and Second National Development Plans

The First National Development Plan (NDP), which spanned the period 1982-1985, was intended to bolster Cape Verde's physical and human infrastructure for economic and social development. Published seven years after independence and enjoying the support of the National Assembly, it identified the industrial and services sector as the main source of eventual economic growth. While the Plan emphasized investments in the rural, transportation and communications sectors, it accorded considerable resources to the critical social issues of unemployment, health and education.

While the economic outcome of the First NDP is discussed elsewhere in the PP (Annex 6), it should be emphasized the thrust of policy and investment activity which it prompted focussed principally on medium-sized parapublic and mixed public-private industry. New investments provided for projects having either an export orientation or else intended to meet domestic needs. This led to internal and external debate regarding the Plan's lack of appropriate emphasis on already existing private small-scale industry; the inadequacies of institutional capacity for project preparation, implementation and evaluation; inadequate external marketing mechanisms; the absence of an investment code which clarified the respective roles of private domestic and foreign business; and the absence of adequate incentives for new investment.

The Second National Development Plan (1986-1990) is similar in emphasis to its predecessor, targetting improvement of national infrastructure, employment creation, and human resource development.

Best Available Document

However, in response to evident shortcomings of the First NDP, it includes significant policy reforms, in regard to agrarian land tenure and public administrative efficiency, and provides for a bolstering of educational institutions to improve literac, and technical training capacity.

High priority in the Second NDP is accorded to investment in the productive sectors of agriculture, fishing, industry and tourism, which will receive 34 percent of public investments during the Plan's implementation. New initiatives in the industrial sector will grant priority to agriculture and food industries, industries based on maritime resources, construction material factories, metalworking and mechanical industries, and light industries geared toward export markets.

Policy reforms under the Plan will emphasize improvement of the environment for private investment through the adoption of a foreign investment code, promotion of a national engineering capacity, and the redefinition of the roles of government and the private sector in the application of industrial strategy. A final element of industrial development is that which this PP responds: the creation of a national agency for the promotion of exports and investment.

Among the political and institutional issues to which the NDP responds are several of key interest to this project:

1. <u>Introduction of efficiencies into public administration</u>

As discussed elsewhere in the PP, administrative inefficiencies result from burdensome public sector employment (per cent of all jobs) and bureaucratic complexities. While the burden is felt throughout all sectors of economic activity, it is particularly ominous for Cape Verde's prospects as a site for foreign investment.

The Second NDP has outlined a program of reforms which includes a simplification of <u>all</u> administrative procedures: the strengthening of management tools, policies and procedures; and improved coordination of activity among government ministries.

2. <u>Introduction of efficiencies into existing public enterprises</u>

Under the NDP, increases in the pay-roll and staffing of public enterprises will require the approval of the Council of Ministers. At the same time, the GOCV is analyzing each of the existing public enterprises in order to improve their productivity or to privatize their ownership.

3. Responding to issues of regional imbalance in investment and development

For historical reasons, economic development in Cape Verde is concentrated on the islands of Sao Tiago (Praia), S. Vicente (Mindelo), and Sal, creating a potential for inter-island social and political rivalries. The response of the NDP to this issue is pragmatic, although far from definitive. Under the Plan, the GOCV proposes a constructive approach which emphasizes development of human and administrative resources at the local level, and pragmatic investment decisions which are resource-based.

B. The Third PAICV Congress

The Third PAICV Congress of November 1988 signalled the beginning of a new era of liberalization in the economic and political life of Cape Verde. Although it is far too early to assess its eventual impact, it is possible to cite a number of initiatives which are encouraging to the development of an institutional environment that is favorable to increased investment and export performance.

Initiatives which emerged from the Congress include legislative efforts which will clarify the conditions under which foreign investment takes place and which will enhance the role of the private sector; a new law of association which makes possible the formal emergence of professional constituencies in a variety of economic fields (including the imminent formation of a National Chamber of Commerce and recognition of the existent Association of Architects and Engineers); liberalization of the operations of the Bank of Cape Verde; off-shore banking legislation; and possible new laws according greater political autonomy to municipalities.

It is important to stress that the national debate over economic and political liberalization is focused more than anything on the pace of change. While there is some concern regarding the possibly erosive effects of increased foreign investment on national economic autonomy, there is consensus within the PAICV on the need to bolster foreign exchange revenues by increasing exports.

Although the GOCV may be expected to proceed cautiously in implementing the decisions of the Congress, its apparent readiness to move forward with liberalization is reflected in the speed with which it has prepared legislation for debate and approbation by the June 1989 session of the National Popular Assembly.

III. The Structure and Role of Government Institutions in Private Sector Development

The current structure of GOCV institutions must be viewed within the context of changing political priorities of the PAICV.

The sectoral division of responsibilities within the fourteen-member Council of Ministers may be expected to continue to evolve over time. The of secretariats of state for public administration and for the merchant marine may, for example, be developed as "proto-ministries" which could, in time, emerge as separate cabinet ministries in their own right. Similarly, the present separation of portfolios for Commerce, Transportation, and Tourism on one hand, and Industry and Energy in another, may become outdated and revised over time.

As noted in the Second National Development Plan, the role of individual ministries and government agencies in investment and export promotion is far from clear at the present time. The division of sectoral responsibilities in Cape Verde is entirely country specific. Similarly, administration and oversight of procedures of key importance in the investment and export processes is divided among a variety of structurally disparate agencies including, but not limited to, sectoral and line ministries, the national bank, and the customs service.

No single agency is charged with responsibility for coordinating or facilitating investment and exports, nor does there exist a single source of information regarding the these procedures and processes. The onus of responsibility for obtaining requisite technical, legal, and administrative information and approvals falls entirely on the individual businessperson.

While an exhaustive analysis of institutional roles is not possible here, the following is a summary description of the three GOCV ministries whose cooperation is most generally necessary in the variety of approvals and procedures for doing business in Cape Verde.

a. <u>The Ministry of Industry and Energy</u> includes a General Directorate of Industry and Energy, with key responsibility for medium-scale non-artisanal enterprises, and for the formulation and supervision of industrial policy. An Industrial Promotion Unit was created within this ministry in 1985, and has been instrumental in recommending revisions in the GOCV legal regime for industrial investments. The future of the IPU is in question, however, given that donor funding for its activities will expire in late 1989.

This ministry is also responsible for planning the supply, distribution, and pricing system for petroleum products, electricity and water desalinization. Under the present administrative regime, it could be called upon to participate in approval of investment projects which would have an impact on energy supply or demand.

c. <u>The Ministry of Commerce, Transportation, and Tourism</u> has administrative jurisdiction in a variety of sectors and, through its General Directorate of Commerce, plays a key role in monitoring and determining prices in the domestic market. Among this ministry's diverse responsibilities are import licensing,

determination of individual enterprise foreign exchange ceilings, port and tourism hotel development, and management of the financially-troubled national airline, TACV.

c. The Ministry of Rural Development and Fisheries is charged with responsibility in the areas of agriculture, livestock, forestry, and fisheries. Under its administrative umbrella are included the Secretariat of State for Fisheries and a variety of sub-sectoral directorates whose approval on investment and export enterprises are necessary for their respective domains.

In addition, two other GOCV agencies have a fundamental impact on the operations of foreign investors and exporters:

d. The Banco de Cabo Verde is the sole banking institution in the country. As a result, it serves the functions of both a central bank and quasi-commercial banking institution. Its approval is required for the full gamut of transactions which involve foreign exchange.

e. The Customs Service plays a key role in GOCV financial management, due principally to duties and tariffs which it collects on approximately US$100 million in import goods each year. As discussed elsewhere in the PP (Annex B), delays by the customs service in clearing goods and other problems related to its performance could be critical factors mitigating against foreign investors decisions to establish new ventures in Cape Verde.

IV. The Structure and Role of Private Sector Associations

The Cape Verdean private sector may be characterized by its limited size and by the large proportion of small retail and import businesses of which it is constituted. Large-scale businesses are few in number, and nearly all of these include a greater or lesser proportion of GOCV equity.

Until recently, only two formal institutions have been established to represent the interests of the business community:

a. The Barlavento Commercial, Industrial and Agricultural Association was founded in 1920 in order to represent and defend the interests of its members. Based in Mindelo, it has approximately two hundred members, the majority of whom are active in the import and retail sector. Membership in the organization follows nomination by two current members and the payment of dues, based on a sliding scale of between CVE 200 and CVE 3,000 in proportion to the size of the member's business. The organization operates democratically, under the leadership of a five-member Board of Directors.

b. The Sotavento Commercial, Industrial and Agricultural Association is based in Praia. It is similar in composition, structure and purpose to its Barlavento counterpart.

Activism by these commercial associations is generally focused on issues which affect the profitability of members businesses, such as efforts to obtain more efficient performance for transaction clearances from the Bank of Cape Verde, or to elicit GOCV cooperation in combatting informal and clandestine trade.

Under legislation to be considered by the National Popular Assembly in 1989 is a draft charter for a National Chamber of Commerce, Industry, Agriculture and Handcrafts. As defined by its draft charter, the Chamber will be organized in order to further the national economic interest by promoting economic activity and furthering dialogue among "national economic agents." This effort is a direct reflection of the GOCV/PAICV policy agenda for improving Cape Verde's performance in international markets and for enhancing the quality of internal dialogue on issues of commercial and economic importance.

While support for the creation of a chamber of commerce is widespread in Cape Verde, some controversy exists regarding provisions in the draft charter which (a) place the chamber under the supervision ("tutelage") of the Government, (b) provide for the creation of a three-member "Supervisory Commission", to be chaired by a nominee of the GOCV, and (c) which allow membership in the Chamber of mixed- and parastatal enterprises. Additional reticence regarding the Chamber appears related to concerns about the source and availability of resources necessary for its establishment and operations, and concerns that it not become an organ of official intervention in the private sector.

Promulgation of Cape Verde's new laws of association have recently paved the way for the creation of The Association of Architects and Engineers, which will represent the professional interests of its members on a variety of issues. The formation of similar organizations of other professional groups is anticipated, broadening the range of representative associations which may play a role in promoting new economic activity in the country.

V. Structural and Functional Requirements for the Center for Investment and Export Promotion

The selection of an appropriate institutional locus for project activity has been derived from an objective evaluation of institutional and programming needs, based in large part upon models provided by successful institutions in other developing nations. Consultations with GOCV officials and private businesspersons were valuable in determining the political and legal parameters of acceptibility of several institutional arrangements.

This task has been complicated by the absence in Cape Verde of any pre-existing institution with an ongoing program of investment and export promotion. Likely candidates for institutional development which were considered included the Investment Promotion Unit of the Ministry of Industry and Energy,

whose mandate will expire in the near future and which is staffed by only two persons, one of whom is an expatriate advisor scheduled to depart in late 1989), and the embryonic National Chamber of Commerce.

The principal working requirement and the principal product of the CIEP will be information, whether in the form of technical analysis or in the form of assistance to prospective investors. As such, the Center should be structurally situated so as to have impartial access to the community of governmental and commercial interests that will be most involved or influenced by its activities. By the same token it must be able to sustain cooperative relationships with ministries and agencies who are involved or interested in promotional efforts in their widest sense, in order to avoid duplication of effort and contradiction.

The structured participation of GOCV representatives in an advisory capacity during the earliest stages of CIEP activity is desirable in order to assure that:

a. project activities, as they relate to the variety of ministerial domains, are acceptable to the GOCV;

b. that CIEP programming and support to particular investment projects are well-informed and based upon political and administrative realities;

c. that CIEP findings related to procedures, regulations, and performance are communicated to relevant authorities with impartiality.

The internal organizational structure of the CIEP should be uncomplicated, clearcut and response-oriented. Administrative burdens must be minimized so as to allow optimal use of personnel and resources. This is especially important because, once the Center is established, work flows will often be irregular and unpredictable. Units charged with carrying out the various functional activities should be integrated organizationally, in order to assure continuity and complementarity.

Predictable work-flows, promotional focus, and the political and economic realities of Cape Verde indicate the necessity of establishing a project presence in both the Sotavento and Barlavento islands. Project headquarters would be most appropriately placed in Praia, while an antenna promotional and advisory office would be located in Mindelo.

VI. Proposed Organization of the CIEP

The CIEP should be an independent agency, established by government decree and enjoying fiscal and administrative autonomy. Its legal status and by-laws should be comparable to those of the several autonomous research and training institutes which currently exist in Cape Verde (e.g. the National Institute of Cooperatives

or the National Institute for Technological Research). This legal status would require some degree of governmental oversight, best provided by the office of the Prime Minister because of the project's multisectoral focus.

A consultative organ, an advisory council, should be established in order to provide technical and administrative guidance to the CIEP in order to assure regular, structured consultation with the broad range of governmental and private interests involved in the investment process.

Optimally, the Advisory Council of the CIEP will consist of four representatives of the private sector, (one position reserved for a representative of the National Chamber of Commerce at such time as it is constituted) and four representatives of relevant government ministries and agencies, selected by the Council of Ministers.

The Advisory Council should play an active role in facilitating CIEP programs, particularly as they may complement or enhance promotional and marketing activity by official agencies and private associations and enterprises.

Management oversight of the CIEP will be provided by an Executive Director, who will serve a renewable term of three years. During the earliest stages of project implementation he will be named by the GOCV, although in subequent years he may be selected by sitting members of the Advisory Council.

The Center, which will include a headquarters in Praia and field office in Mindelo, will be composed of three functionally-oriented divisions, corresponding roughly to the sequence of concerns and processes that are critical to the achievement of the project purpose:

a. <u>The Project and Policy Development Division</u> will be responsible for studies, market research, management information systems, monitoring and evaluation, policy analysis and development.

In establishing a management information system, the Project and Policy Division will be well-placed to respond to requests from GOCV and commercial organizations to monitor and evaluate the Cape Verdean business climate. This Division of the CIEP will also coordinate specific sectoral marketing studies (described in Annex IV), evaluations of commercial policies, regulations, and procedures, and recommendations for reforms. This assistance may arise from requests by particular ministries or agencies of the GOCV, or the domestic or international business community. Problems identified by the monitoring and evaluation efforts of the project might also become the object of such analysis.

The effectiveness of this role is conditional on the definition of the CIEP as an autonomous body having a consultative role. This non-partisan status will allow the CIEP to be instrumental in providing governmental and parastatal authorities, as well as the business community, with credible and pragmatic guidance to improve the efficacy of investment and export policies and procedures.

b. The Promotion and Marketing Division will provide assistance to governmental and private organizations, facilitating efforts to attract and inform prospective international and domestic investors. It will also produce informational and promotional materials, possibly on a cooperative and cost-sharing basis, with business associations and representative organizations.

At the present time, Cape Verde's competitive merits as an investment location remain largely undefined and unpromoted. No single promotional philosophy or strategy currently exists to facilitate the efforts of the variety of government agencies and business organizations to attract investment or enhance markets for existing products and services.

In order to compensate for this deficiency, the Promotion and Marketing Division will assist the GOCV to formulate both information resources and marketing strategies for promotional efforts. The guiding tenet for this aspect of project activity will be that the highest rate of return on promotional efforts will likely result from marketing to specific sectors of international business for whom Cape Verde offers particular advantages. This approach will enable the GOCV to avoid high-cost general promotion efforts of the type that have produced poor results in other developing nations.

Technical assistance toward this end will follow from the establishment of a reliable data base within the Policy and Project Development Division of the CIEP. This, in turn, will allow the Marketing and Promotion Division to develop a pragmatic, cost-effective promotional strategy. This effort will initially concentrate on addressing the needs of investors who have already made the decision to evaluate prospects for specific projects in Cape Verde. As the project evolves, generic and sector-specific information and promotional materials will be produced for use by existing outreach organizations (e.g. Ministry of Commerce, Chamber of Commerce, Embassies and Consulates) and Cape Verdean media. The project may also formulate and test promotional efforts aimed at attracting investment from the principal Cape Verdean immigrant communities in North America and Europe.

In addition to its specific promotional and marketing activities, this division will contribute in a more general way to establishing a national awareness of Cape Verde's business environment. The variety of training activities, studies, and facilitative efforts carried out by the CIEP will also serve as

information "extension" function, enhancing the ability of public officials, civil servants, and private citizens to better promote Cape Verde.

c. The Advisory Service Division will provide assistance to investors and GOCV agencies by facilitating the investment approval process and by providing training to public officials and private entrepreneurs.

The critical thrust of programming of the Advisory Services Division will be to act as a liaison between prospective investors and Cape Verdean authorities. Although the existing administrative environment precludes the establishment of a "one-stop investment approval shop," the Center will serve as Cape Verde's principal contact agency for investors' in-country efforts. In addition to acting as a centralized information agency, the Advisory Services Division would also act as a liaison with regulatory agencies, legal and banking professionals, and members of the business community. Depending upon its eventual legal status, CIEP might also play an ombudsman role on behalf of the GOCV and prospective investors.

ANNEX 8

PRIVATE SECTOR ENVIRONMENT

I. Government Private Sector Development Strategy

The Government of Cape Verde is now undertaking a major policy reform program, including a significant opening towards the private sector. The Third Party Congress, held in Praia in November 1988, called for a "reorientation" of the economic system in Cape Verde. The Congress determined the necessity for the country to open up the economy to external forces, while encouraging the active participation of the private sector. Foreign private investment is now considered an essential element for stimulating the national economy, and the GOCV intends to encourage joint ventures with foreign equity participation.

The reorientation of the economic system is considering the utilization of new approaches such as export processing zones, offshore banking, teleports, transshipment, etc. in order to make Cape Verde more attractive as an investment site and to capitalize on the low cost and underemployed Cape Verdean labor supply. The incentives proposed to encourage the private sector include drafting of a new foreign investment code, defining and streamlining regulations, a unified set of incentives to promote export industries, and new labor regulations. They contain the foundation for the attraction of foreign investment. These policy reforms are being presented for approval to the National Assembly, the legislative branch of government, in June 1989.

II. Private Sector Institutions and Dialogue with Government

There are currently two commercial associations in Cape Verde: one for the Windward Islands and one for the Leeward Islands. These institutions, with total membership of 180, basically represent the interests of commercial importers vis-a-vis the Government. In the past, the main focus of the associations' policy dialogue with the Government has been on negotiations of the annual "plafond" or allocation of foreign exchange to various users in Cape Verde.

Starting in 1988, the Government's policy dialogue with the commercial associations began to widen. For example, in November 1988 representatives from the two commercial associations were invited to address the Third Party Congress and give their advice on proposed changes in investment legislation. This was a significant change from the past when the organized private sector, as represented by these associations, was isolated from Government policy debates. Many of the private entrepreneurs felt that previously the Government often treated the private sector with distrust and reservation.

In December 1988, the commercial associations also helped draw up, with the support of the Prime Minister, a set of by-laws which provide the legal framework for the establishment of a National Chamber of Commerce. The Chamber will represent the interests of all sectors of the private sector in Cape Verde including commerce, industry, agriculture, fisheries, etc.

The officers of the Chamber will be elected by its members. Members could be from private companies, private companies in individual name, mixed companies, or public enterprises. The objectives of the Chamber include: i) acting as the voice of the private sector in policy discussions with the Government; ii) promotion of Cape Verdian investments and exports; and iii) to establish networks and an exchange of ideas between Cape Verdeans and overseas business contacts. The funding of the Chamber has not yet been determined but it is envisaged that, at least initially, funding contributions would be divided about equally between the Government and the private sector.

The private sector and Government are proceeding fairly cautiously in the establishment of the Chamber. Because the membership is open to parastatal enterprises and governmental officials, and since some governmental officials are playing a significant role in the conception of the Chamber, there is some risk that the Chamber will be too dominated by the public sector. There is also considerable concern within the private sector about Chapter V of the by-laws which gives the Government the powers of "tutelage" over the Chamber. Among the specific powers of tutelage, the Government has the authority to : i) authorize or approve the acts of the Chamber considered to be publically relevant; and ii) keep itself informed of the Chamber's activities through inspections and inquiries if necessary. These powers are leading some members of the private sector to question whether the proposed Chamber would really be an independent Chamber representing private sector interests.

In early 1989, a private trade association of engineers and architects was established. This represents the first time since independence that a private professional association was established. The purpose of the association is to : i) represent the interests of architects and engineers vis-a-vis government; and ii) serve as a forum for the exchange of technical information in Cape Verde.

In order to improve the efficiency of the economy and improve the business operating environment, a special public sector administrative reform commission was set up in early 1989. The commission is headed by a Secretary of State who reports directly to the Prime Minister. Among the reforms being considered are reduction in bureaucratic red tape, streamlining of importing and customs procedures and other forms of deregulation.

III. International Assistance to the Private Sector

The GOCV has informed the donor community in Cape Verde that USAID and the World Bank are being asked to play the leading role among the donors in the development of the private sector in Cape Verde. In addition, UNDP agencies have been involved in private sector and export support programs on a smaller scale.

The World Bank (IDA) and the UNDP provided an SDR 4.1 million credit in 1985 to Cape Verde with the aim of strengthening the country's capacity to identify, prepare, and promote industrial projects. Under the project, technical assistance was provided to the Bank of Cape Verde to appraise and finance projects. A line of credit of SDR 3.2 million was set up in the bank for lending to small-scale industrial projects. As of May 1989, the entire line of credit had been committed. Projects financed include: a gas bottling plant, bakeries, fish processing and other small-scale industrial projects. Under the same project, technical assistance was also provided to the Industrial Promotion Unit (IPU) in the Ministry of Industry and Energy to identify and promote industrial projects. The IPU has also been instrumental in drafting the foreign investment legislation and the industrial development law.

The UNDP/UNCTAD is supporting a two-year project within the Ministry of Commerce, Tourism and Transport to encourage exports. The project's main focus is on training national officials in new non-traditional export activities. Visits have been proposed for Cape Verdean trade officials to Barbados, Jamaica and the Dominican Republic. These countries could serve as models for Cape Verde's development of non-traditional export activities, in that those countries have made considerable advancements with their export processing zones, teleport/information services, tourism and transshipment activities.

In the past, most of the donors in Cape Verde have not generally consulted closely with the private sector when discussing economic policy issues in Cape Verde. Through the preparation of the Export Development Services Project, USAID has developed more extensive contacts with the private sector. During the preparation of the ISTI report in May 1988, the private sector was invited for the first time since independence to a wide-ranging policy discussion with the Government. One of the ongoing concerns of the private sector is that more aid funds should be channeled to the private sector. Given that foreign aid represents nearly 50% of GDP, private sector access to aid funding is an important concern.

In early 1989 Cape Verde signed an agreement to become a member of MIGA (Multilateral Investment Guarantee Fund) under the auspices of the World Bank. MIGA will provide insurance to foreign investors in Cape Verde that their investments will be protected against non-commercial risks and volatile economic conditions. With this protection available, direct foreign private investment conditions should be improved in Cape Verde.

Cape Verde is not currently a member of the International Finance Corporation of the World Bank. In light of the recent policy changes which substantially open Cape Verde to foreign investment opportunities, it might be timely for the Government to consider joining the IFC. The IFC has considerable experience in identifying private investment opportunities in countries similar to Cape Verde. Some advantages in working with the IFC are that: i) they are a reliable financial partner; ii) they are usually the first partner to commit their own capital; and iii) they often help identify a second foreign equity partner with technical expertise in the area of the project. Membership in the IFC also would give Cape Verde access to the Foreign Investment Advisory Services of the IFC. This service provides technical advice to member countries on foreign investment laws and policies.

The establishment of the Chamber of Commerce in Cape Verde will also provide Cape Verde with greater access to representative bodies of international private enterprise such as the International Chamber of Commerce. Members of the International Chamber could be invited to visit Cape Verde to participate in seminars, conferences or workshops on private enterprise development and investment issues.

IV. Private Sector Activities in Cape Verde

The private sector in Cape Verde is heavily concentrated in activities which cater to the domestic market. The service sector (including commerce, transport, and public services) constitutes approximately 60% of GDP. Commerce is dominated by EMPA (a state owned company) and by about 200 private commercial traders who sell mainly imported consumer items in retail outlets. Industrial production accounts for only 20% of GDP while agriculture constitutes about 20% of GDP.

Between independence and 1987, the GOCV undertook a substantial import-substitution effort in the industrial sector. As a result, growth in the industrial sector since 1981 has exceeded GDP growth by over 3% on average per year. However, the import-substitution strategy has had its shortcomings: i) because of the small size of the local market, industries have not achieved economies of scale and are operating at only about 25% of capacity; and ii) industries have not aggressively sought overseas markets and special trade preferences have not been exploited.

Because most of Cape Verdean manufacturing enterprises have been conceived as import substituting firms they are not presently organized to compete in export markets. The operations of the Morabeza apparel factory illustrate this point. Morabeza is a mixed enterprise (71% private and 28% state owned). Morabeza is a small plant by international standards, employing between 100 and 400 workers depending on demand. Yet it has a fully integrated production line including the sourcing of material, cutting of fabric, sewing the pieces into garments and final pressing and packaging. In contrast, an apparel firm operating of similar size in the Caribbean would likely be limited to assembly of pre-cut pieces, eliminating the need for investment in the cutting machinery and training of workers on those machines. Production runs would be specialized on one particular category of garment (e.g. men's knit tops) to develop skill and speed in that type of good. Currently the company is operating at only 25% of capacity.

Moveis Claudio is a small 100% privately-owned furniture making company based in Mindelo. The company employs 30 workers and in most years runs a profit, although in 1988 the company registered a small deficit. Movies Claudio produces almost entirely for the local market and its largest customer is the GOCV. The biggest operating constraints facing the company are the fixed "plafond" which limits foreign exchange allocations for imports, and difficulties clearing goods quickly through customs because of slow administrative procedures. Movies Claudio generally does not produce for the export market because of shortages in foreign exchange in neighboring countries and because of uncompetitive prices as a result of high Cape Verdean import tariffs.

Metalcave is a small mixed company (51% GOCV, 36% private Swedish, 13% CABNAVE - a state owned ship repair company). Metalcave produces metal and wooden furniture and cooking pans. The company employs 18 workers, six of which have received technical training in Sweden. The company has been operating for two years but has not yet registered a profit. Currently the factory is operating at only 10% of capacity. Matalcave had considerable difficulty in getting established in Cape Verde as it took four years to obtain approval for establishment. Current operating constraints include delays of up to three weeks in obtaining import licenses and delays of up to 6 months in clearing goods through customs.

SOCAL is a mixed company (51% state owned and 49% private Cape Verdean) shoe factory The Company was established in 1979 and it currently employs 72 workers. SOCAL has registered small profits each year since 1984 (usually about 5% of sales). The company produces currently only for the domestic market. SOCAL has not specialized in any particular types of shoes; it currently produces 278 different models. The lack of specialization has most certainly led to higher costs of production. Currently, exports are constrained by the infrequency and high cost of shipping to the African mainland; Mauritania and Angola have expressed interest in SOCAL's shoes at trade fairs but have been restrained by a lack of foreign exchange.

V. Government Business Regulation Procedures

A) Business Establishment Procedures

Currently, there are many delays in the business establishment approval process. For both domestic and foreign investors, there are no minimum size requirements for approval, no standard application forms and no time limit for Government approval. As a result, the process is very slow and investors could be easily deterred. Once approval is granted, there is still a need to negotiate and re-confirm each special incentive on a case-by-case basis with the appropriate body (e.g. Customs, Ministry of Finance, Bank of Cape Verde, etc.).

In order to expedite the process, the Ministry of Industry and Energy is now recommending a more automatic and streamlined process for both foreign and local investors. The business establishment procedures are to be finalized by decree after the National Assembly votes on the foreign investment code and industrial development law.

The proposed new business establishment procedures will be based on the following principles for both foreign and domestic firms (although the recommendations are still in draft form).

i) No formal approval will be required for firms below a certain size (e.g. companies to employ less than 30 people or investment lower than CVE 50 million).

ii) New standard application form for business above size indicated in i) above.

iii) A 30-day approval limit by which time Government can either: a) approve; b) reject; c) not respond - which is approving by default; or d) propose negotiations for an especially difficult project after which they will have 60 days to reach agreement.

iv) Approvals will be made by the Interministerial Council.

v) Once establishment approval has been made, a registration form is required which will specify the import and material requirements during the development phase so tax exonerations and duty can be awarded.

These steps should greatly reduce turn-around time on project proposals and make the granting of incentives much more automatic. The only step which requires further specificity is the last one, where the awarding of incentives and exonerations should be more automatic over a specified time period.

B) Foreign Investment Code and Industrial Development Law

In June 1989, the National Assembly is expected to approve legislation for a new foreign investment code and an industrial development law. The new foreign investment code will define much more clearly the rules of the game. This new code should help attract new foreign investors and assist local firms in attracting foreign joint venture partners. The proposed industrial development law should provide the basis for a unified set of incentives to attract export industries. These laws are discussed and analyzed in detail in Annex 15.

C) International Trade Policies

The GOCV relies heavily on international trade duties for public revenues. International trade duties represent about 50% of total central government revenue. Import duties are ad-valorem and range from 3% to 40% depending on the product. There is also a consumption tax on imports averaging 19%. It is applied to CIF price plus customs duties. Other customs duties (emolumentos) of 5% ad-valorem are applied on all products. The total import duty (including the above) ranges from about 28% to 65%. Export taxes are reasonable (less than 1%) and do not currently represent a deterrent to investment or exporting.

Procedures for importing and exporting in Cape Verde are highly bureaucratic and are viewed by the business community as constraining. To become a registered importer, a company is supposed to have total capital of ECV 4 million ($ 62,500). Although exceptions can be made for small companies wishing to import a particular product, this policy tends to act as a barrier to entry to new and small entrepreneurs. A fee of ECV 10,000 is charged annually for this import registration license and the license must be re-applied for each year to the Ministry of Commerce, Tourism and Transport. The criteria for approval are not extremely clear and if an applicant has not had a response from the Ministry of Commerce, Tourism and Transport in 90 days, the application is rejected by default. In addition to the registration license, an individual import permit is required for each import order. Unless the importer is in Praia, this process can take from 2-3 weeks. For exporting, the process is similarly control-oriented as permits are also required for individual shipments.

Access to foreign exchange can be a problem in Cape Verde as the ECV is not an internationally convertible currency. The Bank of Cape Verde establishes annually and reviews each quarter the global "plafond" or ceiling of foreign exchange to be allocated, based on foreign exchange reserves and balance of payments projections. The Government and the Bank then set foreign exchange ceilings by sector (trade, industry, services, ministries) for both government and private users. Individual ceilings are determined by the government ministry relevant to that activity. Criteria for foreign exchange allocation are based heavily on past usage. In 1986 the Government attempted to liberalize foreign exchange distribution by allocating it to the private sector (after the global ceiling was established) on a "first come, first served" basis. Because the reserves were run down quite quickly and because it was more difficult for individuals not located in Praia, the Government reverted to the previous system of individual ceilings or quotas. A possible alternative system might be to consider an auctioning system similar to Ghana's to ensure that newer businesses have access in a fair and open system. As of May 1989, the foreign exchange reserve levels at the Central Bank were equal to 10 months of imports which suggests, in any case, that the Government could currently allocate more foreign exchange. Reserve levels of 6 months of imports are generally considered adequate by officials of the IMF and World Bank.

D) Taxation

Corporate income tax is based on a flat tax rate of 20% on taxable business profits (Contribucao Industrial), or 20% of salaries and income of self-employed professionals (Imposto Profissional). The complimentary income tax (Imposto Complementar) is progressive and ranges from 5 to 20%. Thus, the average effective corporate tax amounts to about 30%. Mandatory fringe benefits paid by employers including social welfare and disability insurance are 25% of base salary.

For individuals, the income tax is an aggregate of all household income including salaries, interest and other incomes, with a deduction for each family member. The personal income tax is progressive, ranging from 3% for salaries of CVE 200,000, to a top rate of 35% for salaries above CVE 1.5 million. Individuals also pay 15% of their gross income to social welfare.

VIII. Parastatal Policies

The Government is pragmatically considering the reduction of its participation in some parastatals, for example, in the shipping company. In others, such as the clothing producer, Morabeza, it has reduced a former majority position to a minority one. The Government is also considering entering into joint venture proposals with foreign partners for some of its parastatal companies. The Government has set the objective that parastatals should be self-financing and that their prices should cover costs plus a marketing margin.

In May 1989, the Government was preparing policy guidelines and draft legislation for the June 1989 session of the National Assembly which would define the roles of private and public sectors in Cape Verde. While the team did not review the written proposals, it is expected that the Government may limit or reduce its role in commercial activities that can be more efficiently carried out by the private sector. The recent amendments to the constitution which open the banking and insurance industries to private competition are another indication of the direction the Government is moving with regard to privatization of previously Government-controlled activities.

E) Pricing Policies

The Ministry of Commerce, Tourism and Transport is responsible for the setting of retail and wholesale prices of imported commodities that are subject to official pricing policies. Of the products traded through the private sector, official prices are set for corn, rice, sugar, cement and milk. The retail prices are usually set at import cost plus a 10-15% margin. The Government makes its pricing decisions on the basis of social consideration, setting uniform prices throughout the archipelago. Because the Government is not in a position to effectively monitor prices and because price controls can be a deterrent to potential new foreign investors, the Government should consider developing a more flexible pricing policy which both stimulates investment and controls costs through price competition.

VI. Capital Markets

The financial sector in Cape Verde is very small and centralized. There are only two financial institutions, the Bank of Cape Verde (BCV) and the Caixa Economica Postal (CEP). After independence, the BCV was formed by consolidation of two Portuguese banks. Since that time no foreign banks had been allowed to operate in Cape Verde, as prescribed by the Constitution. However, in 1989 the Constitution was amended to open up banking and insurance activities to the private sector. With this new law, in principle, private banks and insurance companies could be established in Cape Verde.

BCV currently performs the functions of central, commercial, and development banking. The other financial institution, CEP, (also state owned) attracts small scale deposits through the postal service network and makes personal loans and mortgages mainly to civil servants. Since 1985 only 15% of its loans have been made to private individuals.

The BCV, however, is by far the largest source of credit in Cape Verde. The BCV operates under the system of global credit ceilings based on the level of foreign reserves and the economic growth of the country. Under the BCV's charter, credit to the Central Government is limited to 15% of the Government's previous year's current revenue. However, because of prudent financial management, Government deficits have been small and their borrowing requirements rarely approach the 15% ceiling.

Credit to the private sector has been growing significantly (as a percentage of total domestic credit) since 1984. For example, in 1984 the stock of domestic debt outstanding held by the private sector was only 40% of the total. Since 1984, however, 63% of domestic credit flows were to the private sector, resulting in 52% of the stock of debt outstanding being held by the private sector at the end of 1988.

125

A recent study* has demonstrated that, among 17 developing countries, there was a very high correlation between economic growth and percentage of credit allocated to the private sector. The countries with the highest economic growth allocated an average of 85% of their credit to the private sector. It appears that Cape Verde's current allocation of credit to the private sector is improving, and a medium-term target of 85% of credit allocation to the private sector would be appropriate.

Until 1985, interest rates were strongly negative in real terms. In 1985, however, the basic rate on short-term loans was increased from 6.5 to 10 percent. Medium- and long-term lending rates (except for agriculture) range from 10% to 12.5%. Lending and deposit rates are now positive in real terms, while lending rates are still low enough to encourage productive investment borrowing.

Because there is only one major bank in Cape Verde, there is currently not a competitive atmosphere within the banking system. Private managers have complained that the commercial loan approval process at BCV is very slow and is an impediment to expanding their businesses. Promotion of Cape Verde as a trade center will require a substantial improvement in the operation of the BCV as well as an in-depth analysis of the role that banking services could play in the development of export activities.

VII. Labor Market

The Republic of Cape Verde has a severe un- and under-employment problem. Estimates place the combined total at 70% of the labor force. Productivity is currently low but turnover, discipline and absenteeism are not problems. Wages are competitive by international standards with starting wages of CVE 40, or about 50 cents per hour for unskilled labor. Fringe benefits are low at 25% of base salaries. These wage costs make Cape Verdean labor very competitive in the world market. Industry employers are allowed to pay incentive or piece-work wages which have increased productivity. Labor is the country's most abundant resource and is its main asset in attracting foreign investment.

In 1986 the Government introduced new legislation giving employers greater flexibility in dismissing employees. The employer is required to pay severance pay of two months as long as the employee has worked at least one year. The consensus within the business community is that this legislation leads to a more performance-oriented work environment.

*1.See Keith Marsden, "Private Enterprise Boosts Growth", in Journal of Economic Growth Vol. 1 No. 1, 1986.

126

II. Underlying Structure of Socio-Economic Problems

While Cape Verde's principal social problems are similar to those of other nations in the developing world, they emerge from conditions and historical circumstances that are in most respects country-specific.

The Cape Verde archipelago is limited in both the availability of productive land and the variety of exploitable natural resources. It is estimated that a mere eight to fourteen percent of the nation's total land surface is arable. The steep profile of the landscape results in high amounts of run-off and erosion, and poor replenishment of aquifers.

More than seventy percent of the population resides in rural areas where population density is uneven and land holdings are scattered, due in large part to the islands' irregular topography. Fragmented land-holdings stem from the multi-generational divisions of inherited lands which have progressively limited the viability and productivity of agrarian enterprise.

This situation is exacerbated by a long history of cyclical drought and famine which, between the mid-nineteenth and twentieth centuries, claimed more than a quarter of a million lives. As a result, demographic history is characterized by cycles of growth and decline, due to episodes of high drought-related mortality and consequential massive outward migration.

Agricultural output falls significantly short of consumption needs. Since 1967 the rural population's contribution to national food needs has varied between 70 percent and 10 per cent, due in large part to chronic drought. Food and water deficits and drought-related underemployment have, thus, been key factors in an on-going trend of migration from rural areas to the cities.

The dispersion of the population among eleven islands has mitigated against social and economic integration, posing serious difficulties for internal communication and transportation. This irregular distribution of population and resources has also prevented the creation of centralized infrastructure and made impossible economies of scale in industry and services.

The geographical location of the archipelago has, however, provided the islands with a strategic historical advantage, allowing it to act as an entrepot and source of maritime labor. Between the 16th and 19th centuries Cape Verde served as a principal port of call for the West African slave trade, European commerce with the New World, and for the New England whaling industry. By the mid-20th century, however, the islands' maritime importance had begun to wane. The large scale emigration of recent decades has built on the existence of communities in North America and Europe which were established over a period of several hundred years by seafaring Cape Verdeans.

Annex 9: Social Soundness Analysis

I. Introduction

The EDS project responds to several of the highest social and economic priorities of the GOCV. The government's commitment to pragmatic economic management haw long been conditioned by its recognition of the need for employment generation and improvements in the quality of life of the Cape Verdean people.

The social development program articulated by the PAICV has, by and large, been successful in recent years. The nation has registered significant improvements in the key indicators of social and economic well-being and in the enhancement of health and educational infrastructure. Although the role of foreign donors has been important in this regard, policy and programming priorities of the GOCV in the social sectors have been consistent in the period since independence.

Nonetheless, a complex web of serious problems remains, including many of which are structural or historical in nature. This is particularly true with regard to high levels of unemployment and high rates of migration within and outside of Cape Verde. Although emigration has resulted in an extraordinary flow of remittances, these have proven to be more of a stop-gap response to micro-level socio-economic needs than a solution to economic crisis on the national level.

As discussed in Annex 7, the national political party (PAICV) and the incumbent government have developed social, political and economic priorities which constitute the foundations of the current Second National Development Plan. Of the Plan's eight principal objectives, only two point toward macro-level economic concerns. The remainder, reflect the GOCV's awareness and determination to resolve problems which are of a socio-economic nature. These objectives include:

a. Reduction of population growth, particularly in the cities;

b. Satisfaction of the basic needs and improvement of the standard of living of the population;

c. Development of human resources;

d. Implementation of agrarian, educational, and public administration reforms;

e. Creation of jobs in order to reduce unemployment;

f. Promotion of the economic integration of the country.

the NDF provides short- to medium-term employment in rural public works and development activities. NDF targets for 1982-1985 (the last period for which figures are available) called for the creation of some 10,000 jobs of varying duration.

High levels of unemployment and underemployment have resulted in low average productivity and income. Combined with the islands high dependency ratios, these figures suggest that average household income is at a subsistence level or lower. Household viability is enhanced, however, by the flow of remittances fr Cape Verdeans residing in Europe and North America.

The effects of demographic instability and low household productivity are reflected in Cape Verdean social structure, particularly in rural areas. Building upon social and cultural foundations of the islands' African slave communities, rural families are characteristically large in size and in many cases polygynous. A significant proportion of households at the national level (15 to 20 percent) are headed by women. It is not uncommon for emigrant males to maintain several household units in both Cape Verde and in their overseas locations.

The role of emigration as a social means of coping with resource scarcity and low income is crucial for Cape Verde. Estimates of the number of Cape Verdeans residing abroad vary between 340,000 and 500,000; even the lowest of these estimates exceeds the population of the country as calculated by the 1980 census. The largest emigrant enclave is located in the United States (between 300,000 and 400,000 persons), with sizeable communities also found in Portugal, Brazil, and Lusophone Africa. Because of Cape Verde's isolated geographical situation, GOCV policy and liberalized U.S. regulations which facilite family unification, only a small proportion of emigration occurs on a clandestine level.

Little is currently known about the role and size of return emigration. The importance of emigrant remittances to the Cape Verdean economy at both the macro- and microeconomic levels i critical, accounting for as much as 40 percent of GDP and 4 percent of private consumption. This suggests that social pressures may in fact encourage long-term and permanent emigration.

IV. Project Impacts and Social Soundness

The EDS Project is consonant with the GOCV social and economic program and, over the long run, will address several of the most critical social problems of Cape Verde's people.

The direct impact that this project will have on society is limited, given that the CIEP will concentrate on policy and regulatory reforms, and marketing and promotional services in their widest sense. Because many project activities will involve technical studies to assess the feasibility of particular industries and operations, the project will contribute to the body

III. Demography, Employment, and Migration

Cape Verde's population is estimated to be 330,000. For historical reasons noted above, the Cape Verdean demographic structure is unique. The bottom of the population pyramid is very large, reflecting high fertility and low infant mortality. The age 34-45 age group is under-represented, however, due to high mortality and low birth rates associated with the famine of the 1940s', which is estimated to have taken some 40,000 lives.

Similarly, working-age males (ages 20-55) are under-represented in the demographic structure due to high rates of emigration. This has produced dependency ratios-- 109 dependent persons per 100 persons of working age in 1980-- that are among the highest in Africa.

While natural population increase is estimated to be at three percent/annum, the real growth rate is only one per cent/annum, due almost exclusively to emigration. Although the effects of emigration on the social fabric of Cape Verde are disruptive, the fact remains that without outward migration, the population of the country could be expected to double by the year 2010.

Regional population growth and distribution within Cape Verde is not uniform. Population densities are related, in large part, to natural resource availability of each island. According to the 1980 census, these ranged from a low of 5.4 persons/km2 in Boa Vista, to a high of 183.2 persons/km2 in Sao Vicente, where the majority of the population resides in the port city of Mindelo. Approximately 27 percent of the population lives in urban areas.

Internal migration since the 1970's has led to major growth on the islands of Sao Tiago (location of the capital, Praia) and Sao Vicente. The growth of Praia, at more than five percent/annum since 1975, stems from its establishment as the seat of national government. As the result of both internal migration and emigration, four islands (Boa Vista, Brava, Santo Antao, and Sao Nicolau) have lost population in recent years.

One of the greatest social dilemmas facing the GOCV is problem of unemployment. According to the 1980 census, of the 53.8 percent of the population that is classified as "economically active" (i.e. able and of working age), nearly 30 percent were recorded as unemployed and 39.8 percent were only temporarily employed. The World Bank (1985) has estimated that between 40 and 45 percent of the potential labor force (population of working age, inactive persons who would seek work if it was available, and those involved in non-wage subsistence activities) is underemployed. Between 60 and 70 percent of these reside in rural areas, with the remainder located in cities and semi-urban areas.

The GOCV's principal stop-gap measure for rural unemployment has been job creation through the National Development Fund. Utilizing grants and proceeds from the sale of donated commodities,

CIEP efforts to increase exports will not be limited to urban and semi-urban areas. A variety of rural-based industries (e.g. artisanal fishing, tourism, and extraction) will benefit from CIEP promotional efforts. Because these industries currently operate far below capacity, the direct effects of enhanced marketing capability could be to stabilize employment and income in these sectors.

Prospects for negative impact of project activities are practically nil for the anticipated life of the project and over the medium-term. A "best case scenario" of project impact could, however, set in motion a process of rapid economic growth and development that would have profound effects on Cape Verde over the long-term. Such a scenario, developing over a period of ten to fifteen years, could give rise to uncertainties regarding the absortive capacity for new industry, possibly erratic demand for services in the apparel and textile-related industries, increased population in urban and semi-urban areas, and a possible reversal of emigrant movement.

of available information for assessing social and economic impacts of increased investment. Hence, the project will have its most profound impact only indirectly and over the long-term.

Efforts to promote increased investment and exports of goods and services may be expected to result in increased employment and household income. During the earliest period of project activity, impacts will likely be most pronounced on only several of Cape Verde's islands; the pre-existing, but under-utilized industrial base is best developed on the most highly populated islands of Sao Tiago and Sao Vicente.

The capacity of Cape Verdean society to absorb new employment is extensive, given the extremely high rates of unemployment and underemployment that have long characterized the nation. Industries most likely to be attracted to Cape Verde will include light manufacturing, assembly, and services of the type that are found in export processing zones in Asia, Central America, and in the Caribbean.

Typically, these industries employ a high proportion of women workers--the most likely beneficiaries of project success over the long term.

Foreign-owned enterprises may also be expected to provide on-site day care or health facilities, as evidenced in a number of free zone industrial parks in the Caribbean and Central America. Some precedent for such programming already exists in Cape Verde, where the country's sole apparel firm, Morabeza, provides factory-based gynecological care for its largely female production force.

Data from elsewhere in the world suggest that the socio-economic impacts of increased free zone-type employment of women can be profound. Enhanced economic independence and improved access to medical care are conducive to increased investment by women in housing, dependent education and health, and small businesses. A heightened willingness to employ family planning measures so as not to jeopardize earning capacity is also probable, a development which would be consonant with the high priority that the GOCV has assigned to the issue of population control.

Cape Verde's demographic structure would be especially conducive to this type of investment, given the high rates of outward migration by working age males. Although concerns might exist regarding the prospect of drawing women with dependent children into the working force, the high dependency ratios that are characteristic of Cape Verde suggest an abundance of available care-takers at the household and community levels. The net effect of this development, both in the micro-economic and social domains, will be to raise standards of living within the context of existing social structures.

the executive branch Council of Ministers and by the PAICV's Third Party Congress which represent the major decision-making bodies of the country. The proposals have also been accepted by all seven Special Committees of the National Assembly which together constitute a majority of the legislature. Formal adoption of the required legislation is, thus, reasonably assured. For Project purposes, this assurance is bolstered by a condition precedent to first disbursement requiring evidence that the framework laws have been enacted. See Project Agreement, Section 4.1.

Project implementation requires no further host-country legislation. The other relevant legal actions - establishment of the Center for Investment and Export Promotion and promulgation of foreign investment regulations - are within the authority of the executive branch and are currently under discussion for timely action.

Accordingly, it is concluded that the requirements of Section 611 (a) (2) are fulfilled.

ANNEX 10

611(a), 611(e) and 121(d) Determinations

SECTION 611 (a) ANALYSIS

Section 611 (a) of the Foreign Assistance Act requires that, prior to obligation of funds, certain analyses be made concerning the technical, (e.g. engineering), financial and legislative plans germane to the Project's success. As applied to this non-technical Project, the statutory standards call for: (1) a complete financial plan and reasonably firm estimate of the project's cost to the United States Government, and (2) a satisfactory basis for reasonable anticipation that necessary host-country legislation will be completed in time for project implementation. These issues have been analysed as follows:

FINANCES - SECTION 611 (a) (1)

This Project Paper contains a financial plan controlling expenditures over the four-year life of the project. Evidence for the validity of the cost estimates is outlined in Chapter IV (Financial Plan) based on research by the PP team in Cape Verde. To recapitulate briefly, costs for first year expenditures are based on USAID/Praia's current experience in procurement of services, commodities, leases and like expenditures; costs for subsequent years reflect an inflation assumption of 5 percent based on IMF and World Bank projections. In the category of "Studies," the sum of $334,000 has been alloted to the general item "Other Projects to be determined by CIEF." This general category imposes a ceiling on potential expenditure in this area while allowing for desirable flexibility in implementation.

It is concluded that the Financial Plan provides sufficently specific and realistic identification of recurrent costs, capital expenses and resource development costs to fulfill the statutory requirements.

The Financial Plan also provides for a reasonably firm estimate of the Project's cost to the United States Government. The limit is set at a life-of-project commitment of $4,000,000.

This analysis fulfills the requirements of Section 611 (a) (1).

LEGISLATION - SECTION 611 (a) (2).

All legislative action required for project implementation is either complete or imminent. The Cape Verdean National Assembly has already passed the "framework law", an enabling act permitting off-shore banking; and now has before it the proposed Industrial Development Law and Foreign Investment Law which will provide a legal structure for the international investment and trade activities to be promoted by the Project. These two laws are confidently expected to pass in the June, 1989 session of the National Assembly. Both proposals were approved by

Section 121(d) Certification

I certify that under the Export Development Services Project, 655-0014, no A.I.D. funds will be made available to the Republic of Cape Verde or any agent thereof. Project expenditures will be accomplished through USAID/Cape Verde financial management under Handbook 19 and direct procurement methods under Handbook 1, Supplement B. On this basis I request a determination that Section 121(d) of the Foreign Assistance Act does not apply to this Project.

Thomas C. Luche

Thomas C. Luche
A.I.D. Representative
USAID/Cape Verde

June 06, 1989

Certification under Section 611(e)
of the
Foreign Assistance Act of 1961, as amended

I, Thomas C. Luche, the principal officer of the Agency for International Development in Cape Verde have determined that Cape Verde has the capability in both financial and human resources to maintain and effectively utilize the capital goods and services provided by this Export Development Services Project, 655-0014. The Project will establish an investment study and promotion center to facilitate development of export, trade and related activities in the country. A.I.D's funds will provide for technical assistance and training and modest capital assistance in the form of office equipment, furnishings and vehicles. Based upon A.I.D.'s knowledge of the country and favorable experience with past Cape Verdean projects, Cape Verde can sustain the project.

Accordingly, I certify that, in my judgement, Cape Verde has the financial and human resources effectively to maintain and utilize the Project.

Thomas C. Luche
A.I.D. Representative
USAID/Cape Verde

June 05, 1989

Fund for Africa appropriation. The Conference Report accompanying the FY 1989 Appropriations Act states, with respect to be DFA account, that the "Assistance should continue to the implemented in accordance with the statement of managers accompanying P.L. 100-202" (the Continuing Resolution for FY 1988).

Discussion: In Abidjan 12699, dated June 20, 1989, (copy attached), the A.I.D. Representative in Cape Verde has certified that no Development Fund for Africa funds will be made directly available to the Government of Cape Verde for disbursement concerning the Cape Verde Export Development Services Project (655-0014).

Recommendation: I recommend that you approve a finding that a determination pursuant to FAA Section 121(d) is not required for the Export Development Services Project (655-0014) in Cape Verde.

Attachment: Abidjan 12699

APPROVED: Willy Bryan

DISAPPROVED: _____

DATE: AUG 3 1989

Clearances:
AFR/SWA, Nancy McKay 8/2/89
GC/AFR, Edward Spriggs 8/2/89
AFR/SWA, Roger Simmons

Drafter:AFR/SWA:Louise H. Werlin:07/03/89:vd:0970U

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENC
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ACTION MEMORANDUM FOR THE DEPUTY ASSISTANT ADMINISTRATOR FO. AFRICA

FROM : AFR/SWA, Phyllis Dichter

SUBJECT : FAA Section 121(d) Determination for Cape Verde - Export Development Services (558-0014))

Purpose: To make a finding that the Determination set out in Section 121(d) of the Foreign Assistance Act of 1961, as amended (the "FAA"), for Development Fund for Africa Funds is not required for the subject project. Funds for this project will be obligated in AID/W.

Background: Section 121(d) states:

> Funds available to carry out this section (including foreign currencies acquired with funds appropriated to carry out this section) may not be made available to any foreign government for disbursement unless the Administrator of the Agency for International Development determines that the foreign government will maintain a system of accounts with respect to those funds which will provide adequate identification of and control over the receipt and expenditure of those funds.

The authority to make the required determinations was delegated to the Assistant Administrator, Bureau for Afr ca, in Delegation of Authority No. 500 dated January 6, 1982. The Deputy Assistant Administrators, Bureau for Africa, have the authority to make these determinations pursuant to alter ego authority delegated to them through Delegation of Authority No. 552 to the Senior Deputy Assistant Administrator on July 17, 1986, and Delegation of Authority No. 555 to the Deputy Assistant Administrator on September 22, 1987.

There is no longer a Sahel Development Program appropriation account, inasmuch as appropriations to carry out the provisions of FAA Section 103 through 106 and Section 121 are now a part of the Sub-Saharan Africa, Development Assistance, appropriation. However, the Joint Explanatory Statement of the Committee of Conference for the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1988 (the Continuing Resolution for FY 1988), provides that it is the intent of the Conferees that provisions of law that make reference to FAA Section 121 (and to FAA Section 103 through 106) will apply to funds made available from the Development

138

UNCLASSIFIED

Department of State

INCOMING TELEGRAM

ATTACHMENT "A"

```
PAGE 01          ABIDJA  12699  201600Z                    21 4 079548  AID9:2:
ACTION AID-00
     ------------------------------------------------------------------------
ACTION OFFICE  GCAF-01
INFO   AFCW-03  AFPD-04  AAAF-03  GC-01  ES-01  RELO-01  AMAD-01
       015 A0
     ------------------------------------------------------------------------
INFO   LOG-00   AF-00     /000 W
                         ------------------3 7206:  201625Z /38
P 201557Z JUN 89
FM AMEMBASSY ABIDJAN
TO SECSTATE WASHDC PRIORITY 8309

UNCLAS ABIDJAN 12699

AIDAC

FOR GC AFR P  JOHNSON

E O  12356: N/A
SUBJECT   CAPE VERDE EXPORT SERVICES DEVELOPMENT PP.
-         655-0014 SECTION 121 (D) DETERMINATION

REF   JOHNSON/ALEXANDER TELCON, 6/19/89

PLEASE PROCESS 121 (D) DETERMINATION AS QUICKLY AS
POSSIBLE.  AID REP. THOMAS C. LUCHE HAS SIGNED FOLLOWING
CERTIFICATION.

QUOTE
I CERTIFY THAT UNDER THE EXPORT DEVELOPMENT SERVICES
PROJECT  655-0014  NO A I D. FUNDS WILL BE MADE AVAILABLE
TO THE REPUBLIC OF CAPE VERDE OR ANY AGENT THEREOF.
PROJECT EXPENDITURES WILL BE ACCOMPLISHED THROUGH
USAID CAPE VERDE FINANCIAL MANAGEMENT UNDER HANDBOOK 19
AND DIRECT PROCUREMENT METHODS UNDER HANDBOOK 1,
SUPPLEMENT B.  ON THIS BASIS I REQUEST A DETERMINATION
THAT SECTION 121 (D) OF THE FOREIGN ASSISTANCE ACT DOES NOT
APPLY TO THIS PROJECT.  UNQUOTE.  KUX
```

UNCLASSIFIED

139

4. FAA Sec. 611(b); FY 1989 Appropriations Act Sec. 501. If Project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq)? (See A.I.D. Handbook 3 for guidelines.)	4. N/A
5. FAA Sec. 611(e). If Project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	5. Yes - See Annex 10.
6. FAA Sec. 209. Is Project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistanct will encourage regional development programs.	6. No. Project concerns national institution building and is only suitable for execution with the particular host government.
7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	7. The project's primary aim is to encourage the flow of international trade and private enterprise by opening Cape Verde to export and foreign investment initiatives, with consequent improvement in industry and commerce.

STATUTORY CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific source only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES:	IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?	Yes, yes

A. GENERAL CRITERIA FOR PROJECT

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?	1. The project and correct total authorization were presented to Congress in the CP for FY 1989.
2. FAA Sec. 611(a)(1). Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	2. Yes - see Annex 10 to PP
3. FAA Sect. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the	3. The last of the needed legislation is before the current session of the National Assembly, having already passed all of the Committees. See Annex 10 to PP.

manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. FAA Sec. 119(q)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

13. N/A, the project has no biological or environmental component. An IEE granted categorical exclusion. See Annex 4.

14. FAA Section 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

14. No. The A.I.D. Representative has certified that no project funds will be made available to GOCV. Therefore it has been determined that Section 121(d) does not apply. See Annex 10.

15. FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

15. N/A

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private trade U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. enterprise).

8. Through studies, informations gathering and advisory services, the project will promote and inform U.S. and other investors of benefits to be derived from Cape Verdean investment, and will assist in administrative and institutional reforms to facilitate such investment.

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

9. Although Cape Verde is a Sahelian RLDC, that is exempt from required contributions, it will supply 10% of project financing.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

10. No

11. FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

11. No commodity production is planned under the Project.

12. FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tarrifs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles specifically designed for, the

12. No

3. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1989 Appropriations Act Sec. 548 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

1. a. N/A

b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in

b. By facilitating the expansion of private enterprise in Cape Verde, the project should (a) involve the poor by increasing employment opportunies; (b) N/A; (c) support Cape Verde's efforts to overcome dependence on foreign assistance; (d) increase employment opportunies for women; and (e) encourage regional cooperation by opening Cape Verde to foreign investment and trade.

16. FY 1989 Appropriations Act Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?	16. N/A
17. FY 1989 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained?	17. N/A
18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).	18. Date of signing will be cabled to State L/T and A.I.D. LEG when known and agreement will be pouched within 60 days of its entry into force.

being waived for a "relatively least developed" country)?

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

f. Yes

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

g. The project responds to a broader movement within Cape Verde to expand private sector participation and establish the institutional capability to promote and manage industrial development. Studies and educational activities will both make use of existing intellectual resources and further develop Cape Verdean human resources.

h. FY 1989 Appropriations Act Sec. 536. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

h. No

the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used?

c. Yes

d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

d. N/A

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activitiy with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement

e. Cape Verde will provide about 10% of project costs. It is exempted from the 25% requirement as a Sahel country under FAA Sec. 121

voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or native Americans, or who are economically or socially disadvantaged (including women)?

1. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support

1. Yes. An IEE has been performed and a categorical exclusion was granted. The project has no forestry, environmental or biological components.

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

i. FY 1989 Appropriations Act. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

i. No

j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

j. Yes

k. FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and

k. A.I.D. direct contracting will be used in the project. Statutory and regulatory guidelines will be followed inrespect of minority contracting for the project.

impacts of the proposed activities on biological diversity?

n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management system; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

n. (a) No; (b) No

o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; or (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood

o. (a), (b), (c), (d): No

training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) utilize the resources and abilities of all relevant U.S. government agencies?

m. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis to achieve the best sustainable use of the land, and (b)/take full account of the environmental

m. N/A See Above

161

and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication net works, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

q. <u>FY 1989 Appropriations Act Sec. 515</u>. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committee of both Houses of Congress been properly notified?

q. N/A

102

of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in Section 102 of the FAA; (c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstraded effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development,

p. (a) Yes

(b) Yes

(c) No PVO activities are appropriate for the project.

(d): Yes. The project will assist in expanding private sector employment and income generating opportunities and will promote institutional reforms in the public sector.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusions on capacity of the country to repay the loan at a reasonable rate of interest.	a. N/A
b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?	b. N/A
c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?	c. N/A

laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. <u>1986 Drug Act Sec. 2013; 1988 Drug Act Sec. 4404</u>. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the

Not Applicable

155

5C(1) - COUNTRY CHECKLIST - CAPE VERDE FY '89

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1989 Appropriations Act Sec. 578(b). Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? — No

2. FAA Sec. 481(h); FY 1989 Appropriations Act Sec. 578; 1988 Drug Act Secs. 4405-07. (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are — Not Applicable

either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? — No

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? — No

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? — No

10. FAA Sec. 620(q); FY 1989 Appropriations Act Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1989 Appropriations Act appropriates funds? — No

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of — No development loan or ESF is planned for Cape Verde for FY '89.

151

government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? No

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No

6. FAA Secs. 620(a), 620(f), 620D; FY 1989 Appropriations Act Secs. 512, 550, 592. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided No

17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?	No
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)	No
19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?	No
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)	Cape Verde has not yet entered written reservations and the matter was taken into account by the Administrator at the time of approval of Agency OYB.
21. FY 1989 Appropriations Act Sec. 527. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?	No

Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? — No

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) — The GOCV is not in arrears in its obligations to the U.N.

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? — No

15. FY 1989 Appropriations Act Sec. 568. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)? — No

16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? — No

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?	No
FY 1989 Appropriations Act Sec. 536. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?	No
FY 1989 Appropriations Act Sec. 578(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?	Not Applicable.

22. <u>FY 1989 Appropriations Act Sec. 513</u>. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?	No
23. <u>FY 1989 Appropriations Act Sec. 540</u>. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?	Not Applicable.

Specialist in Promotion and Investor Advisory Services

QUALIFICATIONS: This individual should have practical experience with the demands of overseas investors as well as managagement experience in investment and export promotion. The ideal candidate will have spent several years in private industry for a multinational company in a developing country. The individual must also have experience with industrial targetting and developing promotional materials. Excellent management skills are required and a demonstrated track record in program development. The individual must be fluent in English and Portuguese or French. Portuguese preferable. If the individual is not fluent in Portuguese, he/she must have demonstrated ability to learn languages quickly and be willing to devote considerable time to learning Portuguese.

JOB DESCRIPTION:

- Develop and manage the implementation of CIEP's export and investor advisory services.
- Work with Research Specialist to develop effective management information system to service exporter and investor inquiries.
- Supervise development and implementation of CIEP's marketing and promotional strategy and campaigns.
- Supervise design and production of promotional materials.
- Supervise training of GOCV officials in promotional activities.

Chief of Party - Chief Advisor to Executive Director of CIEP

The most experienced and talented of the two candidates in investment promotion activities will also serve as Chief of Party and counterpart to the Executive Director. The individual will assume the additional responsibilities of this position while fully maintaining the responsibilities of one of the aforementioned specialist positions.

ADDITIONAL QUALIFICATIONS: The individual must have served in a management position in an investment promotion institution, where he/she demonstrated superior strategic and operational abilities.

ADDITIONAL RESPONSIBILITES:

- As Chief of Party, supervise and manage project implementation and use of project resources, including supervision of other long-term technical advisor.
- As Advisor and Counterpart to Executive Director, assist in overall management of CIEP and advise director in design and implementation of investment and export promotion strategies.
- Assist in supervision and management of professional development of CIEP staff.

ANNEX 12

Job Descriptions and Qualifications for Long-term Technical Advisors

Specialist in Research and Policy/Project Analysis

QUALIFICATIONS: This individual must have a combination of skills and experience, including extensive experience in the analysis of business policy issues in a developing country context, especially regarding foreign investment and export development, excellent writing skills, if possible with some journalism experience, and a broad knowledge of management information systems. Excellent managerial skills are required, as are a demonstrated track record in program and staff development. The individual must be fluent in English and Portuguese or French. Portuguese is preferable. If individual is not fluent in Portuguese, he/she must have demonstrated ability to learn languages quickly and be willing to devote considerable time to learning Portuguese.

JOB DESCRIPTION:

- Conduct research in economic and and business statistics to develop an accurate database for advisory and promotional activities, and work closely with other organizations which assist in generating such data.

- Conduct, supervise, and coordinate with GOCV agencies policy analyses on the Cape Verdean environment for foreign investment and the development of export industries.

- Conduct, supervise and coordinate with GOCV agencies the analysis and implementation of export projects, such as export processing zones, transshipment services and teleports.

- Prepare documents and press releases, and work with promotion department to disseminate information.

- Develop and manage a management information system to disseminate information internally for use by promotion and advisory service activities as well to monitor and evaluate Center activities on an ongoing basis.

- Manage and supervise professional development of CIEP staff in policy/project analysis, dissemination of business information and management information systems.

capabilities, capacity, near-term improvements, pricing, and regulatory policy)

5) Support services (maintenance, technical, supervisory)

6) Other

4. Assess the current policy/regulatory environment for information services activities, and identify specific areas where improvements may be required.

5. Prepare pro forma cost analyses for information services activity or activities, which may be viable in Cape Verde.

6. Identify specific service areas which offer high potential based on estimated local production costs and competitive international market conditions.

7. Detail methods and strategies for Cape Verde to become an offshore information processing center. Identify specific ways that Cape Verde can position itself to attract investment, including specialized training linkages, telecommunications facilities, etc.

8. Briefly discuss teleuniversities and their role under an improved telecommunications environment. Outline the various teleuniversity formats now being utilized as well as each one s respective advantages and disadvantages. Provide list of possible contacts for further exploration of this subject by the GOCV.

9. Conduct briefing for selected GOCV officials in the Ministries of Planning and Cooperation, Industry and Energy, etc., regarding implications of the study on development of a Cape Verdean information services industry. Session will include specific recommendations in terms of regulatory and tariff structure, physical facilities and utilities, manpower development, technical support services, and external infrastructure -- to facilitate development of the industry in Cape Verde.

C. Outputs

1. Detailed pro forma cost analyses as described above.

2. A report which presents findings of the above tasks. The report should be presented in such a way as to be of maximum immediate utility to potential investors in pursuing new investment/export opportunities and to the GOCV in addressing the manpower, policy, and infrastructure needs of the industry. In that context, the report should include a detailed action plan indicating responsibilities for further required action.

D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 4 person

163

Annex 13
Terms of Reference for Technical Assistance

The terms of reference provided in this annex are the studies, analyses, and technical assistance considered to be of highest priority by the project team. These projects can be used to help form a sound foundation for the growth of export industries in Cape Verde. Nonetheless, it should be emphasized that additional terms of reference can be drawn up after the establishment of CIEP to address other concerns.

Terms of Reference:
I. Information Services Sector/Teleport Opportunity Identification Study

A. Objective

The main objectives of this study are to assess Cape Verde's comparative advantage/competitiveness in export-oriented activities in the information services industry, and to identify specific opportunities for -- and constraints to -- investment in this sector. This will include an identification of the appropriateness of a teleport in Cape Verde. The study will also assist private entrepreneurs and the GOCV in developing specific strategies for targetting and promotion of investment in areas identified as high potential activities.

B. Tasks

1. Analyze the structure of the international offshore information services industry. Identify the various segments of the sector, including: data entry, fast turnaround data entry, computer aided digitizing (CAD) operations, software programming, on-line data base management, voice center operations, and other newly emerging sectors.

2. Analyze the information services market. This section will focus on major end-user markets, the United States and Western Europe, and identify major offshore locations and companies. Investigation of the various informatic sectors by end-market and market segment are needed.

3. The factors affecting the development of the industry in Cape Verde will also be detailed; this includes:

1) Labor force (skill levels, availability, and cost), training/educational institutions (capacity, curricula, etc.)

2) Infrastructure (physical facilities), transportation infrastructure/services (cost, frequency, coverage)

3) Utilities (electricity -- cost, capacity, and quality)

4) Telecommunications (system features, technical

Terms of Reference

II. Legislative and Regulatory Review

A. Objective

The objective of this consultancy is to assess the overall legislative and regulatory environment of Cape Verde relating to foreign exchange-earning activities. The regulations concerning Customs, import and export licenses, investment approval, tax regulations, and foreign exchange controls will be examined.

B. Tasks

1. Investigate the investment approval process. This would include the steps needed to receive approval (minimum capital, feasibility studies, etc.) and the length of time generally required to complete the tasks required by the various ministries.

2. Compile information on taxes applicable to foreign exchange earning industries, such as income, complementary, and dividends taxes, import and export taxes, and any other relevant tax schedules.

3. Examine import and export procedures and controls. This should include a review of the licenses required for both imports and exports, and the steps needed to be granted a license. Examination should also include procedural review of additional processes required for each incoming and outgoing shipment, as well as a review of Customs documentation necessary. Different procedures necessary for exports and imports from various countries should be noted, if in existence.

4. Detail the foreign exchange control process, including the availability and process of establishing foreign exchange accounts, the "plafond" system and the general availability of foreign exchange, and any special access to foreign exchange reserved for exporters.

5. Review of the relevant laws including, but not limited to, external investment law, industrial development law, industrial statute, and the Customs regime.

6. Recommend policy and regulatory changes needed to enhance Cape Verde's investment environment. The recommendations should be expressed in a format to allow the GOCV to respond and make the suggested reforms in a quick fashion.

C. Outputs

1. A report which presents the findings, conclusions, and recommendations as derived from the above tasks.

2. The report should contain an action plan detailing the steps required to simplify and expedite the variety of processes

months. The consultancy could be provided by a 2-person team and it is anticipated that the project include three weeks in Cape Verde by the team and one week in Europe to study the information services market and EC regulations concerning this industry.

The team leader should possess wide experience in the offshore information services industry. Detailed understanding of the requirements for physical facilities and support services (especially training linkages) is necessary. Practical experience in establishing offshore service bureaus is desirable. The second team member should be an economist with wide experience in assessing the financial and economic viability of offshore information projects, as well as a detailed understanding of the requirements of those projects on policy improvements, specific incentives, manpower development, and other economic factors of production.

Terms of Reference
III. Tourism Sector
Market Analysis

A. Objective

The overall objective of this task is to analyze the market for European and North American tourists. By identifying the needs and desires of tourists from these markets, Cape Verde's tourist sector will be better able to create a market niche. A second objective is to assist private entrepreneurs and the GOCV in developing specific strategies for targeting and promoting activities identified as having high potential.

B. Tasks

1. Identify the three broad segments of the tourism industry: mass tourism, business tourism, and niche tourism. The demands and expectations of each of these segments should be detailed. The price expectations, amenities, facilities, support services and conditions necessary for the successful growth of each segment should be outlined.

2. Analyze the major tourism markets, with particular focus on Western Europe and the United States.

3. Based on Cape Verde's comparative advantages and disadvantages, identify specific tourism niches for Cape Verde to exploit and make recommendations for steps needed by the GOCV and the Ministry of Tourism to develop Cape Verde's tourist industry.

4. Annex a list of tour operators, hotel chains, tourism industry expositions that are relevant for the Cape Verdean tourist industry.

C. Output

1. A report which presents findings of the above tasks. The report should be presented in a manner giving maximum immediate utility to potential investors and the GOCV in addressing the manpower, facilities, support services needs of the tourism segments most suitable for Cape Verde.

2. An action plan to attract U.S. and European tourists to Cape Verde.

3. An annex as described in task 4.

D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 4 person months. The consultancy could be provided by a 2-person team and it is anticipated that the project include two weeks in Cape Verde for both consultants, as well as one week in the U.S. and Europe

169

examined.

D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 4 person months. It is anticipated that 2 person months will be spent in Cape Verde compiling information on two separate trips. The consultancy could be provided by a 2 person team.

The team leader should be an economist and possess wide experience in the evaluation of laws and regulations in other developing countries that are re-orienting from import substitution to export-oriented policies. Detailed understanding of investor requirements is necessary. The second team member should be a macroeconomist having experience in taxation and foreign exchange control procedures.

Terms of Reference
IV. Technical Assistance/Seminar on Preferential Market Access Programs

A. Objective

The objective of this consultancy is to increase GOCV and Cape Verdean private sector awareness and understanding of preferential market access and duty/quota reduction programs for which Cape Verdean exports may be eligible. There is wide consensus that Cape Verdean products enjoy preferential access to U.S., European, and West African markets. However, the complex nature of the agreements has constrained understanding of these opportunities within Cape Verde. Research is needed in this area to determine what products hold the greatest potential for Cape Verde.

B. Tasks

1. Obtain up-to-date information on rules of origin, eligibility requirements, and procedures associated with the following market preference programs:

- U.S. Generalized System of Preferences
- Lome III Convention
- TSUS Items 806.3 and 807
- ECOWAS Trade Program
- Other market preference/duty reduction programs for which Cape Verde may be eligible

2. Examine existing patterns of Cape Verdean exports and markets served, including patterns of current preferential market access utilized, if any.

3. Prepare and conduct a workshop (or workshops) for GOCV and private sector representatives for these programs. A package of written materials should be prepared for distribution in conjunction with the seminar(s). The workshop(s) should increase the understanding and awareness of participants in terms of the existing rules and regulations of the preferential programs, and should identify the sources of information required to keep abreast of future changes and modifications.

C. Outputs

1. A package of written materials should be available for interested GOCV officials and private sector representatives at the time of the seminar. This package should include a list of goods eligible under the various programs, with an emphasis on goods holding special promise in Cape Verde such as seafood, apparel, agricultural goods, and other light manufactures.

2. The final report shall have three annexes, with each discerning the concrete tax and other incentives for Cape Verdean products in the export markets of (a) Europe, (b) the United States, and (c)

each to study the tourism market.

The team leader should possess wide experience in the tourism industry with a detailed understanding of the facilities, support services, manpower, and general conditions necessary for tourism development. Practical experience in establishing tourism in developing countries is desirable. The second team member should be an economist with a solid understanding of the structure and dynamics of the tourism markets, both in Western Europe and the United States.

172

Terms of Reference
V. Transshipment Center
Market Analysis

A. Objective

The overall objective of this consultancy is to identify the potential market for the use of Cape Verde as a transshipment center. The project will include the analysis of trade data, and identification and survey of shipping corporations, freight forwarders, and exporters. This work will allow the GOCV to better understand its market position in terms of the transshipment sector, and identify specific constraints and opportunities to growth. A second objective is to assist the GOCV in developing strategies for the promotion of transshipment in Cape Verde.

B. Tasks

1. Analyze the structure of the international transshipment industry. The scope of the study should include the following issues:

a) Recent developments in the industry and service operations.
b) Global shipping traffic patterns with a particular focus on traffic from Europe and South America to West Africa.
c) Necessary conditions for successful transshipment development.

2. Conduct a market survey among potential transshipment clients for Cape Verde. To accomplish this, the project team must:

a) Identify shipping corporations, freight forwarders, and exporters of commodities in Europe, North America, and Brazil who could conceivably use Cape Verde as a transshipment point.

b) Prepare survey form and conduct survey of approximately 80-100 firms. These interviews should be conducted in person or via telephone with senior executives within the firm who are capable of making relevant decisions (mail survey forms receive low response rates; those that are completed are often done over an excessively long time period and are often incompletely filled out).

c) Compile and analyze the results of the survey.

3. Based on the findings of the market survey, recommendations should be made on the most appropriate marketing strategy to increase transshipment in Cape Verde.

4. As an aid to future promotional efforts, an annex should be provided which lists the following:

a) names and positions of interviewees
b) names, addresses, and telephone numbers of firms

West Africa.

7. A workshop(s) as described above.

D. Level of Effort/Consultant Qualifications

The level of effort for this consultancy is 1 person month and can be handled by one individual. The first three weeks of the project should include the researching and compiling of the latest information on the various projects. The final week should consist of a one week visit to Cape Verde so that the consultant can present seminars on the programs to private and public officials in both Praia and Mindelo. The consultant should have marketing and trade expertise with experience in assisting offshore producers in finding appropriate markets. The assignment requires Portuguese or French language capability.

Terms of Reference
VI. Technical Assistance for Port/Transshipment Operations

A. Objective

The overall objective of this consultancy is to assist port management in improving port operations to make transshipment and export operations more viable within Cape Verde. This is essential, as the GOCV has recently passed legislation allowing for the facilitation of transshipment. This new Customs regime will necessitate updating and streamlining of port operations.

B. Tasks

1. Assist port management in simplifying and streamlining port operations, as the quick unloading of cargo is essential to transshipment and export operations.

2. Propose guidelines for the costing of services, including the renting of warehouse space, unloading and loading costs, and other specialized port services.

3. Write a summary of the main constraints affecting port operations, and prepare a list of recommendations to improve port operations.

C. Outputs

1. Technical assistance as outlined above.

2. Summary of project actions taken.

D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is six months of on-site assistance in Cape Verde. The consultant should be a senior expert in port operations, with substantial hands-on experience in transshipment operations. Portuguese language capability is desirable.

c) amount of goods, by tonnage, that the company ships and the amount that could possibly be transshipped through Cape Verde
d) special facilities or services needed
e) level of interest indicated in transshipping through Cape Verde (on a scale of 1 to 10, for example)
f) any other relevant information

C. Output

1. Preparation of report on the above tasks. The last section of the report should lay out a straightforward action plan so that the GOCV can better position Cape Verde for future transshipment activity.

D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 3 person months. It is anticipated that a field mission to Cape Verde is unnecessary, but interviews with European and Brazilian firms must be conducted in-country. The team leader should be experienced in conducting market surveys and have in-depth knowledge of the transshipping industry.

176

Terms of Reference
VIII. Export Processing Zone
Project Identification Study

A. Objective

The overall objectivity of this consultancy is to assess Cape Verde's comparative advantage/competitiveness in the establishment of an export processing zone (EPZ), and to identify specific opportunities and constraints for this sector. The work is intended to arrive at a clear-cut determination of the potential viability of an EPZ in Cape Verde. If the findings of this assessment are positive, more detailed investigations should be identified and undertaken to more fully define the project. This contingent follow-up work can be managed and coordinated by the Center for Investment and Export Promotion. Project funds provided through CIEP can be used to finance the costs of these additional efforts, leading to the implementation of an EPZ program.

B. Tasks

1. Assessment of the national economic environment with regard to basic economic factors, foreign investment regime, "industrial entrepot" legislation, regulatory and institutional framework.

2. Conduct competitive analysis including comparative analysis of various potential locations, and the advantages and disadvantages of geographically concentrated zones versus sub-zones.

3. Define the various types of zones, sectoral focus, ownership (public, private, or mixed) and management.

4. Perform market identification for export processing activities. This should include high potential zone users, sectoral investment trends, and industrial requirements.

5. Identify available suitable zone sites.

6. Delineate constraints or barriers to implementation of proposed project: regulatory, institutional, or procedural.

C. Output

1. A report which presents the findings and conclusions of the tasks described above. The report should be configured so that it allows the GOCV to address potential constraints, choose a location or locations, and determine the appropriate developer/ownership/management structure.

D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 3 person months. The consultancy could be provided by a 2-person team and it is anticipated that 1-person month be spent on a field mission

177

Terms of Reference
VII. Technical Assistance to the Cape Verde Customs Service

A. Objective

To assist Cape Verdian Customs in simplifying and streamlining its operations, particularly with regard to export-oriented industry.

B. Tasks

1. Review present operations and procedures in terms of the following matters:

a) documentation
b) inspection and verification
c) merchandise classification and valuation
d) information collection system
e) internal reviews and controls
f) delegation of authority
g) documentation of internal operating procedures
h) external enforcement
i) external communications and relationships
j) Customs brokers

2. Based on the above findings, recommendations should be made for streamlining Customs operations with a view to substantially reducing Customs clearing time (This has been identified as a major constraint to private sector activities in Cape Verde). Recommendations should also be provided on needed equipment, manuals, and training.

3. Conduct a workshop for senior Customs management on the findings, and present a proposed action plan for improving the workings of Customs.

C. Outputs

1. A report detailing the tasks described above.

2. A workshop as described above.

D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 2 person months. It is anticipated that the work be conducted by one individual and that the work be conducted entirely in Cape Verde.

The required qualifications of the consultant include a detailed understanding of Customs operations and procedures. Previous experience in evaluating Customs regimes in other developing countries with strong export sectors is essential. Portuguese language capability is desirable.

118

Terms of Reference

IX. Technical Assistance to Copesca

A. Objective

The overall objective of this task is to assist Copesca -- Cape Verde's cooperative of private commercial fishing industry -- to further develop its marketing capabilities. This marketing assistance will allow Copesca to increase the quantity and types of seafood sold (and hence export revenues).

B. Tasks

1. Analyze the present marketing efforts of Copesca. Prices received from Interbase and other buyers should be examined as well as the marketing tools presently being utilized.

2. Assess Copesca's present storage, packaging, and distributing network. The ability of Copesca to sell higher-valued fresh fish and deepwater fish markets that are now widely ignored should be explored.

3. Make recommendations on how Copesca can improve its marketing effort without substantial expenditures on facilities and equipment, and with regard to the present world market for the relevant seafood product.

4. Present a seminar on the findings to the executive members of Copesca.

C. Outputs

1. A report which presents the findings of the above tasks.

2. A seminar as described in task 4 above.

D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultantcy is 2 person months of on-site assistance in Cape Verde. The consultant should be an expert in the storage, packaging, distribution, and marketing of seafood products.

in Cape Verde.

The team leader should possess wide experience in the establishment of export processing zone regimes, with a detailed understanding of the regulatory and policy environment needed for a project of this type. The second team member should possess sectoral knowledge of apparel and other light manufacturing sectors, especially with regard to industry trends and requirements.

If the findings of the project identification are positive, the project may wish to fund a prefeasibility study. This generally includes the following elements: market survey, site selection, preliminary engineering, delineation of remaining barriers, preliminary financial plan, identification on funding sources and prospective investors. The result of this phase will consist of a comprehensive implementation plan for a specific project.

This stage of the project would be followed by a feasibility study which includes: physical plan, construction schedule, operations and management structure, enabling instruments, financial plan, economic impact, and environmental impact. The result of this final phase is a detailed project specification which will enable the presentation of the project to third-party funding sources.

based on a complex array of objective and subjective factors. One set of variables relates to the overall investment climate: the international and domestic business climates, local opportunities and operating conditions, and the nature of the incentive package offered. A second set of variables refers to the subjective considerations of the investor: overall business plans and strategies, capital and managerial resources, commitment to the project, and even random events and corporate idiosyncracies.

Despite the breadth of these factors, one should not conclude that official promotion agencies can only pay a minor role in bringing about new private business ventures. Experience shows that carefully developed and properly managed promotion programs can effectively improve the investment climate, stimulate investor interest, and bring to fruition new business activities. Nations with effective promotion programs and competitive incentive packages often have excellent business environments; in this manner, promotional activities and the investment climate are mutually reinforcing. In addition, the impact of promotion can be relatively significant in countries where the domestic business climate is good, but not widely known.

Promotional agencies are rarely self-sustaining. Host governments are willing to pay for the expense of a promotional center because of the employment and foreign exchange benefits a successful promotional agency can bring. However, government expenditures can be reduced through private sector contributions; a number of Caribbean and Central American private autonomous promotional agencies, for example, receive funding of up to 25 percent from the private sector. Private sector contributions are justified on the basis that promotional agencies provide a strong collective voice for the private sector to the government. In this manner, a promotional agency can become an effective mechanism for public and private sector dialogue.

Promotional Activities

Promotional activities can be divided into three categories: publicity, pre-investment assistance, and investment incentives. These three sets of activities are employed in roughly sequential order as they relate to the investment decision-making process.

Publicity activities consist of strategy formulation, advertising, seminars, promotional missions, and direct contact with potential investors. These activities can be carried out through official agencies (embassies, consulates, government-sponsored promotion offices) or through the services of public relations firms. In order to attract the initial interest of potential investors, provide general information on the country's business climate, and reassure current investors of a continuation of political and economic stability.

Once potential investors have expressed interest in a country, the

Annex 14: Investment and Export Promotion

Introduction

Because investment and export promotion is the core activity of the Export Development Services Project, it was felt that a description of the experiences of similar centers in other countries was necessary.

Investment promotion is a set of activities which seek to encourage private entrepreneurs or businesses to invest in new or expanded ventures. The ultimate objective of investment promotion is to bring about increases in employment, income, foreign exchange earnings and other economic benefits such as the creation of backward linkages and the transfer of technology.

While this discussion focuses primarily on communication to potential investors, it is important to realize that the primary focus of the CIEP in its earliest stages will be to improve the policy environment. Because the legislative and regulatory constraints are discussed in depth in annexes 8 and 15, this annex concentrates instead on the promotional aspect. Outreach to potential investors must come second to the establishment of a highly favorable investment climate. (It should be noted that the preparation of this annex has relied extensively on the experience and information gathered by SRI International.)

In functional terms, investment promotion is neither mysterious or complex. It simply involves the employment of various techniques to attract the interest of potential investors and sustain that interest from the point of initial investor inquiry to the time at which new ventures are implemented. Promotion can be likened to any marketing effort which aims to achieve a specified market share. The market in this case refers not to customers for a particular good or service, but rather to the relatively limited pool of domestic and international capital.

Impediments to successful investment promotion stem from many factors. First, investment promoters are often government officials with little experience in the private sector and hence, have limited understanding of business attitudes, needs, and demands. Second, promotion agencies often operate within the context of byzantine bureaucratic and legal structures, which complicate otherwise simple activities. Third, promotion is more of art form than a science, with no fixed rules which assure that a program will be successful. Once these complicating factors are isolated, promotional activities can be easily understood.

Both the positive role and effective limits of investment promotion should be taken into consideration by host country governments. It must be emphasized that the impact of all promotional activities is relatively small compared to other factors involved in the investment decision process. Instead, investment decisions are

3) Provide inducements for -- and facilitate consummation of -- negotiations. The promoting entity itself usually does not possess the authority to approve investments (though this type of system has been found to accelerate the processing of applications and ease investors entanglements with unnecessary bureaucracy). Nevertheless, promotional agencies have played leading roles in the development of appropriate incentive packages and can serve an important intermediary role in gaining investment approvals in a quick fashion for foreign investors unfamiliar with local government processes.

The promotional agency should also remain prepared to involve itself actively at critical points during the investment decision process, both in the active sense of sustaining levels of interest, and in the defensive sense of being prepared to deal with any procedural problems that may arise. In addition, many promotion agencies follow-up on the progress of projects after implementation to help solve infrastructural or bureaucratic problems, with the knowledge that satisfied clients form the best advertisement for the country's hospitable business climate.

A Priori Considerations and Criteria

A promotion center, by itself, is a critical symbol to investors; its existence indicates a country's willingness and ability to attract investment. With this in mind, if a developing country does seek to increase private investments, it should build, develop, and conduct its promotional programs within a rational, internally consistent framework. As such, the construction of this framework requires a great deal of a priori thought and consideration. These considerations include:

1) Host country objectives
2) Host country attitudes towards private investment -- both local and foreign
3) Existing host country assets and liabilities, especially as they relate to attracting investment, as well as those of important competing host countries
4) Prevailing business atttitudes toward the local investment climate
5) Existing promotional efforts

The evaluation of these considerations should be carried out with the primary intention of producing an initial planning document for a promotional center. It should include an honest assessment of the areas covered, including both problems and constraints and positive factors. The importance of assessing weaknesses in the system at the outset is underscored by the fact that, in terms of attracting additional private investment, the ultimate payoff of steps to improve the policy framework or business climate far exceeds that of even major promotional activities.

such as feasibility studies, investment missions, project counselling, or assistance in dealing with relevant government agencies. These services are intended to bring prospective investors closer to making positive investment decisions.

The final form of promotional activity includes the development of an investment incentives package provided by the host country to private sector investors. Host country governments can create -- if they so desire -- an extensive battery of investment incentives. Typical inducements include tax holidays, exemptions from trade restrictions, guaranteed access to foreign exchange, and simplified regulatory procedures.

For analytical purposes, it is helpful to create an additional distinction between the three sets of promotional activities described above. Programs related to both publicity and pre-investment assistance can be characterized as information-based promotion activities. Together, they represent efforts to provide information and analysis to investors prior to the actual implementation of a new or expanded business venture. Incentive-based promotion activities, on the other hand, constitute various forms of assistance provided after the investment decision has been made, and can be defined as any policies, programs, or measures which have the effect of increasing the rate of return on investments. The discusion which follows concentrates on information-based promotion.

Promotional Functions

The functions and requirements for effective promotion can be divided into three basic components:

1) Identify and attract potential business entities interested in investment opportunities (the "publicity" component). The requirements for carrying out this role successfully include the development of information and efficient means for transmitting that information to both potential investors and the host country government.

2) After contacts have been made and initial levels of interest have been determined, the investment promoter must then employ various methods to bring the potential investor closer to a positive decision. This "pre-investment assistance" component involves formal investment missions, data-swapping sessions, informal social functions, feasibility studies, etc., aimed at increasing the stake and interest of both the potential investor and the host country government. The requirements for this role include access to more detailed information (or knowledge of where to obtain it), sufficient financial and organizational resources to deal effectively with investors, and most importantly, adequate access to the proper authorities whose involvement is instrumental to the eventual approval and implementation of the investment.

Organizational Structure

It is safe to assume that all promotional agencies are unique to their host country, at least in certain respects. Variations in organizational structures are functions of differences in governmental systems, priorities placed on investment, ministerial orientations, and even the power and preferences of individuals in high-level positions.

Accepting the caveat that each situation should be approached on a case-by-case basis, a certain number of common organizational characteristics are desirable. First, the units charged with carrying out the various functional activities described above should be integrated organizationally as closely as possible. Second, the organizational structure -- like the activities carried out within it -- should aim to be uncomplicated and clearcut. This is true for any organization, but particularly for any organization interacting with the business community. Third, the general management and operations of the promotional agency should be overseen by an individual with a high level of stature both within government and among the private sector; too often, promotional agencies are not extended sufficient authority to carry out their mandated tasks.

Investment promotion units tend to follow one of four models. They include:

1) Ministry coordinated model. Under this structure, the responsibility for conducting investment-related ministries falls on a single line ministry. While this approach often has the benefit of focus due to its clear position in the government, its efficacy is often constrained by political jealousies in related ministries.

2) Inter-ministerial committee model. This structure is less tightly defined and typically includes representatives from the ministries of industry, foreign trade, commerce, economics, and finance. While this arrangement can limit rivalries, the promotional organizations reporting to an inter-ministerial committee often lack clear direction.

3) Uncoordinated model. Though defying simple description, this model is perhaps the most common. In this case, promotional activities are carried out concurrently by several ministries or agencies, each of which vies for the same market. This structure lacks direction and often yields duplicative or contradictory efforts.

4) Independent investment authority. This model is not attached to any particular ministry or ministries and its sole purpose is to manage promotion-related activities. Its interaction with other government bodies is limited to the research and development of promotional material, legislation,

of substantive material for the promotion process itself. Much of the functional information generated could be edited for inclusion in promotional literature, without a great deal of additional research.

Elements of Promotion Strategy

Investment promotion activities vary considerably in size and cost, depending on the needs, goals, and previous promotional experience in the host country. However, a certain critical mass is necessary for a program to be effective. The functional activities to be carried out fall into the following categories:

1) Adoption of economic policies and a legal framework conducive to investment. While these responsibilities lie with the host country executive and legislative branches, a promotional authority should have a voice in the formulation of economic policies, particularly in the areas of investment statutes, in order to provide valuable feedback from the business community. This is the core portion of any promotion center in its earliest stages.

2) Research and development of promotional material. Perhaps the most important initial component of promotion, at least in efforts to secure investor confidence, is the development and dissemination of information which provides an accurate and up-to-date picture of business conditions in the country. Above all, promotional material should honestly portray the host country's performance and prospects in order to establish credibility. Most investors are sufficiently sophisticated to realize that promoters emphasize positive rather than negative factors, but investors tend to lose confidence in the promoter if basic information is misrepresented or if major problems are ignored in the material.

3) Direct public relations effort. This is one of the most crucial functions of the promotional agency, since it involves activities to attract initial investor interest in the country. The promotion agency can conduct its activities through direct contacts with the business community, or it can carry out its advertising campaign through the media. In addition, the agency can hire advertising agencies and/or public relations firms to provide assistance and guidance.

4) Investor assistance and advisory services. Once potential investors have expressed an interest in pursuing a given venture in more detail, the promotion agency can make itself available to provide assistance to both local and foreign firms. Investor assistance programs might also enlist the aid of international or local banks, law firms, or consulting organizations.

196

almost every case, promotional activities first generate increasing returns but eventually reach a point of diminishing returns. Third, marketing budgets and strategies are most effective when they are based on the seller's competitive position and comparative market strength. As a corollary, new market entrants have to work harder to garner a share of the market, while those with tarnished reputations need to undertake special efforts to overcome negative market perceptions.

In addition, promotion agencies must be staffed by highly motivated, private sector oriented individuals who have business experience (directly or at least by academic training) and excellent communication skills. Past experience shows that next to the overall business climate, no single other factor is as critical to investment and export promotion success as qualified personnel.

Incremental Programs

In addition to the activities described above that comprise the foundation of a promotion unit, there are also a wide range of options available depending on host country goals and financial considerations. They include the following:

1) Overseas branch offices. If the host country investment authority wishes to increase its contacts with foreign firms in order to attract new investments, the establishment of independent branch information/assistance offices could be considered. For example, in the mid-80s, more than 50 nations maintained investment offices of some kind in New York City alone. Many of these missions are tied to trade and tourism offices or to U.N. missions and/or foreign consulates. The basic annual budgetary cost for a relatively modest promotion office in New York City is estimated between $250,000-$300,000 per year. Due to Cape Verde unique history, an overseas branch office might be more successful in Boston or Lisbon.

2) Advertising. Although advertising is expensive and measuring its effectiveness is highly problematic, nearly all organizations, whether corporations, interest groups, political parties or governments, agree that advertising can produce results. The challenge is to design and undertake an advertising campaign which not only reaches the appropriate audience at the appropriate time, but also effectively induces the target audience to take the desired course of action. Officials at major public relations firms suggest that conceiving and implementing a moderately sized marketing campaign would entail an annual fee of approximately $100,000 for the services of public relations firms. Comparable fees for advertising firms might also be required.

Another avenue that many promotional agencies have found more cost-effective is targeted advertising in selected trade

approval process. This type of structure has the most focus and has often yielded the best results. In Costa Rica, the Dominican Republic, and El Salvador, independent investment authority performances have far exceeded those of the ministerial or inter-ministerial models.

Targeting

There is almost universal consensus on the point that promotional activities should be targeted, both in order to direct investment flows into priority sectors and to utilize scarce promotional resources efficiently. In some countries, because of budgetary limitations, promotional activities are initially concentrated on responding to prospective investors' inquiries. Scatter-shot public relations efforts are not only time-consuming and costly, but also relatively ineffective. From the host country perspective, targets can relate to regions, economic sectors, or individual industries. History has shown that governments have a poor record in choosing winners and losers among industries; however, if sectoral targets are chosen on the grounds of basic economic facts -- factor endowments of land, labor, capital, infrastructure and technology -- governments can more successfully utilize their countries' comparative advantages. Strategies of this kind have been effectively implemented in the newly industrializing countries of East Asia and more recently within the Caribbean Basin.

Those experienced in investment and export promotion claim that no country is unpromotable. Each nation has its own selling points which must be recognized and developed, whether they are low labor costs, geographic proximity to markets, preferential trade agreements, resource availability, technological capabilities, or an extremely competitive incentives package. It is the task of the promotional agency to recognize the basic strengths and weaknesses of the host country, and to direct its activities accordingly.

Promotion Program Options

Investment promotion is in almost every respect a marketing operation. The objective of the promoter is to sell a product (in this case, the host country as an investment site) and maintain or increase the host country's market share of total investments. The promotional activity employs the same fundamental sales techniques large manufacturers use to sell soap or haberdasheries employ to sell clothing. These methods include: advertising, to interest investors; pre-sales assistance, to give advice and personalized service; incentives, to make the product more attractive.

Several basic marketing principles hold for investment promotion. First, the quality of the product is the most important selling point. Simply put, promotional activities are no substitute for improving investment conditions as an inducement to new investment. Effective promotion programs advertise objectively good investment conditions; deceptive promotion can work only once. Second, in

types of firms that have initaited inquiries. Records should show whether the inquiry was the result of an advertisement, article, seminar, investment mission or other promotional activity.

Once potential investors have been identified, the log should record the progress of new ventures as they proceed through the investment process. This should continue, at minimum, until the company has received investment approval. Effectiveness of the promotional agency can best be gauged through quantifying the number of investment inquiries, site visits, application for investments completed, and investment approvals received. Mature investment programs consider a 10-15 percent rate of new ventures established compared to inquiries to constitute a successful program.

Immediate or dramatic results from promotion activities are unlikely, and should not be expected. In fact, promotion programs aimed at quick results will often fail, since prospective investors -- like all sophisticated customers -- react adversely to hard sales pitches. Promotion programs take time to yield discernible results because they are essentially educational exercises. The more obscure the host country, or the more negative its image, the longer the lead time that will be required for programs to bear tangible results. This payoff period can only be shortened marginally by substantially more ambitious programs and expenditures.

attract apparel manufacturers might undertake an advertising campaign which specifically addresses apparel industry concerns in publications read by apparel executives such as Bobbin. Such highly-focused approaches are more likely to generate investor interest for substantially less cost than general mass media campaigns.

Direct mail advertising is another relatively inexpensive approach that can target higher potential audiences. The effectiveness of direct mail campaigns can be improved through the use of list brokers who can generate tailored mailing lists.

3) Solicitation of press. Business executives are often skeptical of the validity of advertisements placed by countries promoting investment, and hence tend to pass them by. They are more likely to be swayed instead by articles written by business or economic reporters which they view as being more objective. As a result, one effective method for drawing the business community's attention is to promote press coverage and reporting. This can be accomplished by several means. First, business press tours in which a select number of reporters or editors are provided with transportation and living expenses and are briefed on business conditions and economic achievements in the host country. While the results are not guaranteed to be positive, tours can be produced to accentuate the positive. This method is an important path to creating a greater depth of understanding of the host country opportunities and problems. Second, is the media event which entails announcements of economic progress, new policy pronouncements, or major achievements of the host country. Alternatively, media and corporate attendance at one-day conferences on the investment climates of host countries normally assures both direct and indirect (word-of-mouth) advertising.

One important but sometimes neglected activity for any promotion agency is the development of close working relationships with the host country media. The generation of public support is often a crucial ingredient required for any investment program to be successful, particularly in countries where attitudes towards the private sector -- either foreign or domestic -- have been or are, generally negative.

Conclusions and Monitoring of Results

The ultimate measure of the performance of promotion activities is the number and size of new investments, jobs created, and foreign exchange earnings generated. There is no practical method to determine the relative impact of promotional efforts on investment decisions as distinct from the general investment climate or other factors. However, several simple and inexpensive procedures have been successfully utilized to measure promotional progress. For example, many promotional offices keep logs on the numbers and

4) Agricultural and Livestock Exploitation with an Industrial Nature
5) Transshipment
6) International Sea Transport
7) Services in Support of the Above Activities

The draft foreign investment code contains a number of clauses that are attractive to foreign investors. Foreign investment in many forms is accepted including capital, goods and services. The sectors allowed are clearly specified. Foreign investors are also promised equal treatment before the law. The code guarantees that companies can repatriate their capital investments, profits and dividends in foreign currency. The code also does not impose any minimum local ownership requirements.

Although the code contains a number of important commitments, there are a few provisions missing which are of interest to investors. For example, in Article 5, (Submission to Authorization and to Register), the code refers to prior approval procedures which will be specified by a separate decree, (it was assumed by the mission that the decree referred to is the industrial statute). Because the approval procedures should be the same for all sectors open to foreign investment, the team recommended that approval procedures be specified in the more general investment code as opposed to the sector-specific industrial statute. The countries that have been most successful in attracting foreign investment are those with clear guidelines of how long the approval process can take and which agency or agencies has authority to grant approval.

Article 10 (Currency transfer) of the proposed code guarantees foreign investors access to foreign exchange for repatriation of capital, profits and personal income or for servicing of offshore loans. However, access to foreign exchange can be delayed up to 60 days (up to years in exceptional cases) after applications have been submitted which could deter potential investors. In addition access to foreign exchange for imports was not mentioned. As an alternative, the mission recommended that foreign investors be allowed to establish foreign exchange accounts with the Bank of Cape Verde, similar to the accounts emigrants are now able to maintain. In this way access to foreign exchange would not be a constraint to investors. The article should also specifiy the numbers of years that investors can freely repatriate profits and dividends, if in perpetuity it should be specified.

Article 12 (Special Tax Incentives) offers exoneration from corporate income tax for "an initial period" which is vague and discretionary. The team recommended exoneration from income tax of at least eight years. Many countries offer a tax holiday in perpetuity to exporters participating in special incentives schemes. The team also recommended that the GOCV specify in the code the general package of incentives and conditions applicable to all firms such as import and export duty exemptions and re-investing of profits.

Article 14 (Establishing Agreements) refers to special incentives (more favorable) to investors undertaking activities that "given their size or nature, economic implications, social or technological, or any other circumstances prove to be exceptional interest in the context of

ANNEX 15

REVIEW OF INVESTMENT AND INDUSTRIAL DEVELOPMENT LEGAL FRAMEWORK

Overview

As of May 1989 the GOCV has prepared five separate statutes related to the encouragement of investments and export industry in Cape Verde. Two of the five statutes have already been approved. The first, the Offshore Banking Law was approved by the National Assembly in December 1988. The second, the Customs Regulations for Entrepots was approved as a regulation by Cabinet in March 1989.

The three remaining statutes are still in draft form. Two of those, the Foreign Investment Code and the Industrial Development Law, provide the overall framework for foreign investment and industrial development and are expected to be approved by the National Assembly in the June 1989 session. The remaining law, the Industrial Statute, is expected to be approved by Cabinet soon after the approval of the two framework laws to be approved by the National Assembly.

Together the five statutes constitute an effective regime for the encouragement of investment and export industries. The proposed new legislation goes a long way toward establishing more transparent rules regarding investment approval and establishment. There are also provisions for more automatic granting of incentives. In the past, foreign investors often had to negotiate the terms of their investments on a case-by-case basis leading to delays in establishment and uneven treatment among investors.

In the sections which follow the five major statutes are summarized and briefly reviewed from an economic perspective and not a legal one. The major strengths and weaknesses are highlighted.* During the PP visit the team was asked to make specific recommendations to GOCV on the draft legislation before it was to be submitted to the National Assembly. It is anticipated that during project implementation, periodic review and refinement of the regulations will be required in order to ensure that the investment regulatory climate is an attractive one.

Foreign Investment Code

The draft foreign investment code encapsulates the framework for providing guarantees for foreign investment in several different sectors. These include:

1) Extractive and Processing Industries
2) Hotels and Tourism
3) Fisheries

---

* Many of the summary findings of this annex are based on a previous detailed review of investment legislation carried out by The Services Group in March/April 1989

development policy which will facilitate the internal and external circulation of Cape Verdean industrial products." A stronger statement would be a commitment to establishing a low cost and competitive transport and communication system.

The industrial development law also makes several references to subsequent legislation (Articles 5,9,15,17,24) can be confusing to investors. It would be clearer to investors if all the rules and incentives for industry were specified in one law. In defense of this practice the Cape Verdean authorities explained that it is customary in Cape Verde for the National Assembly to approve laws which provide the general policy orientation while laws specifying more precise technical and economic regulations are approved by Cabinet.

If the law stated the Government's commitment to the industrial terms in stronger and more precise terms, the law could be used more effectively as an internal policy guideline for industry, as well as promotional instrument, to attract foreign investment.

Industrial Statute

The GOCV Ministry of Industry, (IPU) prepared a comprehensive industrial statute in late 1988 which was subsequently reviewed by most government agencies including the Bank of Cape Verde as well as a few foreign donors, including USAID. Based on the feedback obtained, the GOCV will likely introduce only a few changes. The core of the statute, however, will remain. Its approval and publication is expected by August 1989.

The current draft is divided in five chapters covering a wide range of regulations relating to: i) procedures for approval of industrial projects and registration; ii) incentives; iii) special rules for export companies; iv) inspections and penalties; and v) miscellaneous provisions.

While any sizeable industrial activity requires authorization from the GOCV, the specific procedures appear to be fairly clear and straightforward. It is evident that the GOCV Ministry of Industry and Energy made an effort to ease the bureaucratic procedures and expedite the approval process of industrial projects, especially those targeted at the export market.

Industrial companies will also be granted an attractive package of incentives designed to foster industrial production and exports. These incentives include: i) no quantitative import restrictions; ii) exemption of import duties on equipment and building materials; iii) temporary exemption of import duties of raw and intermediate materials; and iv) duty exemption of products imported for re-export.

Special incentives are provided to the launching of new industries outside the urban area of Praia (Santiago), Mindelo (S. Vincente) and Sal. The statutes also include specific income tax exemptions for industrial companies for a fixed time period, (5 years for new industrial

193

national development." These criteria are not very precise and could lead to protracted negotiations, delays in establishment and a perception of unequal treatment among investors. It was recommended that the granting of incentives be automatic and transparent for all investors.

Finally, there is a problem of excessive legalism in the code that several articles make cross references to other laws and regulations which investors are subject to, yet it is never specified what the laws are. These vague references are made in Article 6 (Applicable Legislation), Article 11 (General Incentives), Article 10 (Cape Verdean Emigrants), and Article 16 (General Conditions). The references to unknown laws are not viewed favorably by firms. They prefer clear and transparent rules and regulations and not "surprises" after getting established.

Industrial Development Law

The Industrial Development Law is the legislation which, in its final approved form, will define the Government's policy objectives, development strategy and general regulatory framework for the industrial sector.

The industrial development law is comprehensive and generally provides a workable framework in support of industrial development. The law establishes the critical role that industry will play in Cape Verde's future development. The role of private enterprise (both foreign and local) is acknowledged to have an essential role in the process of industrial development. The law provides a commitment by GOCV to promote industrial development and encourages the creation of EPZ's. A very general description of the incentives offered to industrial producers is given (Article 14).

The law (Article 30) allows for the contracting of foreign workers although it does not specify any limits or quotas. Many countries specify a specified percentage of the total workforce, (say 20%) that can be foreign.

Although the law gives general support to the industrial sector it does not provide as strong a commitment to the sector as might be desirable in order for the law to have promotional value in the international investment community. Several articles could be stated more strongly in order to be attractive to foreign investors. For example, Article 30 (Labor Policy) states that labor policy "will attempt to take into consideration the specifics of the industrial activity," a stronger clause might mention the need for manufacturing to have a flexible labor policy in order to compete effectively in the world market. Article 36 (Exchange Rate Policy) states that "to the extent possible the exchange rate will take into consideration the competitiveness of national products in foreign markets." A more convincing statement might be that " exchange rate policy will be used to maintain the competitiveness of national products in foreign markets". In another section, Article 36 (Transport and Communication); the law states that "the Government will pursue a transport and communications

their exclusive use.

Overall the regime is complete and well organized. The decree establishing the customs regime of entrepots has five chapters. A background section puts the regulations into political and economical perspective, relating them to the ongoing reorientation of GOCV's economic strategy. It is also clearly stated that the establishment of the entrepot regime can be a prerequisite for the creation of export processing zones.

plants and 3 years for expansion projects). The law also allows for the deduction of selected expansions, such as reinvested profits and training costs, form the yearly taxable income. Sales of any production inputs to export companies will be dealt with, as far as tax incentive and import duties are concerned, as exports.

For exporting industries, the statute devotes an entire chapter to establishing special incentives. They comprise exemption of sales tax over an initial period of ten years, easy access to foreign currencies at the Bank of Cape Verde, and exemption of import duties on virtually any products which would be re-exported. Export companies are allowed tosell up to 5% of their production in the domestic market provided that they pay the respective import duties and taxes on that production.

This statute is the first regulation in Cape Verde providing specific incentives to encourage export industry. It clearly aims at fostering industrial production and exports. Because it is a first step for a country which is just now embarking on an outward orientation, the actual implementation of these regulations will certainly require adjustments and amendments in the foreseeable future. However, in general this statute is a well formulated set of regulations which will give a comparative advantage to Cape Verdean industrial projects in export markets. The statute's major strengths lies in its specificity and focus on industrial exports. Its weakness relates to an overprotection of local industry (duty exemption even when selling in the domestic market), (Article 31), which might encourage to industries that, once the exemption period is over, can not survive competition from imports. Furthermore, the limiting of customs duties incentives to goods "which are not produced in the local market on similar conditions of price, quality and delivery", (Article 34). If the local goods are competitive with imports, exporters would buy them on commercial grounds and would not require laws to oblige them.

As new industries emerge and exports increase these and other required adjustments to the regulations will be made.

Customs Regime of Entrepots

In late 1988, the GOCV prepared a draft decree (Operating Regulation) establishing the legal regime of entrepots in Cape Verde. This decree was widely circulated among the appropriate agencies of the government and selected foreign donors including USAID. The regulation was approved by the Cabinet in March 1989, and in May 1989 it was legally established as the customs regime of entrepots in Cape Verde. The Cape Verde entrepot program will allow merchandise imported into the customs territory of Cape Verde to be temporarily stored without the payment of customs duties and associated taxes. Two types of entrepots are allowed in the proposed regime -- i) stockage entrepots for the general storage of merchandise not to be processed or manufactured; and ii) industrial entrepots where merchandise can be manufactured or processed into other goods. Two types of stockage entrepots are to be authorized -- i) public entrepots operated by concession holders for the use of the general public; and ii) private entrepots operated by individual importers for

196

Cape Verde, as one of the 65 ACP signatories, enjoys all the general rights and privileges contained in the Agreement. In addition, Cape Verde receives incremental benefits as an island nation, as specified in Articles 257 and 262.

EC Guidelines

Article 130 of the Lome Convention exempts products originating in ACP countries from any import duty or tax when exported to the EC market. In addition, the EC is not to establish any quantitative restrictions on imports from ACP nations. However, ACP products are not entitled to import duties that are more favorable than those enjoyed by goods produced within the EC.

Defining the origin of a product is often a complex process and is dealt with in Protocol No. 1 of the Agreement. Products "originating" in an ACP country are segmented into the following categories:

1) Products that have 100 percent value-added in an ACP country;
2) Products imported from the EC, processed in an ACP nation, and then re-exported to the EC;
3) Products imported from non-EC/ACP countries, processed in an ACP nation, and exported to the EC.

Duty-free status for the third category can only remain so long as value-added from non-EC/ACP nations does not exceed the percent of the finished product's total value as allowed under the Agreement. These amounts vary within a range of 20-50 percent, depending on the particular product category.

In order to receive EC privileges, the origin and processing of the product must be stated in an "import permit." This document is used to describe the history of the product and how it qualifies under the requirements of the Lome Convention. The standard format to be used is contained in Annex V of Protocol No. 1 of the Lome Agreement.

There are also a number of products excluded from special exemption as shown in Annex IV of the Protocol document. These non-exempt goods include essential oils, hydrocarbons, lubricants, waxes, and lubricant additives.

Implications for Cape Verde

Cape Verde enjoys special access to the EC market, not only due to its membership in the ACP nations, but also as an island nation. While these "special rights" are left ambiguous in the Lome document, Cape Verdean producers can be assured of access as good as any country outside of the EC itself.

This preferential access, when combined with Cape Verde's low labor rates, gives Cape Verde an excellent opportunity to exploit the EC market. These comparative advantages can form a strong foundation for export-oriented growth, if combined with a competitive legislative and regulatory package.

Annex 16: Access of Cape Verdean Products to the EC Market

One of Cape Verde's comparative advantages is its access to markets in developed countries. With the ending of GSP status in Taiwan, South Korea, and Singapore recently, investors from these nations are looking for new offshore manufacturing sites. The GOCV has received inquiries regarding its special trade status from a number of investors. Due to Cape Verde's location, foreign and local investors have been especially interested in Cape Verdean product access to the European Community (EC). As such, the project team has summarized the main provisions of the Lome Agreement. However, time constraints and lack of informational material precluded an in-depth study of this important issue. Therefore, terms of reference for a study and seminar on Cape Verdean product access to developed country markets have been included in Annex 13.

Summary

o Under the Lome Convention III, signed in Lome, Togo in December 1984, Cape Verde enjoys a significant commercial advantage in exporting products to the EC market.

o The privileged position of Cape Verde derives from: i) status as an ACP country; ii) being on the list of less developed countries; and iii) being one of 24 island nations given special preference due to problems resulting from isolation.

o Nearly all Cape Verdean or EC products processed in Cape Verde and exported to members of the community are exempted from any import duties or related taxes. This exemption will likely attract European industries, especially those that are labor-intensive.

o Third country products (non-ACP/EC) which are processed in Cape Verde also enjoy exemption of duties and taxes within the EC if the value of such products does not exceed the percentage fixed by the Convention for that particular product.

Overview

As of December 8, 1984 the European Community (EC) and the Africa/Caribbean/Pacific (ACP) nations signed the Lome Convention. This Agreement covered a wide range of areas including cooperation in key economic sectors such as fisheries, industry, agriculture, mining, and trade. The Agreement's stated goals are to promote and expedite the economic, social, and cultural development of ACP countries and to strengthen and diversify relations between the EC and ACP countries.

The Convention's major objectives are as follows:

1) increase trade between EC and ACP nations;
2) support the development of ACP countries via the strengthening of the developing nation's capacity for innovation, adjustment, and use of technology;
3) assist ACP nations in gaining access to the EC market and to encourage EC investment within the ACP;
4) ease the imalances found in the export prices of agricultural commodities and support ACP nations in overcoming deficiencies in their mining sector.

a. PACD. The project assistance completion date is September 30, 1993.

b. Source/Origin and Nationality of Goods and Services. Goods and services, including ocean shipping, financed by A.I.D. under the Project shall have their source and origin or nationality in A.I.D. Geographic Code 935 countries. Third Country training is authorized in A.I.D. Geographic Code 899 countries. Ocean shipping financed by A.I.D. under the grant shall, except as A.I.D. may otherwise agree in writing, be only on flag vessels of the United States. As required by A.I.D. policy for projects funded by DFA appropriations, a Procurement Plan has been prepared to ensure maximum U.S. source procurement consistent with effective project implementation.

c. Conditions Precedent. Disbursement of funds will be governed by Conditions Precedent in substance as follows:

First Disbursement. Prior to the first disbursement under the Grantee, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) A statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(b) Certified copies of the Foreign Investment Law and the Industrial Development Law as passed by the National Assembly,together with a statement that both such laws have entered into force;

(c) A letter of understanding signed by the appropriate Minister promising to propose to the Council of Ministers a Decree Law that:

(i) creates the Center for Investment and Export Promotion (CIEP) as a legal entity under Cape Verdean law, possessing financial and administrative autonomy;

ANNEX 17

DRAFT PROJECT AUTHORIZATION

Country : Republic of Cape Verde

Project Title : Export Development Services

Project Number: 655-0014

1/ Pursuant to the Foreign Assistance Act of 1961, as amended (FAA) and to the section entitled, Sub-Saharan Africa, Development Assistance, of the 1988 Continuing Resolution ("DFA"), I hereby authorize the Export Development Services Project ("the Project") for the Republic of Cape Verde ("GOCV" or "the Grantee"), involving planned obligations of not to exceed Four Million United States Dollars ($4,000,000) in grant funds over a period of four years and three months from the date of authorization, subject to the availability of funds for the purpose in accordance with the A.I.D.'s OYB allotment process, to help in financing foreign exchange and local currency costs of the Project.

2/ The Project will provide support to Cape Verde's private sector by mitigating constraints to expansion of export-assisted production, trade and private sector participation. The Project will support 1) the creation of a Center for Investment and Export Promotion to study, promote and assist investment and export activities; 2) GOCV policy and administrative reforms that facilitate domestic and foreign investment and export activity; and 3) a strengthened public and private sector capacity to promote investment in Cape Verde. The Project will finance the costs of technical assistance and consulting services, conferences, site-visits and other educational activities, commodities and equipment, and other goods and services necessary to achieve the Project purpose and produce Project outputs.

3/ The Project Grant Agreement, which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, will be subject to the following terms and conditions together with such additional terms and conditions as A.I.D. may deem appropriate:

(a) A certified copy of the Decree approved by the Council of Ministers and signed by the President, to create the CIEP substantially in the form described in the letter of understanding referred to in Section 4.1 above.

(b) A statement identifying the person who has been appointed to act as executive director of the CIEP together with a specimen of his or her signature;

(c) A workplan including staffing and budget signed by the executive director of CIEP providing for activities required to establish the CIEP as a functioning office.

d. Disbursement Mechanisms.

In the absence of a Section 121(d) qualified Cape Verdean entity, disbursement for all project expenditures in local and foreign exchange will be handled by USAID/Cape Verde through direct procurement methods in accordance with Handbook 1, Supplement B. At such time as the Center for Investment and Export Promotion is established, the Project will make use of REDSO/WAAC services to set up and certify accounting procedures within the Section 121(d) requirements. It is anticipated that the Agreement and Authorization will then be amended to permit disbursement, at least of CIEP's annual operating expenses, to a CIEP bank account under standard advance/liquidation procedures

e. Covenants. In addition to the standard General Covenants, the Project Grant Agreement will contain Special Convenants in substance as follows:

Center for Investment and Export Promotion. The Grantee will take all steps consonant with Cape Verdean law to create and maintain the CIEP as a legal entity having financial and administrative autonomy and an advisory board composed of public and private sector advisors. The CIEP shall be established with the following authorized functions;

(ii) proposes articles of incorporation reflecting the character and structure of the CIEP agreeable to the Parties including an advisory board composed of both public and private sector advisors,and an executive director.

Additional Disbursements. Prior to disbursement under the Grant for expenditures other than those covered by Section 4.3 below, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) For technical assistance, including contracts for advising, consulting and training services, a formal request to A.I.D. from the appropriate ministry, agency or other group specifying the services required;

(b) For participant training and conference attendance evidence of the candidate's background,qualifications and acceptance for training by the relevant institution, together with a description of the course of study or comparable agenda, including schedule and budget;

(c) For travel, a proposed itinerary for identified traveller, together with a statement of the purpose of travel and budget;

(d) For other expenditures, such documentation as A.I.D. may reasonably require.

Disbursement for CIEP. Prior to disbursement under the Grant for any expenses of the CIEP including but not limited to procurement of commodities, and services, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., the following:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas of constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

4/ Waivers. No waivers are required for this Project.

5/ Section 110(a). The requirement of a host country contribution of 25% of project cost (FAA, Section 110(a)) does not apply to Cape Verde, a Sahelian country which, under Section 121, is not subject to Section 110(a). GOCV is, however, contributing 10 percent of the total project expenses.

6/ Section 121(d). Section 121(d) of the FAA requires a determination of the adequacy of host country accounting systems before DFA assistance funds are made available to that country. In this case, the A.I.D. representative has certified that no grant funds will be made available to GOCV, and the determination that Section 121(d) does not apply to this project is attached to the Project Paper in Annex 10.

_____

Date_____

clearances:

draft:RLA:MAlexander

102

(a) to provide and/or coordinate research, information management and analysis relevant to export development;

(b) to promote international and domestic investment in Cape Verde and support promotional efforts by other public and private sector bodies;

(c) to advise both investors and governmental agencies in the development and use of a regulatory structure for investment.

CIEP Records and Reports. The Parties agree to provide the CIEP with such technical assistance, personnel and other resources as may be necessary to ensure that CIEP:

(a) Maintains financial books and records in accordance with generally accepted accounting principles regularly applied, which books and records shall be accessible to authorized representatives of A.I.D. at such times as A.I.D. may reasonably request;

(b) Provides the Parties with financial reports and reports of its undertakings and accomplishments on at least an annual basis.

Site Visits, Conferences, Training. The Grantee agrees that all individuals participating in site visits, training, conferences and like activities under the Project will be selected by fair competitive procedures based on their qualifications and abilities to contribute to Cape Verdean economic development.

Export Development Limitations. Except as A.I.D. may otherwise agree in writing, studies and other activities financed under the Grant shall not be designed or used specifically to support the manufacture for export in direct competition with United States exports, of textiles, apparel, footwear, handbags, flat goods such as wallets, work gloves or leather wearing apparel.

Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

ANNEX 18

DRAFT

PROJECT GRANT AGREEMENT

Between

The Republic of Cape Verde ("Grantee")

And

The United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Grantee of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, attached, will finance export studies and technical assistance, and will establish an independent center for the study, promotion and facilitation of foreign investment, exports, trade and service activities in Cape Verde. Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this Agreement.

SECTION 2.2. Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed. Subject to the above, it is anticipated that A.I.D.'s contribution will amount to four million United States dollars ($4,000,000) over the life of the project.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Grantee, may specify in Project Implementation Letters appropriate time periods for the utilization of funds granted by A.I.D. under an individual increment of assistance.

Article 3: Financing

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed one million, four hundred thousand United States ("U.S.") Dollars ($1,400,000) ("Grant").

The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

SECTION 3.2 Grantee Resources for the Project

(a) The Grantee agrees to provide or cause to be provided for the Project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Grantee for the Project will be not less than the equivalent of U.S. $478,000, together with such costs borne on an "in-kind" basis as may be necessary.

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is September 30th, 1993, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

206

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters are to be received by A.I.D. or any bank described in Section 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., upon giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Conditions Precedent to Disbursement

SECTION 4.1 First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) A statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(b) Certified copies of the Foreign Investment Law and the Industrial Development Law as passed by the National Assembly, together with a statement that both such laws have entered into force;

(c) A letter of understanding signed by the appropriate Minister promising to propose to the Council of Ministers a Decree Law that:

(i) creates the Center for Investment and Export Promotion (CIEP) as a legal entity under Cape Verdean law, possessing financial and administrative autonomy;

(ii) proposes articles of incorporation reflecting the character and structure of the CIEP agreeable to the Parties including an advisory board composed of both public and private sector advisors, and an executive director.

SECTION 4.2. Additional Disbursements. Prior to disbursement under the Grant for expenditures other than those covered by Section 4.3 below, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) For technical assistance, including contracts for advising, consulting and training services, a formal request to A.I.D. from the appropriate ministry, agency or other group specifying the services required;

(b) For conference attendance, training, and site visits, evidence of the candidate's background, qualifications and acceptance for training by the relevant institution, together with a description of the course of study or comparable agenda, including schedule and budget;

(c) For travel, a proposed itinerary for identified traveller, together with a statement of the purpose of travel and the budget;

(d) For other expenditures, such documentation as A.I.D. may reasonably require.

Article 5: Special Covenants

SECTION 5.1. Center for Investment and Export Promotion. The Grantee will take all steps consonant with Cape Verdean law to create and maintain the CIEP as a legal entity having financial and administrative autonomy and an advisory board composed of public and private sector advisors. The CIEP shall be established with the following authorized functions:

(a) to provide and/or coordinate research, information management and analysis relevant to export development;

(b) to promote international and domestic investment in Cape Verde and support promotional efforts by other public and private sector bodies;

(c) to advise both investors and governmental agencies in the development and use of a regulatory structure for investment.

SECTION 5.2. CIEP Records and Reports. The Parties agree to provide the CIEP with such technical assistance, personnel and other resources as may be necessary to ensure that CIEP:

(a) Maintains financial books and records in accordance with generally accepted accounting principles regularly applied, which books and records shall be accessible to authorized representatives of A.I.D. at such times as A.I.D. may reasonably request;

(b) Provides the Parties with financial reports and reports of its undertakings and accomplishments on at least an annual basis.

SECTION 5.3. Site Visits, Conferences, Training. The Grantee agrees that all individuals participating in site visits, training conferences and like activities under the Project will be selected by fair competitive procedures based on their qualifications and abilities to contribute to Cape Verdean economic development.

SECTION 4.3. Disbursement for CIEP. Prior to disbursement under the Grant for any expenses of the CIEP including but not limited to procurement of commodities and services, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) A certified copy of the Decree approved by the Council of Ministers and signed by the President, to create the CIEP substantially in the form described in the letter of understanding referred to in Section 4.1 above.

(b) A statement identifying the person who has been appointed to act as executive director of the CIEP together with a specimen of his or her signature;

(c) A workplan including staffing and budget signed by the Executive Director of CIEP providing for activities required to establish the CIEP as a functioning office.

SECTION 4.4. Notification. When A.I.D. has determined that the conditions precedent specified in Section 4.1 and 4.3 have been met, it will promptly notify the Grantee.

SECTION 4.5 Terminal Dates for Conditions Precedent.

(a) If all the conditions specified in Section 4.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

(b) If all the conditions specified in Section 4.3 have not been met within 9 months from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of Grant, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Grantee.

SECTION 5.4 Export Development Limitations. Except as A.I.D. may otherwise agree in writing,the Parties agree that studies and other activities financed under the Grant shall not be designed or used specifically to support the manufacture for export in direct competition with United States exports, of textiles, apparel, footwear, handbags, flat goods such as wallets, work gloves or leather wearing apparel.

SECTION 5.5 Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas of constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

Article 6: Procurement Source.

SECTION 6.1 Foreign Exchange Costs. Disbursements pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having, with respect to goods, their source and origin, and with respect to services their nationality in countries included in A.I.D. Geographic Code 935 as in effect at the time orders are placed or contracts entered into for such goods and services, ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance. Ocean transportation costs will be financed under the grant only on vessels under flag registry of the United States, except as A.I.D. may otherwise agree in writing.

SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 will be used exclusively to finance costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Cape Verde ("Local Currency Costs"). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

-211

Article 7.: Disbursement.

SECTION 7.1. Disbursement for Foreign Exchange Costs.

After satisfaction of conditions precedent, the Grantee may request that A.I.D. make disbursements on its behalf upon presentation of necessary supporting documentation as prescribed in Project Implementation Letters. A.I.D. will arrange for disbursements to suppliers in accordance with its standard procurement methods.

SECTION 7.2 Disbursement of Local Currency Costs.

(a) After satisfaction of conditions precedent, the Grantee may request that A.I.D. make disbursements of funds under the Grant to suppliers for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting such requests to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters. A.I.D. will handle such disbursements in accordance with its standard procurement methods.

(b) The local currency needed for such disbursements may be obtained:

(i) by acquisition by A.I.D. with U.S. Dollars by direct purchase; or

(ii) by A.I.D. (A) requesting the Grantee to make available the local currency for such costs, and (B) thereafter making available to the project an amount of U.S. Dollars equivalent to the amount of local currency made available by the Grantee, which dollars will be utilized for project purposes.

The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b)(i) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b)(ii) above, an amount calculated at the rate of exchange as specified in Section 7.4 on the date when A.I.D. obtains the local currency.

212

SECTION 7.3. Other Forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2, if funds provided under the Grant are introduced into Cape Verde by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into currency of Cape Verde at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Cape Verde.

Article 8: Miscellaneous.

SECTION 8.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee:

Mail Address:

Alternate address for cables:

To A.I.D.:

Mail Address:

Alternate address for cables:

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Grantee, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D.

23

SECTION 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Director of Bilateral Cooperation, Ministry of Cooperation and A.I.D. will be represented by the individual holding or acting in the office of A.I.D. Representative, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement until receipt of written notice of revocation of their authority.

SECTION 8.3. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

SECTION 8.4. Language of Agreement. This Agreement is prepared in both English and Portuguese. In the event of ambiguity or conflict between the two versions, the English language will control.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year last below written.

REPUBLIC OF CAPE VERDE

By:_____

Title: Director of Bilateral Cooperation
Ministry of Cooperation

Date:_____

UNITED STATES OF AMERICA

By:_____

Title: Ambassador to Cape Verde

Date:_____

By:_____

Title:_____

A.I.D.
Representative

Date:_____