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**AN ASSESSMENT OF THE ORGANIZATIONAL
AND DEVELOPMENT NEEDS OF THE
PRIVATE SECTOR IN CAPE VERDE**

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PREFACE

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ACRONYMS

NDP	National Development Plan
ACAS	Associação Comercial de Sotavento
ACIAB	Associação Comercial de Barlavento
ADB	African Development Bank
AEN	Associação Empresarial Nacional
BCV	Banco de Cabo Verde
CECV	Caixa Económica de Cabo Verde
EC	European Community
EDS	Export Development Services Project
ENAPOR	Empresa Nacional dos Portos
EPZ	Export Processing Zones
FAO	UN Food and Agricultural Organization
FEC	Forum Empresarial de Cabo Verde
GDP	Gross Domestic Product
GOCV	Government of Cape Verde
IADE	Industrial Promotion Unit
ISPS	Instituto de Seguros e Providência Social
MPD	Movimento pela Democracia
NOFE	Núcleo Operacional de Formação Estratégica
PAICV	African Party for Cape Verde Independence
PROMEX	Center for the Promotion of Exports
SOEs	State-Owned Enterprises
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

A. Background

The objective of this report, as stated in the Scope of Work, is to:

Undertake an assessment of the needs, potentials and limitations for the development of the private sector in Cape Verde, with special emphasis on the organization and development of the formal sector. (See Annex D).

The purpose of the report is to provide USAID/Cape Verde with an assessment of "the needs, potentials and limitations for the development of the private sector" with particular focus on its developmental and organizational needs. In addition, the assessment includes a section on "lessons learned" and offers a set of "next steps" for designing project interventions aimed at organizing and strengthening the private sector, particularly its ability to compete effectively in the international market.

B. Findings

In general, the assessment found that while the GOCV has legislated several economic policy reforms, they have yet to be effectively implemented. Many cultural, historic, political, and economic obstacles still impede more aggressive and competitive private sector performance. The business community is still not well organized and has little experience in export markets—the key to Cape Verde's economic future. The state-dominated banking system has impeded the flow of credit to business, primarily through onerous bureaucratic procedures and requirements. The government's export and investment agency, PROMEX, has been less than successful in attracting foreign investment and stimulating exports. Cape Verde has a long way to go to turn around its present situation. However, several opportunities for creating private sector-led growth and generating jobs, as well as tax revenues for the government, exist.

The private sector is the only alternative for economic growth and development in Cape Verde. The government, and the state-owned enterprises, have failed to stimulate and sustain productive growth. The country's economy has been propped up by external transfers, both from donor agencies and the large expatriate community. This kind of artificial economy shielded the country from the realities of the market place.

In the two years it has been in power, the new government, brought to office in Cape Verde's first free elections, has taken measures to reform economic policies and promote the central role of the private sector in the national economic recovery. Though two years is a short period of time, the government has made significant progress, especially at the policy level, in bringing Cape Verde into the world economy. Much remains to be done.

Research for this report found no surprises, instead confirming what already is widely known. There is no magic panacea for the country's economic problems. But prescriptions for development that have worked elsewhere, adjusted to local conditions, will help Cape Verde along the road to greater development. Major findings are described here.

B1. Political Commitment

The political will to liberalize the economy on the part of the government exists, but the GOCV has to take forceful steps to make the bureaucracy more efficient in order to *implement* its reforms and bring them to fruition.

The business community agrees that the government is predisposed to support the private sector but that more action is now required. The GOCV needs to accelerate the pace with which it is making reforms and ensure effective implementation of policies

B2. History and Culture

Five centuries of Portuguese colonialism produced a mercantilist economy, exacerbated by 16 years of statism and central planning. This has resulted in little to no development of the productive sectors of the economy, and an over-reliance on imports and local commerce.

This historical and cultural imperative also left a legacy of what is locally known as *a mentalidade*, or way of thinking, that has culturally impeded the private sector from looking outward to the international market, developing a productive capacity, especially for export, and competing in the global market.

Another equally debilitating, and paradoxical, legacy has been the private sector's dependency on government. The business community traditionally has not taken the initiative but has reacted, and then only mildly, to government initiatives. Both a cause and effect of this dependency has been a lack of private sector leadership and organization.

B3. Economic Constraints

There is an acute lack of access to commercial credit, the result of a monobank system that is almost paralyzed by excessive and needless procedures and requirements.

Venture capital does not exist.

The physical infrastructure, including ports, airports, and water and energy systems are deteriorated, unreliable, and costly. In addition to the lack of human resources and capital, the inadequacy of the infrastructure is a major constraint to development.

Human resources are inadequate, both in terms of basic education and training. There is an urgent need to strengthen the educational system as well as training facilities.

A rigid and anachronistic labor code reduces productivity and adds to the costs of already burdened businesses. It will constitute a major obstacle to any export strategy and hinder domestic growth.

The domestic market is weak and small, unable to create sufficient demand to support local production because there is not enough money in circulation due to high unemployment and lack of access to credit. Local production is also minimal because of the strong mercantilist tradition.

B4. Organization

The private sector has taken concrete steps to organize, for the first time, the equivalent of a national chamber of commerce—which is in the penultimate stage of completion. A chamber of commerce, or national business association, will give the private sector the ability to mobilize its members as a political force and "dialogue" with the government.

No leaders have emerged to galvanize the private sector and act as its authoritative voice.

There is a need for the government to more aggressively coordinate donor resources to maximize the impact of their assistance.

B5. Opportunities

The expatriate community represents a potentially important source of capital and "know-how," as well as a possible market.

General agreement exists among international development agency and GOCV officials that three sectors appear to hold the greatest potential for economic growth: tourism, fisheries, and export processing of garments. A fourth possibility is development of Cape Verde as an entrepot/transshipment center.

C. Conclusions and Recommendations

Major challenges exist along the road to Cape Verde's economic growth and development. While the government has expressed its commitment to the private sector the engine driving economic recovery through policy reforms, a comprehensive privatization program, and investment incentives, it still has to ensure that these measures are effectively implemented. This is vital since an invigorated and competitive private sector represents the developmental common denominator. That is, if the other dimensions of development—health, education, environmental protection, employment—are to succeed, they will require tax revenues to underwrite their costs. Only a productive private sector can do this in a sustained fashion, as external transfers, especially donor assistance, cannot be relied on indefinitely.

C1. Political

The government needs to take strong actions to improve the performance of the bureaucracy, especially in the banking sector and in the customs service. Training, especially for senior management, should be provided. A concerted effort needs to be made to modernize the organizational culture of the bank and customs agency as well as other public agencies. This obviously requires changing the incentive system, delegating authority and responsibility, and eliminating administrative redundancies. Hence, training and technical assistance interventions need to be designed and implemented that work with senior executives to change management attitudes and practices.

The government also needs to interact with the private sector in a more systematic way. PROMEX and training institutions have to be instructed (and evaluated) to be more proactive in incorporating the private sector in its program initiatives *before the fact*. Concerted efforts to use the private sector members of the PROMEX board to gain greater understanding of the needs of the private sector need to be made. Surveys, workshops, and seminars should be conducted. The GOCV will no longer be able to use the excuse that there is no single private sector organization with which to deal, as the ACIAB and ACAS are in the final steps of forming a national association/chamber.

The GOCV needs to continue to push through legislative initiatives to liberalize the economy, including investment incentives and customs reform. Most important, however, is the continuing requirement to improve the implementation of reforms, enhancing the performance of the bureaucracy. This is the test of the government's commitment to economic reform and private sector development.

C2. Financial

The new Banco do Atlantico must be allowed to function as a commercial bank that operates freely of the bureaucratic constraints encumbering the present banking system. Creating a separate institution will not by itself ensure this. But this new state-owned commercial bank should represent the first step toward establishing private banking in an open market.

The government should take steps, under the auspices of the World Bank's public enterprise reform initiative, to improve the operating efficiencies of the BCV, reducing delays in acquiring loans and eliminating excessive paperwork. Similarly, the Banco do Atlantico should embark on a strategy to reach out to the private sector, seeking to expand its customer base by making credit more easily accessible and diversifying the restricted product line.

In the meantime, efforts to ensure the efficiency of the loan-making process in the new commercial bank should be undertaken immediately.

In addition, allowing new types of financial intermediaries to operate and provide specialized services should be considered.

C3. Human Resources

Discussions between the GOCV and the private sector should begin in order to seek ways to wean private enterprise from its dependence on government and defining and agreeing on the appropriate role for each. The cultural impact of colonialism (and statism) needs to be confronted in the educational system, using the schools to help foster modern values of self-reliance.

In the short term, the material from a training needs assessment (a companion report to this study) should form the base of an urgently needed national training program for the private sector. This would offer all kinds of training including: entrepreneurial, management, technical, marketing, and worker. Curricula should be designed to reflect the practical needs of the private sector. Assistance should be given to individual companies to strengthen on-the-job training interventions.

Particular attention needs to be focused on management training. Senior management is the pivotal human resource, since the way a company and its workers operate depends on the leadership, knowledge, and know how of its key decision makers.

Similar training interventions should be made available to government managers and workers, especially those in institutions and agencies directly affecting the private sector. In addition to providing training to streamline the bureaucracy, curricula to make government officials more aware of the needs of the private sector should be developed, concentrating on business's need for quick decisions, predictable (and fair) implementation of regulations, and minimal paperwork.

The government should strengthen its ties with the expatriate communities, providing financial incentives (e.g., tax holidays, exemptions for certain imports) for skilled persons willing to return to Cape Verde. (Care needs to be taken, however, not to grant incentives that result in unfair discrimination against local business, especially those engaged in export activities.) The GOCV should develop an orderly and well coordinated strategy for recruiting expatriate investment and skilled human resources, helping Cape Verdean communities in the U.S., Portugal, and Holland to organize.

The GOCV needs to finish its revision of the labor code as soon as possible, giving management more discretion over human resource decisions based on performance.

C4. Infrastructure

The \$70 million World Bank package for infrastructure improvements needs to be finalized as soon as possible. The GOCV needs to carefully establish priorities for the expenditure of these funds, concentrating on areas that will promote the strengthening of the private sector, particularly in exports—such as EPZs. This should reflect the priorities of the III NDP.

Privatization of infrastructure management should be encouraged, if not the outright divestiture of ports, telecommunications, and utilities.

C5. Exports and Investment

Exports should be given first priority in strengthening the private sector. The USAID mission should focus on supporting technical assistance and training initiatives enhancing the management, marketing, productivity, and quality control of enterprises committed to exports.

The four areas of greatest potential—tourism, fisheries, entrepots and EPZs—should represent the focus of donor and GOCV assistance. PROMEX should be especially active in seeking investment and marketing opportunities for activities in these sectors.

PROMEX should develop, in conjunction with the private sector (the new AEN), a strategic plan for promoting exports and investment. They should also establish and implement a systematic working relationship.

The pace of privatization should be accelerated by way of generating new foreign investment.

More organized efforts should be made jointly by the GOCV and private sector to recruit expatriate investments, including the use of investments.

C6. Organization

The mission should work closely with the ACIAB and ACAS in providing necessary assistance to ensure the successful creation of a national chamber/association. However, the evolution of the entity should not be pushed prematurely. The two associations have arrived at a good working relationship, and should not be rushed into meeting an artificial deadline or arbitrary donor objective.

The mission should underwrite private sector leadership training (including development of negotiation skills) with the goal of helping to identify and encourage a group of progressive and dynamic leaders able to galvanize the private sector and lead it into the 21st century.

The mission should work with the GOCV in helping it formulate a plan and mechanism to manage donor assistance. The GOCV should do this within the framework of III NDP goals and priorities.

To help strengthen the private sector in Cape Verde, and thereby promote economic growth and development, USAID should consider a three-part private sector support initiative: (1) creating an export and investment promotion capacity; (2) strengthening and organizing the private sector; (3) increasing the efficiency of the public sector. While each of these project components could be supported as a "stand alone" initiative, the most cost-

effective approach would be to incorporate them as integral parts of a comprehensive project. This would permit the range of economic, administrative, business, and attendant problems to be addressed simultaneously.

SECTION I BACKGROUND AND METHODOLOGY

A. Background

Cape Verde is a small nation consisting of ten islands (nine of which are inhabited) located 600 kilometers due west of Senegal. The current resident population is 341,491 people. A large—estimated at about 600,000 people—expatriate community resides in Europe, the United States, and continental Africa. The largest city is Praia, also the capital, whose population is approximately 80,000 residents. The second largest city—around 50,000 inhabitants—and active commercial center, Mindelo, is on the northwestern island of São Vicente.

Cape Verde has a poor natural resource base, with a climate aggravated by sustained drought. Lack of water serves as a major constraint to diversification of economic activity, as does a host of other infrastructural and human resource deficiencies. One result of the lack of resources has been the evolution of an import economy. The country has few exports and depends only on a small and weak internal market.

Cape Verde achieved independence from Portugal in 1975, only to be dominated for the next 16 years by a one-party statist government. Free elections were held in 1991, and a new government, promising economic liberalization, was swept into office by a landslide vote. While the new regime has undertaken significant policy reforms to allow the private sector to assume its role as the most efficient producer of goods and services, a legacy of centuries of mercantilism and other factors have impeded more rapid and aggressive development of private enterprise. Still, Cape Verde's economic and social future will depend on the promotion of measures to strengthen the private sector in order to achieve greater and more diversified economic growth.

B. Methodology

Four methods were used in carrying out this study, including:

- Document review and content analysis of studies conducted by the United States Agency for International Development (USAID), the World Bank, the ETC Foundation and the United Nations Development Programme (UNDP), national laws and private sector association by-laws, and selected Government of Cape Verde (GOCV) documents (see Bibliography, Annex C).
- Structured interviews with a purposive sample of private sector owners and managers; semi-structured interviews with government and parastatal officials; casual interviews with informal sector vendors.

- Analysis of secondary data.
- Observation.

The interview sample was assembled from a list of donors and public and private sector companies compiled by the USAID Private Sector officer. The private companies are estimated to represent about half of the private enterprises in the formal private sector of Cape Verde. A structured survey was developed, mainly to be used in the private sector interviews, and comprised participants from the commercial, service, and industrial sectors, and one agricultural export enterprise (see Annex A for a complete list of interviews conducted in support of this report). As the sample was not randomly selected, it was not possible to make statistical inferences. Given the small size of the Cape Verde economy, however, the sample is considered to be adequately representative. More than 65 interviews were conducted in the cities of Praia and Mindelo, which included meetings with three USAID and U.S. Embassy officials, 26 GOCV officials, 37 private sector business persons, and several informal sector vendors.

C. Caveats

As is true in developing nations, data tend to be unreliable and incomplete. However, data for this report were verified and cross-checked, where possible, and found generally to be consistent. In most cases, secondary data were drawn from World Bank sources, and if they are not precise at least they point to orders of magnitude.

D. Principal Findings

The private sector is the only alternative for economic growth and development in Cape Verde. The government and state-owned enterprises by and large have failed to stimulate and sustain productive growth. The country's economy has been propped up by external transfers, both from donor agencies and the large expatriate community. This kind of artificial economy shielded the country from the realities of the market place. Even the former statist government, toward the end of its rule, recognized this and began taking modest steps toward liberalization. Those attempts were insufficient, and in the nation's first free election, the Movimento pela Democracia (MpD) party, running on a platform of economic reform, was elected by a landslide.

In the two years it has been in power, the government has taken measures to reform economic policies and promote the central role of the private sector in the national economic recovery. In only two years, the government has made some significant progress, especially at the policy level, in bringing Cape Verde into the world economy, although much remains to be done.

Research for this report found no surprises and confirmed what already is widely known. There is no magic panacea for the country's economic problems. But prescriptions for development that have worked elsewhere, adjusted to local conditions, will help Cape Verde along the road to greater development. Major findings are highlighted here.

D1. Political Commitment

The political will to liberalize the economy exists, but the GOCV has to take more forceful steps to make the bureaucracy efficient enough to implement its reforms and bring them to fruition.

The business community agrees that the government is predisposed to support the private sector, but that more action is required. The GOCV needs to accelerate the pace by which it is making reforms and ensure effective implementation of policies.

D2. History and Culture

Five centuries of Portuguese colonialism produced a mercantilist economy, exacerbated by 16 years of statism and central planning. This resulted in little to no development of the productive sectors of the economy and an over-reliance on imports and local commerce.

This historical and cultural imperative also left a legacy of what is locally known as *a mentalidade*, a way of thinking that has culturally impeded the private sector from looking outward to the international market, developing a productive capacity, especially for export, and competing in the global market.

Another equally debilitating, and paradoxical, legacy has been the private sector's dependency on government. The business community traditionally has not taken the initiative but has reacted, and then only mildly, to government initiatives. Both a cause and effect of this dependency has been a lack of private sector leadership and organization.

D3. Economic Constraints

There is an acute lack of access to commercial credit, the result of a monobank system that is almost paralyzed by excessive and needless procedures and requirements and delays in processing loans. Venture capital does not exist.

The physical infrastructure, including ports, airports, water, and energy systems are deteriorated, unreliable, and costly. Telecommunications, too, need to be improved.

Human resources are inadequate, both in terms of basic education and training. There is an urgent need to strengthen the educational system as well as training facilities. Moreover, the government must ensure that public training institutions respond to the real needs of the private sector and provide *practical* training, which presently is not the case.

A rigid and anachronistic labor code reduces productivity and adds to the costs of already burdened businesses. It will constitute a major obstacle to any export strategy and hinder domestic growth.

The domestic market is weak and small, unable to create sufficient demand to support local production because there is not enough money in circulation due to high unemployment and lack of access to credit. Local production is also minimal because of the strong mercantilist tradition. Partly because of these factors there is little export capacity and therefore fewer job opportunities.

D4. Organization

The private sector has taken concrete steps to organize, for the first time, the equivalent of a national chamber of commerce—which is in the penultimate stage of completion. A chamber of commerce, or national business association, will give the private sector the ability to mobilize its members as a political force and "dialogue" with the government.

No single leader or small group of leaders yet has emerged to galvanize the private sector and act as its authoritative voice.

There is a need for the government to better coordinate donor resources in order to maximize the impact of assistance.

D5. Opportunities

The expatriate community represents a potentially important source of capital and "know-how," as well as a possible market.

General agreement exists among international development agency and GOCV officials that three sectors appear to hold the greatest potential for economic growth: tourism, fisheries, and export processing of garments. A fourth possibility is development of Cape Verde as an entrepot/trans-shipment center.

SECTION II ECONOMIC, POLITICAL, AND SOCIAL ENVIRONMENT

A. Background

After more than three decades of experience with governments, the international development community has come to recognize and support the pivotal role played by the private sector in creating sustainable development. The collapse of the Soviet Union and its East European satellites has been the most dramatic and incontrovertible testimony to the failure of centrally planned, statist economies. Governments are no longer seen as the most appropriate or effective mechanism to manage programs designed to improve the performance of the productive sectors. To the contrary, with precious few exceptions—which prove the rule—state-owned enterprises have become a drain on national treasuries, repositories of sinecures, and inefficient producers of low quality, non-competitive goods and services.

A strong and dynamic private sector¹ is essential for nations hoping to become economically self-sufficient. The private sector is the engine of growth, providing the jobs and income that form the critical mass for enduring development.

Health, population planning, education, and environmental and natural resource management are also integral parts of a comprehensive approach to development. Moreover, they are linked to the private sector in several ways. First, a healthy, educated, and trained population constitutes the human resource base for the production, management, and profitable transfer of goods and services. Second, a well-managed and balanced natural environment is fundamental to the protection and development of natural resources necessary for industry—from tourism to agriculture to manufacturing. Third, a population that does not increase beyond national environmental and economic limits is key to sustainable development. In this sense, the private sector is like a glue holding together these various components of an overall strategy for sustained economic progress.

To achieve measurable economic growth in Cape Verde, there is growing agreement that an overall strategy should be based on three goals:

- Improving the external competitiveness of the country
- Maintaining macro-economic balances and
- Redefining the role of the government in the economy (Ministry of Finance and Planning: 16)

¹The term "private sector" refers to the formal—in contrast to the informal—private sector throughout this report.

Internal demand alone is not sufficient to sustain a growing national economy, as is the case with most lesser developed countries, especially those with small and weak markets. Similarly, it is vital that present macro-economic balances be maintained by consolidating gains achieved under new measures to support expanding entrepreneurship, productivity, international competitiveness, and reduced factor costs. To do this, the government must continue to redefine its role in an economy in transition, supporting a policy framework and implementing administrative reforms. These actions will enable it to facilitate the growth and development the private sector needs be able to compete effectively in the international market.

B. The Economic Context

B1. Current Economic Situation

Under the present government, the private sector of Cape Verde is undergoing changes in its operating environment that reflect the replacement of import substitution policies governing economic activity prior to 1992 with outward-oriented strategies intended to establish the framework for the country's integration into the world economy. To implement this market-based strategy, the 1992 Third National Development Plan (III NDP) of the Veiga Administration set out structural reforms and accompanying macroeconomic policies. In support of these efforts, the government is taking steps to reform and rationalize the public sector, facilitate domestic resource mobilization, improve infrastructure, and support private sector initiatives.

The principal theme in recent macroeconomic developments in Cape Verde relates to the slowdown in economic growth. The real gross domestic product (GDP) fell to 3.7 percent from 1989-91 from approximately 6 percent during 1980-88 (World Bank, 1992a: 5). The primary causes for this lag in growth, aside from the political transition in 1991, are attributed to mounting inflationary pressures and internal and external imbalances. According to the World Bank (1993: 2), stagnation of the world economy and reduced foreign exchange earning capacity of international airport and maritime services caused by political uncertainties coupled with a decreasing international competitiveness contributed to the economic slowdown.

Table 1 below shows the sources of GDP by major economic sectors during the period 1986-91. The Cape Verdean economy is characterized by a structural imbalance dominated by the service, or tertiary, sector. During the period of the Second National Development Plan (1986-90), the tertiary sector was responsible for nearly two-thirds (59 percent) of the GDP; the primary and secondary sectors contributed approximately 13 percent and 19 percent respectively, to the GDP. In 1991, the year of transition between the Second and Third National Development Plans, contributions to GDP by the primary and tertiary sectors were approximately the same as those during the period 1986-90, while the secondary sector's contribution was slightly less than it was during 1986-90.

Table 1
CAPE VERDE Value Added By Sectors As Share of GDP, 1986-1991 (percent)

YEAR	1986	1987	1988	1989	1990	1991	AVE 1986- 90
PRIMARY SECTOR	11.7	14.4	14.6	13.0	13.5	13.2	13.4
Agriculture, livestock, forestry	8.3	11.2	11.5	9.9	9.8	9.2	10.1
Fishing	2.4	2.4	2.4	2.3	2.7	3.1	2.4
SECONDARY SECTOR	18.0	18.9	19.0	18.8	18.2	17.6	18.6
Industry and Energy	6.3	7.5	7.2	8.2	8.0	7.4	7.4
Construction	11.7	11.3	11.9	10.6	10.2	10.2	11.1
TERTIARY SECTOR	60.8	58.2	57.9	59.4	59.3	60.9	59.1
Commerce	21.2	20.0	20.4	19.9	20.1	20.5	20.3
Hotels, Restaurant	1.6	1.8	2.0	1.5	1.4	1.5	1.7
Transport	7.0	6.2	5.9	5.7	5.9	6.9	6.1
Transport Services	6.3	5.6	5.3	5.9	5.8	5.0	5.8
Communications .	2.6	3.0	3.3	3.6	3.4	3.2	3.2
Bank and Insurance	0.6	0.4	0.1	0.9	0.8	0.8	0.6
Housing	7.0	6.6	6.9	7.4	7.5	8.0	7.1
Public Services	13.5	13.5	12.8	13.6	13.2	14.0	13.3
Other Services	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Import Taxes	9.5	8.5	8.5	8.8	9.1	8.3	8.9

Source: World Bank, 1992a: Annex 2.

Note: GDP is measured in terms of market prices.

The major source of economic growth among the three sectors during 1986-91 was commerce, which contributed 20 percent to the GDP. Other important sources, and their percentage contributions during 1986-90, were: public services (13.3 percent); construction (11.1 percent); and agriculture, livestock, and forestry (10.1 percent). Industry and energy, housing, transport, and transport services also contributed measurably.

The second important economic development relates to Cape Verde's high level of dependency on external financial flows, which is reflected in a budget deficit. Table 2 below shows that, overall, the balance of payments reflects the unique situation of Cape Verde as a service-based economy that is highly dependent on emigrant remittances and funds appropriated by international donors. In 1991, total external transfers represented more than one-fourth (28 percent) of the GDP, 17 percent of which originated from private transfers. However, the percentage contribution of external transfers to GDP declined significantly from their 1986 level of nearly 50 percent. Public transfers declined significantly during the last five years: in 1986 they accounted for almost 30 percent of GDP; in 1991 about 10 percent. This dependence on external transfers is also reflected in the trade account, where imports have traditionally exceeded exports. According to Coopers and Lybrand (1991: 50), excessive foreign borrowing was not used, however, to close the gap between imports and exports.

Third, inflation increased rapidly during the 1988-90 period, averaging 6.5 percent. The monetary and fiscal policies set out by the III NDP are intended to stabilize inflation and maintain the external balance while having a neutral effect on productive investment. According to the Ministry of Finance and Planning (1992: 37), these goals are to be achieved by eliminating the monopoly banking system and creating new financial institutions and instruments. In 1991, inflation declined to 9.5 percent; it is expected to decrease further in 1992 to 5.2 percent (Direccão Geral de Estatística, 1993: 6).

Although the GOCV plans to restructure the country's financial sector, it intends to maintain its present foreign exchange rate policy with the aim of achieving a balance of payments equilibrium. The valuation of the Cape Verdean escudo follows the performance of a basket of nine major currencies whose composition is revised periodically to reflect changes in the country's trading patterns. According to the African Development Bank (1993: 4), the real effective exchange rate depreciated by 17 percent between 1980 and 1989. By contrast, it appreciated by 1 percent in 1990, reflecting the depreciation of the U.S. dollar and the Portuguese escudo, the principal currencies of remittances of expatriate Cape Verdean workers. Although the III NDP states that the exchange rate is not intended to be employed as the main instrument to guarantee external competitiveness, the fact is that it can be used if necessary.

B2. Economic Prospects

The government recognizes that Cape Verde is a country with limited natural resources, inadequate transport and communication systems, and a narrow productive base. Despite these limitations, the government expects economic growth to recover at a yearly rate of between 5 and 6 percent during the period 1993-95 (Ministry of Finance and

Table 2

CAPE VERDE Balance of Payments, 1986-1991 (billions of current Cape Verdian escudos)

YEAR	1986	1987	1988	1989	1990	1991 ¹	AVE 1986-90
RESOURCE BALANCE	-5.23	-4.70	-5.57	-5.84	-5.97	-6.22	-5.5
Exports of GNFS	2.90	3.39	3.10	4.45	4.19	4.46	3.6
Imports of GNFS	-8.13	-8.90	-8.67	-10.29	-10.16	-10.63	-9.2
Net factor income	-0.31	-0.18	-0.04	0.14	0.18	0.14	-0.0
Private transfers	2.29	2.46	2.85	3.37	3.65	3.76	2.9
Official transfers	3.38	3.40	2.79	2.15	1.79	2.30	2.7
CURRENT ACCOUNT BALANCE							
Before official transfers	-3.25	-2.41	-2.76	-2.34	-2.14	-2.32	-2.6
After official transfers	0.14	0.99	0.03	-0.19	-0.35	-0.02	0.1
CAPITAL ACCOUNT	1.35	0.70	-0.03	0.41	0.29	0.22	0.5
Direct foreign investments	0.00	0.20	0.04	0.01	0.02	0.09	0.1
Medium-long term capital	1.36	0.50	-0.07	0.40	0.27	0.13	0.5
Central government	0.97	0.47	0.10	0.58	0.32	0.28	0.5
Disbursements	1.11	0.67	0.32	0.77	0.58	0.60	0.7
Amortization	-0.14	-0.19	-0.22	-0.19	-0.26	-0.32	-0.2
Public enterprises	0.41	0.02	-0.17	-0.18	-0.05	-0.15	0.0
Disbursements	0.65	0.21	0.04	n/a	0.26	0.18	0.2
Amortization	-0.24	-0.18	-0.21	-0.18	-0.31	-0.33	-0.2
Private Sector (net) ²	-1.33	-0.85	0.12	-0.65	-0.93	0.00	-0.7
Change in Net Foreign Assets	0.18	0.84	0.11	-0.43	1.00	0.20	0.3
Memorandum items:							
GDP ³	11.67	13.25	15.10	17.43	19.16	21.65	15.3
Gross reserves (in millions of CV esc.)	4.40	5.43	5.99	5.45	5.08	5.30	5.3
(in months on imports)	7.20	8.90	9.40	7.70	7.20	6.70	8.1
Current account deficit							
(before grants as % of GDP)	-27.86	-18.17	-18.28	-13.41	-11.15	-10.71	-17.8
(after grants as % of GDP)	1.13	7.49	0.19	-1.09	-1.83	-0.09	1.2
External Transfers as % of GDP:	48.6%	44.2%	37.4%	31.7%	28.4%	28.0%	38.0%
of which:							
Public	29.0%	25.7%	18.5%	12.3%	9.3%	10.6%	19.0%
Private	19.6%	18.6%	18.9%	19.3%	19.1%	17.4%	19.1%

¹Estimated.²Includes errors and omissions.³Expressed in terms of market prices.

Source: World Bank, 1992a: Annex 2.

Planning, 1992: 18). These favorable projections are dependent on the country's ability to mobilize and absorb potentially available external aid and the development of private sector exports.

The sectors of the economy and the proposed activities that are expected to lead the expansion in private sector exports are as follows (Ministry of Finance and Planning, 1992: 39) are:

- Fisheries, by introducing new boats and technologies
- Industry, by increasing the utilization rates of existing industry and by constructing new ones in clothing, shoes, pharmaceutical products, and canned fish
- Tourism, by building hotel complexes on the islands of Sal, Boa Vista and Sao Vicente

B3. Macroeconomic Policy and the Private Sector

The recent economic developments and future prospects described above permit the identification of three major macroeconomic issues that are germane to private sector development. First is the extent to which recent fiscal improvements are seen by the private sector as permanent or transitory. If the government fails to maintain stable fiscal and monetary policies while implementing economic reforms and strengthening institutions throughout the country, macroeconomic policy uncertainty will become a major obstacle to business activity in Cape Verde.

Second, given the size of the economy and its dependence on emigrant remittances, Cape Verde is vulnerable to external shocks that emanate from the countries in which its expatriates live. While the country cannot isolate itself from disturbances, its economy could better withstand them. The shocks could be more effectively absorbed through both increases in the volume of exports and their relative price movements. Moreover, once the financial sector of the country is reformed and the banking system developed, financial intermediaries will be able to respond to short-term transitory shocks through an arbitrage function. This will allow intermediaries to respond to differential returns to financial assets arising from exchange rate and interest rate changes.

Finally, the Ministry of Finance and Planning's growth projections point to a significant investment-savings gap in the medium term (World Bank, 1993: 3). While the gap has decreased from more than 40 percent of GDP prior to 1986 to about 25 percent between 1986 and 1990 (World Bank, 1992a: 3), Cape Verde remains highly dependent on funds provided by international donors, in addition to private transfers, to keep its economy buoyant. This investment-savings gap can be remedied by the same means as that which will make Cape Verde less vulnerable to transitory external shocks: the liberalization of the financial sector and domestic resource mobilization. Moreover, an increase in foreign direct investment in such areas as infrastructure will provide more opportunities for the private sector to increase investment in the economy, which in turn could help to modernize the economy and incorporate new technology.

Although macroeconomic policy reforms that facilitate the efficient allocation of resources are expected to reduce obstacles to business activities during the government's III NDP, it is clear from both surveys conducted throughout the private sector and the materials reviewed for this report that the business community wants macroeconomic changes to be accompanied by reforms in the financial sector, legal system, labor code, and investment laws. Without a complete, simultaneous restructuring of the economy, the business community of Cape Verde will not be able to implement the government's strategy of using the private sector as the engine of economic growth.

C. The Political Context

In its first 16 years of independence from Portugal, the Republic of Cape Verde was governed by single-party rule, distinguished initially by statist economic policies which resulted in virtually no significant formal private sector activity aside from import and local trade. By 1986, after consolidating social reforms in education and health and enjoying the benefits afforded by a real GDP annual growth rate of 6 percent between 1980 and 1986, limited actions were taken to decentralize government and increase participation in the public decision making processes. This was accomplished within the framework of the country's first National Development Plan (1982-1985).

The Second National Development Plan (1986-1990) underscored policies to balance regional development, encourage private savings and investment, and promote production in sectors where Cape Verde has a potential comparative advantage such as fisheries. At the same time, the GOVC took steps to compensate for the limitations of continued external transfers. These included passage of an offshore banking law, promulgation of customs regulations for entrepots, creation of a foreign investment law, and enactment of the industrial development law (Services Group: 1). The government took the additional step of issuing a decree that established the Center for the Promotion of Exports (PROMEX). By way of ostensibly demonstrating its commitment to an export-led strategy, PROMEX reported to the office of the Prime Minister.

While a policy framework and institution were created to promote exports and generate foreign and external² as well as local private investment, there has been slip between the policy cup and the action lip. As noted in a recent report:

Despite these achievements, no significant new investments were generated. Investors continued to be discouraged by high factor costs and weak infrastructure. The government neither reformed the cumbersome administrative procedures which blocked effective application of the new [investment and export promotion] laws nor undertook serious measures to restructure or privatize the inefficient state enterprises. (Rogers: 9)

² The GOVC differentiates between "foreign" and "external" in its laws. "External" refers to expatriate Cape Verdeans; "foreign" refers to all other persons who are not "externals" or nationals.

Overall, there appears to be a commitment by the GOCV to strengthen the private sector and liberalize the economy, at least as measured by recently enacted policy reforms. This is constrained, however, by the need to overcome the import substitution legacy of the previous government and by political realities that the present administration cannot afford to ignore. Foremost among these are an inefficient bureaucracy that is required to implement reforms with which they do not always agree or have the leadership and administrative know-how to implement efficiently; more than one-fourth of the work force without employment, posing a risk of social and political unrest; and a relatively vocal opposition party ready to point to the failures of the administration. All this is compounded by the lack of a tradition of private enterprise and export market experience and a history of complex interpersonal political relationships. In a small country like Cape Verde, it is difficult if not impossible to separate personal ties from political loyalties.

Yet the fact that the GOCV has put in place the policy framework to increase private investment and promote exports demonstrates some political will to strengthen the economy through the private sector. This is especially the case given that the government has been in power only two years, a relatively short time to reform 16 years of statist policies. Further evidence of political will, at least rhetorical, can be found in the III NDP. Among its objectives are the assignment to the private sector of a "central role" as the source of the main efforts to launch new initiatives, accompanied by economic liberalization and the "de-bureaucratization" and deregulation of the economy (Ministry of Finance and Planning: 28). There is little question that the GOCV formally recognizes the needs of the private sector, as well as the key contributions to be made by private enterprise. Now the government needs to shift its focus to the *implementation* of reforms.

The government will have no alternative but to promote private enterprise and follow its policy to privatize most, if not all, of its state-owned enterprises (SOEs) if it is to remain economically viable. Underscoring the point is the bleak picture painted of Cape Verde's SOEs by the World Bank:

The current situation in the public enterprise sector is unsustainable in the medium-long term. If not addressed, it will strain an already burdened budget and lead to a continuous inefficient allocation of resources. More important, the public enterprise sector could continue to demand a disproportionate share of bank credit and foreign exchange resources, and could effectively: (a) crowd out the existing private sector; and (b) compromise Cape Verde's chances to seize new private sector-led development opportunities. (World Bank: 7)

To facilitate privatization, the GOCV will have to liberalize the banking sector, making credit more accessible to private investors. While there is an understandable bias toward local and external investors, it is unlikely that the government will be able to attract enough investment without seeking foreign sources of capital. The local private sector is incipient, oriented in large measure to commerce instead of production and relatively inexperienced in open market competition especially at the international level. Hence, the GOCV must address these issues aggressively, moving at a more accelerated pace in

liberalizing the financial sector and ensuring, as best it can, bureaucratic implementation of its export promotion policy reforms.

Another major problem for the GOCV is balancing the pressing need to strengthen the private sector, in part by denationalizing SOEs, against an equally urgent concern to minimize social disruption caused by further unemployment—the result of privatizations and the lag time in establishing and expanding private enterprise to absorb surplus labor. While dislocations resulting from the divestiture of SOEs may not be as large a problem as conventional wisdom would have it,³ deeper analysis shows the issue not to be so simple.

If the GOCV continues to liberalize its economic policies and abandon the present protectionist regime, revenues derived from customs and tax collection will decline. This will contribute, at least in the short term, to public budget deficits, making it more difficult for the GOCV to absorb the economic and therefore political costs of increased unemployment. Enhancement of the private sector then really is the only viable strategy for sustained growth and development. As the country cannot depend indefinitely on transfers to offset deficits and thereby provide the GOCV the political benefit of continuing to move slowly in implementing policy reforms, donor aid should focus on: (1) concessionary assistance in the short term to underwrite the social costs of employment as well as health and education; (2) project interventions to strengthen the private sector until it is able to gradually expand jobs and revenues—particularly through exports—to the extent that the GOCV can sustain basic services without current high levels of external assistance; and (3) creation of mechanisms to make credit available to the informal sector, which has and continues to serve as a socioeconomic escape valve.

Despite its announced intentions and actual policy reforms—including privatization of SOEs, export and foreign investment promotion incentive legislation, import liberalization, commercial and labor code revisions—the *enabling environment for the private sector still lacks full and efficient administrative implementation*. For example, onerous licensing requirements and fees act as a significant disincentive to entrepreneurs seeking to establish or expand businesses. The average time to secure licenses to start up a new enterprise is 265 days (The Services Group: 1). Lack of access to credit and the absence of private financial institutions also are a major constraints, as is the lack of public investment in improving an inadequate physical infrastructure.

By contrast, the GOCV is pursuing a three-part strategy to create new enterprises locally. The first is the promotion of small- and medium-scale companies by the Industrial Promotion Unit (IADE) of the Ministry of Industry and Energy, which is in the process of beginning operations. Second, the government is seeking to convert selected public agencies into parastatals, working on a contract basis to provide services to the public and private sectors alike. While this is a step in the right direction (or possibly only *half* a step), it does indicate the government's resolve to privatize its assets. (As of this writing, the GOCV has

³ According to the Price Waterhouse study on labor redundancy in the GOCV's SOEs, a conservatively estimated 1.3 percent of the economically active population would be displaced as the consequence of full-scale privatization (Price-Waterhouse/IPG: 30).

yet to divest any SOEs. This may be partly due to inexperience and administrative inefficiencies, a reluctance to cede the political benefits of state ownership, or a combination of both. More likely, it is the result of a lack of investor interest internationally and investor capacity locally.) Third, the GOCV continues to state a commitment to international trade as a major model for economic growth. The government also has signaled its intent to intensify efforts to increase the educational and skill levels of the people. As stated in the III NDP: "Education has a key role since it safeguards social balances and *improves the economic performance*" (emphasis added) (Ministry of Finance and Planning: 58).

The GOCV is not unlike some LDC governments elsewhere. Propelled by internal and particularly external events, it has embraced the principles of democracy and open markets, only to run into political realities of employment dislocations, structural adjustment needs, uncertain international assistance, a worldwide recession, and few comparative advantages in a global economy. Politically, the very system that made it possible for the current administration to assume power may also depose it unless the economic situation improves. For that to occur, the reforms that have been legislated have to take hold. A strong private sector would boost the economy and simultaneously relieve the political pressures of a slow-growth economy. So the government has to balance a desire and long-term need to implement policy reforms with the political reality of what it can realistically accomplish.

Finally, the highly centralized decision making process is one reason that new policies have not been implemented more quickly and effectively. Just as there has been a need to reform economic policy, there is an equally compelling requirement to streamline and decentralize the public administrative and decision making process. Delegation of authority and responsibility, along with appropriate mechanisms to ensure accountability, will advance the government's policy goals, although putting such changes into practice is admittedly a difficult process.

Further, it is important to note that business owners and senior managers in the formal private sector have personal relationships with members of both political parties. Some observers have suggested that this has resulted in delays in applying economic reforms.

D. The Social Context

The election loss of the African Party for Cape Verde Independence (PAICV) signaled a clear mandate for economic and political reforms (*A Mudanca*), which ironically actually had begun to take place under the PAICV. While this was a positive sign for economic liberalization and democratic government, it created high expectations which has increasingly put the current GOCV under pressure to produce results. Unemployment, for example, is conservatively estimated at 26 percent, and underemployment at 40 percent, demonstrating the magnitude of the problems facing the government.

There is little reason to doubt the critical role the private sector plays in bringing about economic growth. As long as external transfers were flowing in at rates large enough to stay ahead of population and labor force growth, the country was able to sustain its

impressive GDP. In fact, civil service jobs almost doubled between 1980 and 1990, rising from 6,665 to 11,000 (Rogers: 28), as growth remained at 6 percent annually.

But projections indicate that remittances will be reduced and international donor assistance will also decline. At the same time, estimates indicate that the population will climb from 344,000 persons in 1990 to approximately 544,000 by 2010 (UNDP: 21). Moreover, the majority of the population will continue to be young (currently 40 percent of Cape Verdeans are reported to be under 15 years of age—see Table 3 below), putting the government under increasing pressure to provide increased social services especially in education and health. As current levels of external transfers cannot be relied on indefinitely, and tightened immigration policies in the U.S. and EC countries will restrict out-migration opportunities, it is imperative that the government take more aggressive steps to strengthen the ability of the private sector to expand, producing both jobs and tax receipts to cover increasing social service costs.

Cape Verde's impoverished natural resource base (with the exception of fish and shell fish), chronic drought, and small land size have produced demographic pressures traditionally alleviated by large scale out-migration. An estimated 600,000 Cape Verdeans live abroad, mostly in the U.S. and continental Europe. This unusual demographic situation diminishes the strains of potential overpopulation and contributes to the economy through the remittances of hard currency.

Unfortunately, however, many skilled Cape Verdeans live overseas. Ideally, selected repatriation of Cape Verdean entrepreneurs, managers, and technicians could have a beneficial impact on development of the private sector and country. To date, however, the focus of the GOCV has been on promoting external investment rather than people.

Another demographic phenomenon impacting the economy has been the increasing rate of urbanization. Although 56 percent of the population lives in rural farm and non-farm areas (see Table 4 below), only 11 percent of GDP was produced in those same regions (Price Waterhouse/IPG: 3). This is indicative of high rural unemployment and underemployment, which can eventually be translated into intense urbanward migration, as was evidenced in the urbanization of 38,000—more than 10 percent of the national population—persons between 1985 and 1990 (Price Waterhouse/IPG: 3). The public sector's ability to absorb these migrants is limited. Unless the private sector is able to expand more rapidly, it too will not be able to provide jobs for these and other unemployed Cape Verdeans.

TABLE 3
RESIDENT POPULATION BY AGE AND GENDER
1992

AGE	BOTH
Total	336,174
0-4	59,573
5-9	50,792
10-14	41,929
15-19	33,595
20-24	31,583
25-29	25,767
30-34	18,643
35-39	12,772
40-44	6,723
45-49	6,977
50-54	10,114
55-59	9,490
60-64	8,647
65-69	5,294
70-74	4,617
75+	9,658

AGE	MALES
Total	158,279
0-4	29,819
5-9	25,490
10-14	20,907
15-19	16,898
20-24	15,242
25-29	12,050
30-34	7,971
35-39	4,945
40-44	2,604
45-49	2,562
50-54	3,836
55-59	3,904
60-64	3,849
65-69	2,355
70-74	2,022
75+	3,825

AGE	FEMALES
Total	177,895
0-4	29,754
5-9	25,302
10-14	21,022
15-19	16,697
20-24	16,341
25-29	13,717
30-34	10,672
35-39	7,827
40-44	4,119
45-49	4,415
50-54	6,278
55-59	5,586
60-64	4,798
65-69	2,939
70-74	2,595
75+	5,833

Source: República de Cabo Verde, Direcção Geral de Estatística: Annex 2.

TABLE 4
POPULATION BY PROFESSION AND LOCATION
1992

	URBAN	RURAL	TOTAL
Total	52,132	69,932	122,064
Technical	4,049	1,560	5,609
Senior Manager	500	25	525
Office Workers	6,434	788	7,224
Vendors & Merchants	5,364	4,688	10,052
Service Workers	6,575	2,123	8,698
Agricultural & Fishing Workers	2,640	30,789	33,429
Industrial Workers	16,335	16,431	32,769
Other Professionals	699	572	1,276
Unskilled Workers	9,533	12,951	22,484

Source: República de Cabo Verde, Direcção Geral de Estatística: Annex 2.

Table 5 below shows that the private sector employs slightly less than 50 percent of the country's 34,000 permanent employees, and a little more than 50 percent of all temporary workers.⁴ Moreover, between 1985 and 1989, the total SOE payroll increased by 10 percent, while the profitability of wholly owned public enterprises fell by a whopping 238 percent. The size of the formal private sector, however, still does not permit it to absorb enough excess labor to offset the social pressures caused by high unemployment levels. By contrast, the informal sector, which has partly compensated for the inefficiencies of the SOEs, continues to provide job opportunities. This is a significant factor in relieving unemployment pressures and, as a result, the government appears to let the informal sector continue its activities without much interference despite the loss of potential tax revenues.

This "policy by default" of closing an eye to the informal sector acts as a social and political safety valve, effectively providing employment opportunities that otherwise would not exist. Moreover, it generates income that is necessary, no matter how small, to help increase critical economic activity and create business opportunities. It is in the government's interest to support the informal sector, providing mechanisms to give small scale entrepreneurs access to badly needed credit (see the companion report on the informal sector for a detailed analysis of informal sector needs).

⁴ According to Price Waterhouse, only 7,000 permanent private sector and 600 contractual workers are on the payroll of companies in the urban areas. The remainder work in rural areas (undefined) and appear to be mostly "independent and self-employed workers" (Price Waterhouse/IPG: 8).

TABLE 5
DISTRIBUTION OF PERMANENT AND TEMPORARY WORKERS
BY PRIVATE AND PUBLIC SECTOR

	Number	Percent
<u>Permanent Employees</u>	34,000	100.0
Private Sector	15,800	46.5
Public Enterprises	6,200	18.2
Government Agencies	12,000	35.3
<u>Temporary Workers</u>	45,000	100.0
Private Sector	25,000	55.6
Public Enterprises	14,000	31.1
Government Agencies	6,000	13.3

Source: Price Waterhouse/IPG: 8.

SECTION III PRIVATE SECTOR OVERVIEW

A. Role of Government

The economic and political changes stemming from the dissolution of the Soviet Union and subsequent liberation of its satellite states could provide no more conclusive proof of the failure of central planning and state management of the productive sectors. This is not to suggest that government does not have a role to play in the economy. That role should be limited, however, to: (1) creation of a policy, regulatory, and administrative framework and operating environment in which the private sector can operate efficiently, as has been done successfully in Malaysia and Chile; (2) allocation of public investments to maintain a trained human resource and adequate physical infrastructure base; (3) provision of essential social services including education, health, and population planning; and (4) vigorous protection of the environment and natural resources. A review of the survey results (see Table B2 in Annex B), shows the private sector to be in basic agreement with this view of the role of the government, especially in providing the policy, administrative, and operating environment in which the private sector can flourish.

Section II above presented a review of leading policy issues, pointing to the fact that the GOCV already has established much of a policy framework to encourage development of an outward-looking and growing private sector. While more policy reform is required, such as encouraging more rapid adoption of measures to permit private banking and establishing fairer and more effective investment incentives, the GOCV should give equal priority to strong implementation of current reforms. At the same time the government must look at the whole picture and balance competing constituent needs and demands. While the GOCV has unquestionably made development of the private sector a principal focus, the time has come for the business community to take full advantage of the new economic policy reforms. In this sense, the government should be considered a partner with the private sector in a national joint venture to create economic growth and jobs.

In addition to establishing a favorable policy environment for private sector-led development, the government has the responsibility to provide the physical and human infrastructure necessary to sustain efficient management of the productive sectors. Cape Verde has a long way to go in this area. Even casual observation reveals a seriously deteriorated infrastructure that begs for immediate public investment. As the GOCV does not have the resources to repair and expand its ports, airport runways, and energy and water systems, it will have to rely on donor assistance.¹ This will need to be carefully coordinated, which at present does not appear to be the case. The GOCV also should consult

¹The GOCV is presently negotiating a \$70 million loan for infrastructure improvements from the World Bank. In addition, the Government of France is considering providing support to the GOCV for enhancement of physical infrastructure.

with the private sector, factoring its needs into making decisions on where and how best to allocate resources for infrastructure improvements. As the private sector is not yet nationally organized, this is difficult for the government to do.

Similarly, the government should work with the private sector in determining training needs and developing curricula and courses, in both management and vocational areas. Once again, little to no coordination exists. But if resources are not to be squandered, it is essential that the GOCV be able to respond to the changing training needs of business. If PROMEX and IADE are any indication of this kind of coordination and consultation,² much remains to be done. It is urgent for the private sector to organize a national chamber of commerce or business association in order to interact effectively with the public sector.

The GOCV, not entirely without reason, has used the absence of such an organization as both an excuse and reason not to establish a sustained and orderly dialogue with the business community. The fact that the private sector is not homogeneous makes the argument for a national business association all the more compelling, as it would serve as a forum for diverse private sector interests to come to agreement on shared objectives and push the government to translate them into policy and other initiatives. The lack of a national private sector organization gives the government the opportunity, if it so chooses, to avoid dealing with issues affecting business.

Government also is the appropriate authority to maintain a social services system, providing for the country's basic educational, health, and population needs. In the case of Cape Verde, the private sector has not yet been strengthened sufficiently to generate the kinds of revenue to help the GOCV pay for the costs. As the government cannot rely indefinitely on international largess, it must take concrete actions—e.g., enforcement of existing policy reforms, an aggressive program of infrastructure modernization, new and expanded management, and vocational training initiatives—to bolster the private sector and make it competitive.

Finally, government has the responsibility to protect and nurture the environment and the country's natural resources. This is dramatically evident in Cape Verde, where years of drought, overuse of the little arable land available, and few natural resources have taken their economic toll. Admittedly, this is difficult in a nation so financially starved. But to leave its natural resources and environment unprotected would virtually risk elimination of its potential in tourism and fishing, two sectors thought to be key to future development.

B. Role of the Private Sector

The formal private sector in Cape Verde was accurately characterized by one entrepreneur as "incipient." After almost 500 years as a Portuguese colony and 16 years

²An indication of this requirement came in an interview with key PROMEX officials, when the interviewer was asked to return so that the PROMEX staff could ask him about the private sector's needs. Similarly, many business persons indicated that they were uninformed about PROMEX and that the agency had done little to reach out to them.

under a centralist economy, the private sector remains with few exceptions basically mercantilistic. As of 1991, the tertiary sector represented 60.9 percent of GDP, with the primary and secondary sectors splitting the remainder, 13.2 and 17.6 percent respectively. (Fishing, which is often touted as having great potential, represented only 3.1 percent of GDP.) The economy is still dominated by SOEs, which are to be privatized over the next few years.

Because of its history, Cape Verde lacks a tradition of entrepreneurship. Although there has always existed a private sector, it has been small, weak, and engaged in trading and subsistence production. After independence, the government adopted an import substitution model for development, which failed.³ Unfortunately, while the new GOCV continues to push for reforms to liberalize the economy the private sector does not seem to be able to catch up to the new policy environment,⁴ feels the implementation of the new economic reforms is still lacking, or—to a lesser extent—is unaware of the changes already in place, despite the fact that 60 percent of business persons surveyed reported they believed the GOCV was playing an appropriate role with respect to the private sector. This is the result of several factors:

- The lack of a tradition, experience, skills, knowledge, and resources to take advantage of new opportunities.
- A small and poor internal market, coupled with little to no export experience or capacity.
- Inaccessible credit.
- An aging and inadequate physical infrastructure.
- Expensive and unreliable transportation, energy, and a lack of water.
- Lack of strong organization and leadership.

The private sector historically has taken a back seat to the government in the national economy. With policy reform, the business community is now challenged to expand beyond its traditional role of importer and local trader. It will have to increase significantly its participation in production and export, but will require substantial external assistance to reach a level at which it can compete effectively in the international market. It will also have to rely on a government that ultimately relinquishes control of state-owned enterprises and its monopoly on banking and follows through on reform implementation.

³With more than a little irony, it should be noted that even with the import substitution model in place, the country continued to rely heavily on imports, both for trading and as inputs.

⁴Neither does the government. That is, while it has pushed through policies to liberalize the economy, it still has not been able to streamline bureaucratic procedures or improve the efficiency of public employees.

The GOCV has taken a leadership role in drafting new legislation to liberalize the economy to create the statutory framework in which accompanying legal and regulatory reforms can take place. As has been emphasized, the next step for the government is to enforce its new policies, helping to decentralize and streamline the bureaucracy—admittedly a tall order.

Aside from creating a policy environment in which the private sector can realize its potential, it is government's responsibility to underwrite the costs of an adequate educational and training system. The GOCV should improve its ability to develop training that accurately reflects management and worker skill needs. Unlike in the past, the GOCV now needs to work directly with the private sector to identify training requirements, yet another function that could be performed by a national business association or chamber of commerce. Similarly, another role of government is to ensure an adequate infrastructure to support economic activity, an urgent issue that the GOCV is addressing.

Although the GOCV appears to be moving in this direction, it has much to do. For example, the lag in divestiture of SOEs is no doubt partly due to bureaucratic inefficiencies along with lack of experience, although it may also be a function of difficulties in mobilizing and recruiting investment in Cape Verde, especially from abroad. Similarly, while the government has not abandoned its role as sole banker in the country, it has established for the first time a commercial bank separate from the Central Bank. The appropriate role of government in an open economy is to allow private banking, which operates more efficiently.

While the GOCV has taken several important steps to open the economy, it still has not defined its ultimate role with respect to the private sector. As has been seen, this is the result of historical, cultural, political as well as economic factors. While there may be textbook definitions of the public sector's role in an "ideal" market economy, they are tempered by the realities of history, politics, and tradition.

C. The Informal Sector

Although a detailed study of the informal sector has just been concluded as of this writing, it is useful to review briefly the sector's role in the economy and relationship to the formal sector. The survey of private entrepreneurs and public officials indicated clearly that the informal sector has both positive and negative economic impacts.

According to the Minister of Economic Coordination, the government tolerates the existence of the informal sector for one major reason: employment. With an open unemployment rate of 26 percent, declining international donor assistance, and a falling GDP, the GOCV has been hard pressed to create job opportunities for its young population. While the actual size of the informal sector range is unknown, there is wide agreement that it acts as a relatively significant economic escape valve for the potentially explosive social and political unrest that could occur as the result of large, sustained unemployment.

In addition, there is tentative evidence that informal sector business may actually engage in limited value added activities, producing rather than just selling imports. Some formal sector owners and managers, for example in the metal mechanic area, indicated they were aware of micro-entrepreneurs producing similar products. Others, including a large beverage firm, said that informal vendors of its products actually constitute an additional distribution network. Most *microempresarios*, however, are vendors, selling imports and local produce. In Praia, there is a sizable market, *Sucupira*, where informal sector vendors rent stalls for about 100 escudos a day. These rental fees generate a modest amount of revenue for the government, but more importantly the economic activity undertaken by the vendors provides a source of income for many otherwise jobless members of the economically active population.

Most formal sector managers who took part in the survey felt that the members of the informal sector constitute unfair competition in that they pay no taxes, either on imports or profits.⁵ Once again the government is caught in the middle. On the one hand, it needs to support the kinds of employment opportunities represented by the informal sector as well as the lower prices it is able to offer low income consumers. On the other hand, it loses additional revenues to help defer the costs of the kinds of public investments essential to private sector growth and economic development. From the government's perspective it would seem it had made the right choice in terms of the "larger picture," according to one senior government official. First, the amount of revenue generated in taxes would not be enough to offset the political and social—not to mention economic—costs of clamping down on the informal sector. Second, the formal sector is not organized well enough to present any significant opposition to the present policy in any event. Third, the private sector is more concerned about issues other than informal sector competition, such as credit and the labor code.

Cape Verde might do well to draw lessons from other countries. In El Salvador, larger formal sector businesses especially in light manufacturing have contracted with informal sector enterprises to supply inputs. A furniture maker, for example, entered into arrangements with micro-entrepreneurs to supply him with simple finished wooden slats for use in assembling chairs and beds. In turn he has helped them finance equipment and provided some training. In addition to its socio-political utility, it may be possible to devise strategies to harness the productive potential of the informal sector in Cape Verde.

D. A Typology of Cape Verdean Businesses

Any typology of Cape Verdean businesses to establish categories of size—i.e., small, medium, large—has to be put in the national context and scale. As a country of less than 400,000 inhabitants, it is predictable that no large industry, by international standards, would exist. This is true of the private sector, although some of the national parastatals, such as CTT and ENAPOR, have payrolls (one definitional variable) in excess of 500 employees. The following tentative taxonomy is based in large measure on a similar classification of small and micro enterprises in El Salvador, another small developing country.

⁵According to the Minister of Economic Coordination, however, all imports are taxed.

A review of the sample of *formal* sector businesses in the survey undertaken as part of this report suggests three and possibly four variables that can be used in developing a typology: size (i.e., number of employees); revenues;⁶ and organization (see Table 6 below). The first two variables are straightforward and used almost universally in defining the scale of enterprises. In Cape Verde, a reasonable distinction among business would be: less than 10 employees for small businesses; 10-35 for medium size businesses; more than 35 for large scale enterprises. In addition to size, a companion variable would be annual gross revenues. That is, a small business would be defined as having less than 10 employees and revenues of less than 20 million escudos; a medium scale enterprise would have between 10 and 35 employees and revenues between 20 and 30 million escudos; a large company would have more than both 35 employees and 30 million escudos in yearly gross revenues.

A more difficult variable to describe in developing the typology is organization. Size and revenues alone are not indicative of the kinds of formal sector businesses that exist in Cape Verde and that require distinct kinds of technical assistance and training interventions. All enterprises are clearly distinguishable by their organizational structures. That is, there is a difference between companies that are formally organized and those that are more loosely or informally structured. In the former, delegation of authority is more established and prevalent, spans of control are smaller, and personal relationships are more institutionalized. In the latter, frequently there is no delegation of authority, spans of control are very broad, and relationships are personalistic. For students of administration, this situation presents almost classic cases of institutional evolution.

A fourth variable that may be helpful in selecting project interventions to strengthen businesses is the difference between companies where ownership and management are the same and those in which a separation is clearly maintained. Businesses that separate ownership from management have been generally considered more modern and efficient. To what degree this is an important distinguishing feature for small and medium scale enterprise is somewhat questionable, except where businesses begin to expand into semi-autonomous operations requiring a revised set of relationships between owner and manager. However, given the importance of the need to train board members, typically a significant requirement in small, developing nations where directors tend to micro-manage executive functions, this should also be used as a taxonomic standard.

While this initial typology of Cape Verdean formal sector businesses is elementary and should be refined, it does point to the kinds of companies that operate in Cape Verde and their attendant needs, and should be used to inform the process of designing specific project interventions.

⁶The value of assets could also be used, but that would have been difficult, if not impossible, to obtain during the work undertaken for this analysis.

TABLE 6
TYPOLGY OF CAPE VERDEAN BUSINESSES

BUSINESS TYPE	OWNERSHIP TYPE	Number of Employees			REVENUES (mill. CV escud.)
		TOTAL	FULL-TIME	PART-TIME	
Export/Import, transportation	Private	23	23	0	20+
Beverage manufacturer	Mix	122	110	12	20+
Food processor & distributor	Private	20	20	0	20+
Hotel & restaurant	Private	83	68	15	10-20
Aluminum construction	Private	18	18	0	20+
Computer hardware & software sales & services	Private	8	8	0	20+
Hotels & investment	Private	N/A	N/A	N/A	N/A
Business services	Private	29	9	20	-5
Metal mechanic manuf. & service	Private	100	100	3	20+
Paper & office supply	Private	7	7	0	10-20
Business svcs. & office supply & tech. assist.	Private	10	10	0	20+
Restaurant	Private	20	20	0	10-20
Paint manufacturer	Mix	24	24	0	20+
Office supply	Private	3	3	0	5-10
Construction, archit. & engineer service	Private	200	20	180	20+
Grocery	Private	30	30	0	20+
Travel agency	Private	17	17	0	20+
Banana exporter	Private	91	85	6	20 :
Holding company	Private	26	22	4	20+
Tobacco manufacturer	Private	68	48	20	20+
International oil	Private	75	0	s/t contract	20+
Pasta & coffee manufacturer	Mix	28	26	2	20+
Ship repair services	Mix	220	200	20	20+
Import/export, grocery, furniture market	Private	N/A	N/A	N/A	20+
Biscuit, bread manufacturer	Private	67	60	7	20+
No. of Private Enterprises:	21				
No. of Mixed Enterprises	4				
Ave No. of Employees:		52	37	12	
Ave Revenues for Business (mill. of CV escudos):					18.5
Total no. of businesses having revenues...					
less than 5 million CV escudos:					1
between 5 million and 10 million CV escudos:					1
between 10 million and 20 million CV escudos:					3
more than 20 million CV escudos:					19

E. Constraints to Private Sector Development

It is essential to examine the constraints to development of the private sector—along with its strengths—in order to devise a targeted strategy for developing its capacity to function more productively and effectively. This section will address both the *internal* and *external* strengths and weaknesses of the private sector. That is, aside from specific endogenous characteristics of the private sector, exogenous factors that directly determine its strengths and weaknesses also need to be identified in order to present a complete picture of the private sector's status and needs.

E1. Constraints

It is ultimately up to the private sector to take advantage of the opportunities presented by the newly emerging policies reforms. In order to do so, it will have to overcome several external and internal obstacles.

E1a. External Obstacles

E1a(1). Legislative and Regulatory Constraints

Policy, or legislative, and regulatory constraints to private sector development, particularly in export and investment, are not so much in the laws and regulations themselves as in their implementation. Nevertheless, incentives for investment are not as adequate as they could or should be, and the GOCV needs to act more quickly and forcefully to reform existing legislation.

For example, the External Investment Act of 1989 provides only a weak guarantee against expropriation, permits foreign investors to transfer foreign exchange abroad but only when converting Cape Verdean escudos into foreign exchange—of no incentive to a company exporting all of its production, and discriminates against local investors by not giving them the same rights of convertibility as foreign and external investors (Lei No. 49/III/89 de 13 de Junho). That is, Cape Verdeans are required to return to Cape Verde all dividends and profits acquired outside the country. This effectively acts as a disincentive for Cape Verdeans to bring their externally derived resources into the country for investment and contributes to a low savings rate as well. Fortunately, PROMEX has drafted a revision of the law that is to be submitted for consideration by the National Assembly in October 1993.

The Industrial Development Act of 1989 is similarly in need of revision. While it does grant incentives to firms, the law is so broad, complex and lengthy that it is more confusing than enlightening. For example, firms exempt from customs duties are required to pay a stamp tax and customs fees, thereby effectively defeating the incentive. Aside from this and other contradictions, other major weakness of the statute is that "it makes the decision-making process subjective, prolonging the approval process and complicating enforcement of the regulations" (Services Group: 35). This is a complaint made across the board: that doing business in Cape Verde is made all the more difficult by cumbersome, lengthy, and, in many cases, needless bureaucratic procedures.

In fairness, it must be said that the government does recognize this problem and has taken some steps to reform the process, establishing, for example, PROMEX, to assist investors interested in opportunities in Cape Verde. But PROMEX has no implementing authority for the policy recommendations it makes. Moreover, its mandate has put it in the position of engaging in "turf wars" with other government institutions on whose domain it trespasses. Even with the creation of PROMEX, the most significant reform has been the decision to privatize the government's SOEs. And even then the barriers posed by existing investment and banking rules will slow the pace of divestiture.

By contrast, a recent study of export legislation concludes that the laws governing tourism constitute "a tightly integrated, complete package," and that as the approval process for incentives and other actions resides with the Directorate General, the system is efficient (Services Group: 37). The survey of the private sector nonetheless indicates healthy skepticism with respect to the government's ability to act responsively to its investment needs, and not without reason. For example, one survey respondent reported that a tourism complex that had been built and operated in Praia by foreigners closed shortly after opening because of problems related to government bureaucracy and red tape.

Yet another example of the need for legislative and procedural reform can be taken from statutes and regulations affecting the export sector, the most important avenue for Cape Verde's economic growth. At least ten steps are required to register a company and qualify it for export incentives (Services Group: 11-15); it takes approximately nine months to carry them out, creating a significant obstacle to desperately needed investment. In addition, fees and taxes assessed in the course of registration require payment of about 1.7 percent of the company's capital (Services Group: 12).

Not surprisingly, taxes are considered by many entrepreneurs as a disincentive to business. This is especially the case among small scale businesses that typify the Cape Verdean economy. They are—or claim to be—unable to make the kinds of investments needed to upgrade their operations because of a minimum tax rate of 35 percent on profits (the so-called industrial tax).

By contrast, other businesses did not think their tax burden acted as a disincentive. This kind of mixed response is an important signal that the government should look closely at the impact of the present tributary structure on the growth of the private sector and initiate actions to eliminate existing disincentives. The impression is that while government is seeking ways to stimulate private sector activity, it has yet to consult effectively with the business community. This, in part, is due to the lack of national chamber of commerce or similar association—at least this is the reason the GOCV gives for not being able to enter into a dialogue with the private sector. However, other avenues are open to the government for interacting with private business, including the regional business associations.

By contrast, the government is aware of many legal and regulatory constraints and is taking corrective action. For example, legislation to provide incentives to both the 100 percent exporter (free zone) and the less than 100 percent exporter is being drafted. The labor code, considered by so many entrepreneurs to be a burden, is being revised and most

likely will be submitted to the next session of the National Assembly. These are necessary actions, as the impact of regulatory and legislative constraints on business has been to discourage investors and limit greater business activity.

E1a(2). Institutional Constraints

If the legislative and regulatory framework for private sector development is still in need of reform, the same is true of the institutional environment. Although the private sector is organizationally underdeveloped, the government has not responded with the necessary alacrity to create a fully functioning institutional infrastructure to assist business in acquiring investments and expanding and diversifying exports.

A priority institution has been PROMEX, which started operations in late 1991 as part of USAID's Export Development Services (EDS) project. A mid-term evaluation of the EDS (see Panagides and Lessick) concluded, *inter alia*, that while PROMEX was well established politically in the GOCV and has a "highly competent" staff, no mechanisms existed to give it the ability function as a one-stop shop (*balcao unico*) for investors, a major shortcoming in light of the substantial procedural hurdles that presently discourage investors.

Equally important was the finding that the PROMEX Board of Directors, despite a statutory mandate to have a majority of Directors from the private sector, was dominated by public officials (Panagides and Lessick: 25). Thus, its contact with the private sector is only marginal,⁷ reflecting both little bureaucratic initiative to coordinate with the private sector as well as the business community's inability to give it clout to defend its interests effectively. The upshot of the situation is that while the lead agency for promoting government export and investment policies has pursued investors (with not too much success), especially from abroad, it has done little to coordinate its activities with the local private sector. For example, PROMEX officials asked the team member conducting the interview to tell them about the private sector's needs. Similarly, a business owner seeking to export assistance reported that he was unable to obtain help from PROMEX despite repeated requests.

IADE is the other government institution set up to help strengthen the private sector, specifically by improving installed capacity of industry, commerce, and services. According to its director, it is mandated to do this through conducting relevant studies and providing training and technical assistance at the company level. It also manages a fund to support pre-feasibility and feasibility studies. While it will be working primarily with small and medium scale businesses, it also plans to assist informal enterprises make the transition to the formal sector. It has been in operation only six months, clearly not enough time in which to achieve measurable results.

⁷A recent example of this was the first international trade fair held in Praia in June 1993, with assistance from the *Associacao Industrial de Portugal*. Apparently the GOCV planned and set up the entire function without input from the private sector.

These institutional problems point once again to the difficulty in translating policy reforms into action. Donor agencies could play a beneficial role in providing technical assistance and training for improving institutional performance across the board, not just in PROMEX and perhaps IADE, but also in the bureaucracy. This would help change existing organizational cultures, although donors would have to be prepared to support a sustained effort.

E1a(3). Credit

The government's monopoly in the financial sector has helped to stagnate the economy. In addition to its regulatory, policy, and control activities, until 1993 the Central Bank of Cape Verde acted as a commercial banking institution. Virtually all financing, other than small personal loans and limited private foreign investment, was done through the Central Bank, with the exception of the *Caixa Economica*, also a government entity, which acts as a savings and loan bank providing mortgage and consumer loans. Consensus exists in both the private and public sectors that the lack of access to credit is the single greatest problem facing the private sector. Paradoxically, in the survey liquidity was not identified as an issue. The main failure of the Bank cited in meeting the needs of private enterprise has been the inordinate delays caused by a cumbersome bureaucracy and lack of private competition. As one Central Bank official explained: "The Bank has no experience in the modern economy, especially in investment and export."

One result of this problem is that the entrepreneur who wants to start a new business or expand an existing one is discouraged from so doing. For example, the completion of a 30-room hotel in Praia by a business owner was halted two years ago because the BCV did not authorize the credit promised. The owner reported that once the credit is authorized construction can be completed within two months. He complained that he would have been able to rent all the rooms, thus earning funds to repay the loan, had the hotel been completed before the arrival of guests for the International Industrial Fair at the end of June. Second, delays—up to seven years in one case—in acquiring working capital stall and sometimes destroy business opportunities. Third, investors seeking finance are similarly frustrated. If Cape Verde is to pursue seriously an export strategy, it is vital that banking reforms be instituted quickly. To its credit, the government has already taken a step in that direction, by creating for the first time a separate commercial bank (Banco do Atlantico) and privatizing in part the Caixa. While this is an encouraging sign, the fact remains the bank will still be majority state-owned—at least initially—and possibly subject to the same kinds of bureaucratic delays that exist in the Central Bank. It is not enough to create a new institution if it is to function as inefficiently as the old one. The ideal plan for financial system reform would be to open the banking sector to private interests and competition.

E1a(4). Infrastructure

Almost as debilitating as the banking system is the quality and capacity of the country's physical infrastructure. Ports and airports are in urgent need of repair and expansion, especially if exports are to grow. Inter-city and many secondary roads are brick, but in relatively better shape than other parts of the infrastructure. The European

Community is building a new industrial park next to the airport in Praia, providing basic utility hook-ups, but the high cost and unreliability of energy still exist.

Water is scarce. Even the national soccer field has a dirt surface, saving on the cost and use of vital water. Mindelo, the commercial center of Cape Verde, has a desalination plant. While desalination is an effective way to provide water, it is very expensive, driving up the costs of production and lowering competitiveness. Similarly, electricity is expensive and unreliable, increasing factor costs.

Inter-island sea and air transportation is vital to Cape Verde, as it is used to integrate the country economically and socially,⁸ but is nearly bankrupt. Prices—for both the government and privately owned fleets—are controlled, preventing each from operating profitably, thus making it impossible for them to modernize and thus compete for their survival. Moreover, the ports are managed by a parastatal—Empresa Nacional dos Portos (ENAPOR)—which has proven to be inefficient and ineffective due principally to an awkward decision-making process that involves ministerial level action and high rates of labor redundancy. The good news is that plans are underway to permit ENAPOR to contract port services to private operators.⁹

International maritime traffic is expensive in large measure because Cape Verde has little to export, meaning that vessels off-loading goods have to return with empty containers. The result is that shipments to Cape Verde generally cost more to offset the cost of deadheading.

The largest airport is in Sal, which is able to accommodate large international aircraft, including 747s. A new and longer runway is being built in Praia which will be able to accommodate medium size airbuses. Other islands too are having their facilities upgraded. This will help to enhance tourism, thought by many to be a potential growth industry. The national airline, TACV, is operated at a loss by the government, which has decided to enter into a management contract with a private joint venture of Cape Verdean and foreign partners.

While the survey of private entrepreneurs revealed general satisfaction with telecommunications capacity, the government no doubt will have to modernize the current system especially if it plans to seek investors interested in establishing teleport operations in the country. Once again, it is vital for both government and the private sector to reorient its vision toward the international market place. While there exists significant prolix toward that end and some action, much more needs to be accomplished and at a more accelerated rate.

⁸Data on transportation are drawn from the World Bank Staff Appraisal Report "Republic of Cape Verde Transport and Infrastructure Project," February 1993.

⁹It is instructive to note that ENAPOR management complains of the same constraints that the private enterprise does—citing problems with the labor code and access to credit—for companies looking for start-up capital for the soon-to-be privatized port services.

It is evident that if Cape Verde is to grow and develop economically, it has to put into place both the physical and human infrastructure required to support a viable export strategy.¹⁰ Fortunately, the government is aware of its pressing infrastructural needs, and a pending World Bank loan coupled with assistance from France will do much to alleviate them.

E1a(5). Services

Many studies undertaken by international donors and independent consulting firms point to the urgent need for investment in basic infrastructure to promote the tourism industry in Cape Verde. Beyond that, tourists visiting the country will undoubtedly be surprised by the high cost of rental cars, inability to use credit cards, poorly kept hotel rooms, lack of hotel telephone service and security, and poor restaurant service. In addition to its impact on tourism, poor facilities and services also can discourage potential investors. While business people are looking for return on investment, impressions can be important. For example, a delegation of Kuwaiti government officials left one of the two best ("4-star") hotels in Praia after only one night's stay because hotel conditions were so poor. Both the hotel amenities and service offered by personnel require complete reforms to attract tourists, business travelers, and potential foreign investors.

E1b. Internal Obstacles

E1b(1). Tradition

There is virtual unanimity across both the private and public sectors¹¹ that the Cape Verdean business community has a problem of *mentalidade*, that is, an outlook or attitude that limits its ability to operate in an open and competitive market, take risks, and engage in value added activities. In this sense, the Cape Verdean is less entrepreneurial and more mercantilistic. As a result, most business persons lack the skills and know-how to put together ventures that can meet the more exacting standards of the international marketplace and be managed efficiently—the only realistic alternative for the country's development.

This attitude is used as both a reason and excuse for the lack of a more aggressive private sector. It is most likely one reason—among others such as a pronounced individualism, traditional dependency on government, and absence of strong leadership—for the slowness by which the business community is attempting to organize itself more effectively. The attitude also has been reinforced by Cape Verde's isolation.

The implications for development assistance interventions are clear: technical assistance and training will have to be directed not only at the practical needs required to

¹⁰The GOVC is negotiating a \$70 million loan from the World Bank for infrastructure improvements, and the French government is also planning to provide assistance.

¹¹Reference made to the views of and about the Cape Verdean business community throughout the report are based on the findings of a survey (see Section I on methodology) conducted as part of this study, as well as from secondary sources.

strengthen the private sector, but also at the challenges presented by its cultural and attitudinal realities. This is by no means a problem unique to Cape Verde. However, it was mentioned by virtually every respondent in the survey as an obstacle to the development of a stronger and more modern private sector. The fact that the business community understands and admits that its outlook is a problem will make it easier to deal with it and design appropriate project interventions.¹²

E1b(2). Government Dependency

While many of the private sector's weaknesses are the result of external factors beyond much of its control, the survey shows near unanimity of opinion that the business community is still dependent on the government. That is, the private sector is reactive and fails to take the initiative to defend forcefully its own interests, waiting instead for the government to create conditions favorable to private enterprise. Perhaps the most telling evidence is that two-thirds of private owners and managers asked whether the government should help fund a chamber of commerce said "yes." There still seems to exist an inability and unwillingness by the private sector to wean itself entirely from its frequent benefactor. It might be argued that in a poor country like Cape Verde this reflects an economic need. However, the interviews indicated that funding of a chamber of commerce was thought to be a government "responsibility," irrespective of financial need.

This is consistent with the Portuguese patronal cultural attribute, characterized by a strong dependency on a personal or institutional *patrão*. It also is typical of another strong cultural trait—fatalism that absolves the individual of responsibility for his actions (and inactions) as everything is preordained, or determined by "the hand of God." This dependency on government, part of the Lusitanian legacy and mentality and cited by almost every respondent to the survey as debilitating development of the private sector, must be overcome if the private sector is to realize its full potential.

While cooperation with the government on issues of mutual concern is desirable, it is essential that the private sector maintain its independence if it is truly to be "private." For example, accepting public funds for the operational support of a chamber, as has been suggested by many entrepreneurs, would violate this principle and make the private sector a virtual appendage of government. This would certainly be the case if the funds were appropriated through a budget line. While total financial independence is the optimal alternative, a more autonomous kind of public financing, which could be considered if private funds are not sufficient, would be a dedicated tax.

The private sector is still strongly linked to the Portuguese economy. This is neither surprising nor dissimilar from experiences of former colonies elsewhere in Africa. While there may be some advantages to this close relationship—potential emigre markets, access to development assistance, possible investor resources, etc.—Cape Verde needs to expand its

¹²See *Who Prospers: How Cultural Values Shape Economic and Political Success and Underdevelopment is a State of Mind* by Lawrence Harrison for a detailed discussion of the impact of culture on development.

economic relationships with other nations, particularly as part of a concerted export and investment promotion strategy. This will open new markets and expand opportunities.

E1b(3). Internal Market

One reason the Cape Verdean business person remains generally unprepared to compete in a changed world economy is attributed not only to the lack of an export and industrial tradition but also to the maintenance of a protected domestic market that relies heavily on imports.¹³ Unfortunately for Cape Verde, the internal market is not large or strong enough to sustain a viable national economy. A vicious cycle exists in that high unemployment acts as a drag on business. Enterprises cannot hire workers because demand is low but still have to boost export capabilities to expand market opportunities. And the export sector is negligible due to the lack of experience as well as other key factors such as an inadequate infrastructure and under-skilled workforce.

Without external transfers, Cape Verde would be in a state of economic collapse. Its current account deficit as a percentage of GDP, for example, has been made manageable by the receipt of grants. External transfers including private remittances and donor revenues accounted for an average of 38 percent of GDP between 1986 and 1990. While private transfers have remained relatively stable at an average 19.1 percent of GDP between 1986 and 1990, they declined precipitously during the same period from a high of 29 percent to 10.6 percent in 1991 (see Table 2 on page II-5).

A further though probably predictable problem with the domestic market is that the rate of consumption exceeds that of savings (Panagides and Lessick: 12). This is both a cause and effect of the depressed economy, and one which further solidifies the vicious cycle. While remittances by way of gifts, investments, and loans clearly help to strengthen economic activity, and are substantial, they are almost an artifice in that they are not the result of internal production.

Once again, an expanded export sector is a key to growth, expanding economic activity, and strengthening the internal market. Developing the private sector then depends not only on removing internal and external constraints but on finding foreign markets and producing enough goods and services that meet external demand as consistent with international standards of quality. Similarly, while the private sector needs to organize to promote its own interests, it has to understand and define those interests. It is clear from this assessment and other studies that an aggressive export effort is the most urgent economic priority.

E1b(4). Non-traditional Opportunities

How willing is the Cape Verdean private sector to seek opportunities in non-traditional areas? The results of the survey are not encouraging in this respect. Perhaps the greatest obstacle is the national mentality—often used to rationalize the private sector's lack

¹³As one government official put it, "Cape Verde lives on imports."

of initiative. A second and corollary problem is tradition. The Cape Verdean business community has been stuck in an historical rut, having had little experience in a truly competitive, international market. Exports—tourism, fish, export processing—represent the most commonly identified potentials for the country's growth. But they are areas in which the private sector has had no systematic or significant experience. Moreover, risk-taking, an integral attribute of dynamic entrepreneurship, is not part of the Cape Verdean business tradition.

This mercantilistic attitude was exemplified in on-site visits to three businesses that are owned and operated by a single person under one company name. The owner has a grocery store, a furniture manufacturing business, and an import/export company, and hopes to expand his business into other (undefined) activities. He maintains separate warehouses, offices, and accounting controls for each operation. The physical space in which business is conducted is disorganized, stock rooms are in disarray, and little regard for employee health and safety is displayed (in the case of the furniture manufacturing business). The mercantilistic, or trader, mentality of the owner is evident from a lack of a clearly defined strategy for company growth, no quality control mechanisms, and inefficient production techniques. The owner is motivated primarily by making an immediate profit—buying and selling.

By contrast, there is evidence that other business owners have developed entrepreneurial attitudes and skills. For example, the owner of a computer software company in Praia explained that his business strategy is based on offering stability and quality in the services he provides his clients. These intangible characteristics, according to the owner, are not offered by his competitors. Unfortunately, the majority of the business owners interviewed displayed characteristics similar to those of the first business owner.

Until the banking system is reformed (beyond the establish of the state-owned commercial bank), bureaucratic procedures streamlined, and capital made available, it is unrealistic to expect significant movement toward nontraditional business opportunities. Similarly, without infrastructure improvements, both traditional and nontraditional ventures will be restricted. Also there is an urgent need to upgrade human resources to take advantage of emerging possibilities. For example, a grocery store owner who imports all his merchandise expressed concern over potential quality control problems with products manufactured in Cape Verde. The owner explained that products that require assembly-line manufacturing would suffer in quality because Cape Verdeans do not have the industrial mentality needed to work in shifts and perform repetitive tasks. Additionally, Cape Verdean workers lack technical skills required for export market development. The commercial director of a paint manufacturer related that his company would like to export paint to other African countries but is unable to negotiate contracts because of poor product quality. (Several entrepreneurs noted that Cape Verde is still "not in condition" to take advantage of potential opportunities as it lacks the necessary financial and physical human resources.)

E1b(5). Organization and Leadership

The inchoate state of an organized private sector is another a major factor contributing to its weakness. Although this will be examined in more detail in Section IV, it is useful to review briefly some of the attributes of this problem. While sector-based associations, or guilds, exist they have tended to be loosely knit organizations with little or no political power until recently. There is no single chamber of commerce to represent and defend the interests of the private sector as a whole, although the Associação Comercial e Agricola de Sotavento and the Associação Comercial, Agricola e Industrial de Barlavento, the two large regional business groups, are moving toward creating a single or united chamber of commerce.

The private sector has been dominated by the government for so long that it has very little experience operating as an organized interest group. Now that there is a democratic government this way of operating is not only possible but essential. Leadership is also lacking, at least with respect to the emergence of a single leader able to galvanize the private sector into an effective force. This is somewhat the opposite of the classic Weberian process of organization, where an organization dominated initially by an individual leader, is eventually depersonalized and established as an autonomous institutional system. In Cape Verde, an organization is being created in part to compensate for the lack of leadership.

E1b(6). Human Resources

Even if the policies, bureaucratic procedures, and finances were in place to stimulate the economy, it is doubtful that sufficient human resources, both labor and management, will be adequate to the task. The labor code is very restrictive, especially with respect to management's ability to dismiss workers for cause. For example, a grocery store owner dismissed an employee for stealing some meat. Although not a felony, the manager viewed the theft as a sign of potentially more serious problems. The Ministry of Labor required him to rehire the employee as the result of "insufficient cause." Virtually all respondents to the survey indicated that the labor code was a serious impediment to productivity. While this is not necessarily surprising, an objective assessment of the legislation reveals it needs to be reformed to allow management more flexibility in basing personnel decisions on performance.

The lack of skilled workers is also problematic and will increase as the private sector diversifies into more competitive areas. While the government does have training facilities, it is clear that demand is not being measured or met adequately by either the public or private sector (see companion report on human resources in Cape Verde for a detailed analysis of private sector training needs). With few exceptions such as the Escola Nautica, government training facilities do not interact with or respond to the needs of the private sector. This critical situation needs to be remedied immediately.

Management, too, is lacking in skills. A review of the respondent companies shows the mean average span of control to be 1 manager/supervisor to 18.5 workers,¹⁴ which is inefficient but not atypical in Lusoafrikan cultures where trust and delegation of authority are the exception rather than the rule. Most companies, at least in terms of Western standards, are small (i.e., under 50 employees), but even so they need modern management skills to increase productivity and competitiveness.

Managers require training not only in management but in business planning, especially as the private sector moves more aggressively into sectors where competition is greater, markets untested, and there is a need to comply with tougher international standards. Similarly, at the technical level state-of-the-art training is needed. As most of the economy is based on commerce, there does not appear to be much of a sense of urgency to provide this kind of human resource development. However, the changes and challenges of the world economy make this an imperative.

E2. Strengths

Obviously there are many serious constraints to the development of the private sector and unfortunately only a few strengths, at least with respect to the private sector. Nevertheless, it is important to identify those strengths to gain further understanding of interventions needed to improve its performance. One strength of the private sector, at least in terms of knowledge and tradition, is its long experience in commerce, although this is somewhat attenuated by the fact that the country must move into other sectors—where, unfortunately, the business community has had scant experience. Be that as it may, the country has no alternative but to strengthen and diversify the private sector to promote growth. Attendant development needs such as education, health, housing, and sanitation all depend on an expanding private sector to contribute to public receipts in order to fund critical social services. This is all the more important in an era of declining international donor assistance, which has had a major role in propping up the Cape Verdean economy.

While not strictly a strength, the most important *resource* of the native Cape Verdean private sector is the expatriate community. Its contributions to GDP have been vital. Cape Verde is unique among developing countries in that the size of private remittances as a percentage of GDP represents an essential source of investment income and foreign exchange. The GOCV needs to formulate and implement a well-conceived strategy to recruit human and financial resources from the major expatriate communities and take advantage of the opportunities it offers as a "natural" market (see the companion report on the Cape Verdean American community).

Another strength is the growing understanding and appreciation of the need for the private sector to enter the modern, global economy. For example, two-thirds of the respondents in the survey expressed interest in joint ventures with foreign investors. Fully all supported the idea of a national chamber of commerce to represent the interests of the private sector as it begins to assume a more prominent role in the national economy.

¹⁴The median average ratio is 1:22.5.

In addition to the private sector's internal strengths, some external strengths should be noted. Government policy reforms, while still lagging in their implementation and obviously not an inherent feature of the private sector per se, have resulted in creating the enabling environment for economic liberalization (World Bank 1993a: 10-11), providing unprecedented opportunities for the business community. The establishment of a commercial bank, albeit publicly owned, is another step in the right direction. In addition, in the ECOWAS region in particular, Cape Verde enjoys an unusual degree of political stability. This is a key factor for many foreign investors reluctant to put their investments in countries with inhospitable political climates such as Liberia. The downside is that the region has not been the target of net foreign investment, which means Cape Verde will have to pursue an especially aggressive investment promotion strategy. By the same token, for investors interested in the region, Cape Verde may offer attractive opportunities, particularly for entrepot services.

SECTION IV PRIVATE SECTOR ORGANIZATION

A. Current Organizational Structure

Given the economic, political, and social history of Cape Verde it is not surprising that the private sector is only embryonically organized. As the country moved directly from its status as a mercantilistic colony to a socialist state, it has had only the past two years in which to experience an opening market within the framework of a democratic polity. Hence the private sector has had relatively little time in which to consolidate itself organizationally.

There are several private sector associations in Cape Verde, the largest and most significant of which are the Associação Comercial e Agrícola de Sotavento (ACAS) and the Associação Comercial, Industrial e Agrícola de Barlavento (ACIAB). The former is located in Praia and represents the windward islands; the latter is in Mindelo and is comprised of the leeward islands. These associations are essentially guilds or, more accurately, proto-chambers of commerce, representing in principle sectoral interests. While they form the base of an organizational or associational pyramid, there currently is no top (*cupula*) or national chamber of business to represent the entire private sector.

The ACAS and ACIAB, along with other smaller guilds, are aware of this problem and have already taken steps to form a Cape Verde Chamber of Commerce, or National Business Association (Associação Nacional Empresarial or ANE). They have challenged a 1983 decree (*Decreto 104*), essentially establishing the by-laws for a national chamber, now obsolete, and have critiqued a GOCV proposal to create similar though less prescriptive legislation. Their position is that the government should create no law governing the structure and function of a chamber of commerce. The GOCV has not responded to their comments.

In the meantime, however, to avoid potential statutory constraints, the two associations have decided to establish the ANE, not as a formal chamber of commerce but as an interim measure. The ANE would also include government agencies and enterprises who would be able to participate as non-voting observers (i.e., "*ter voz mais nao voto.*")

To avoid the issue of where to locate a national ANE or chamber, the ACAS and ACIAB decided to elect representatives from each sector of their regional organizations to a National Council, with a chairman elected on a rotating basis to ensure regional equity. No new central physical structure will be required. Each association will provide services directly to its own members on a regional basis (i.e., in the Sotavento Islands and Barlavento Islands, respectively).

The two associations already have a draft organizational chart (see Figure 1) that depicts the proposed structure of the organization along with the relationships among members.

The kinds of services envisioned include training, information and database access, research and policy analysis, feasibility studies, and accounting. In addition, the chamber or national association would spearhead organized lobbying and promote export and investments through international fora, trade fairs, and similar events. The members plan to seek donor assistance to begin operations but have already begun to lay the ground work to become self-sufficient. Among other alternative income generating mechanisms, they plan to rent office space (in São Vicente) from a new building under construction (and already have a contract with ENAPOR to occupy one floor), assess dues, seek in-kind services, and eventually charge a fee for services.

A review of the by-laws of the ACAS and ACIAB shows an awareness of the kinds of activities in which an effective business association should engage, including:

- Representing and defending the interests of the private sector
- Underwriting policy and economic studies
- Providing relevant information services to members
- Promoting specific policies and policy reforms
- Providing a forum for the exchange of ideas, nationally and internationally.
- Sponsoring conferences and meetings¹

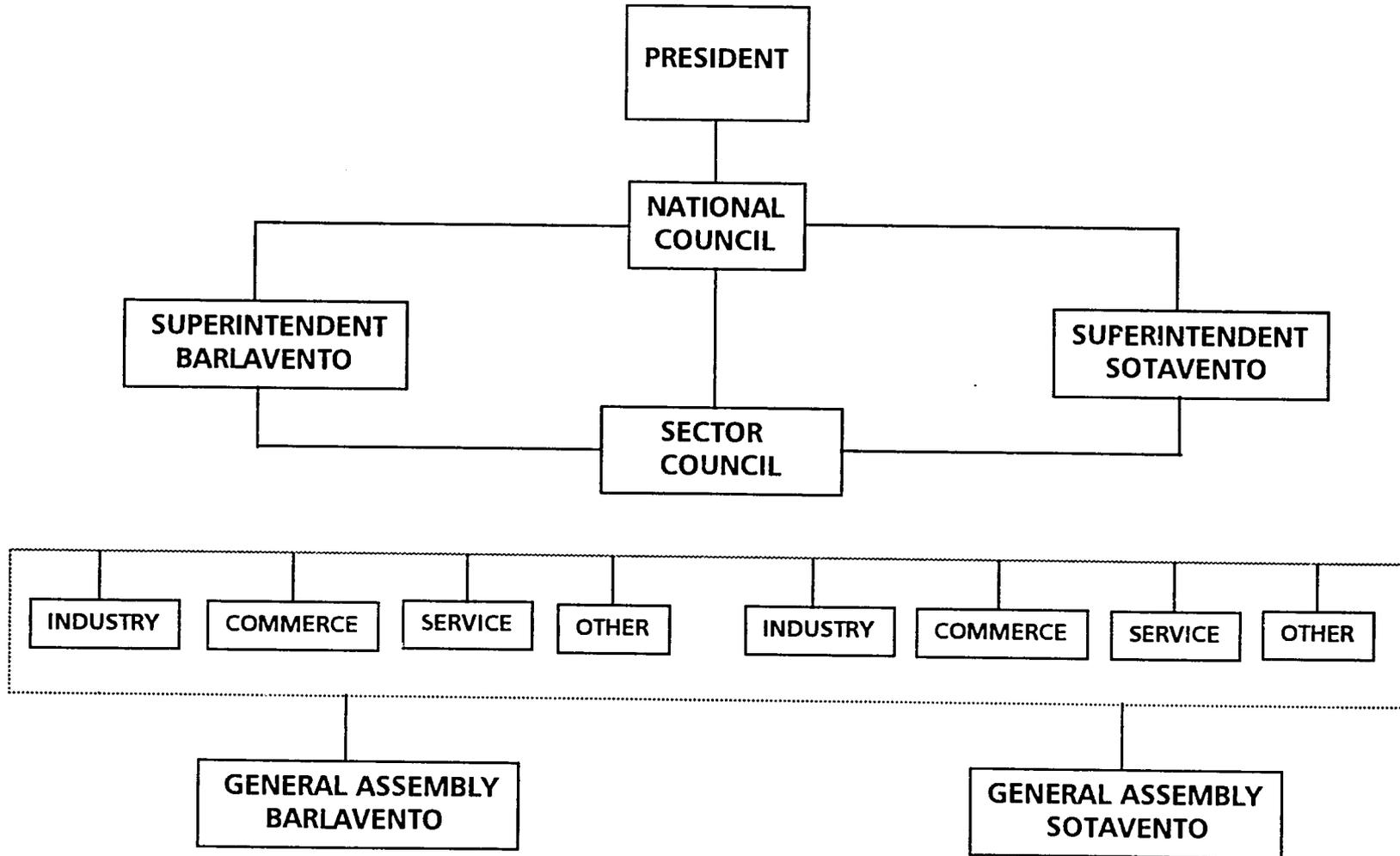
While the associations, especially the ACIAB, have been moving to create a national organization, it is instructive to recall that both private and public sector officials consistently observed that the private sector is passive, reactive, under-organized, does not take initiative, and depends too much on the government. Ironically, many of these same criticisms have also been voiced by the private sector about the GOCV. The reality is somewhere in between. Each sector needs to be more aggressive in pursuing its goals. But if the ACIAB and ACAS carry out their current intentions, as seems likely, their efforts may signal for the first time a successful effort by the private sector to organize and push for its own agenda.

This is especially noteworthy in Cape Verde, where little to no progress to organize the private sector on a national basis has ever been made. While there have existed some sectoral—i.e., commercial, industrial, agricultural—differences, the most serious rift in the business community traditionally has been along geographic lines, pitting the windward against the leeward islands. This has been exacerbated to some degree by historic and political differences. Mindelo, for example, takes pride in its former ties to England and feels historically and especially politically distant from Praia. It has become axiomatic that inter-island rivalries have tended to hamper a stronger sense of nationhood, and that Cape

¹Curiously, nothing is mentioned about sponsoring training activities for members, an essential and important function of a chamber. By contrast, the ACV has created the Nucleo Operacional de Formação Estrategia (NOFE) to: "identify, organize, monitor and evaluate training actions and initiatives; [and] provide technical assistance to businesses, particularly in the fields of information and development training."

Figure 1

PROPOSED ORGANIZATION STRUCTURE
NATIONAL BUSINESS ASSOCIATION



IV-3

Verdeans identify most closely with their island of origin. So it is significant that the ACAS and ACAIB have come together to form a national private sector umbrella organization.

In addition to the activities of the two associations to form a single chamber, the Forum Empresarial de Cabo Verde (FEC), an ad hoc organization created to promote private sector development, also has been working to develop and organize the private sector. But it seems to have turned into a vehicle for one entrepreneur to promote his own narrow agenda and does not have the authority or credibility of the ACIAB and ACAS or other private sector organizations such as the Rotary Club, the first and only private voluntary business association in Cape Verde.

B. Organization and Leadership

The underdeveloped state of the organization of the private sector is examined earlier in this report. Without stronger, more developed and comprehensive organization, the private sector will remain weak and ineffective. The survey of private entrepreneurs revealed unanimity with respect to the pressing need to create a national chamber of commerce. Most respondents believed the most important reason for establishing a chamber is to have an organization that can represent the interests of the national private sector before government (see Table 7 below). Given the geographic and sectoral differences in the country, it is encouraging that such agreement exists.

TABLE 7
REASONS GIVEN FOR THE NEED OF A NATIONAL CHAMBER OF COMMERCE
(N=28)*

Business Opportunities	19.2 percent
Lobby	65.4 percent
Organize Private Sector	30.0 percent
Information	15.4 percent

* Percentages calculated on the basis of 26 out of 28 persons responding.

While some would argue that a chamber is little more than a vehicle of convenience for the donor community, the fact is that business communities worldwide have national associations or chambers. As with any set of organizations, some are more effective than others. More to the point, however, is that the Cape Verdean private sector itself obviously feels a need to organize on a national level, having already taken positive steps to form the ANE. With effective leadership and management, the ANE (and/or its successor) could serve its constituents and the country effectively and fill a role which to date has been vacant.

Establishing a national chamber is not an end itself but a means to help strengthen the private sector and permit it to make greater contributions to the national economy. It is a

principal way of organizing the private sector, acquiring support to meet the pressing needs of business, and seeking government cooperation in promoting policies that result in more efficient economic activity.

B1. Role of a Chamber of Commerce

USAID/Cape Verde could play a pivotal role in assisting the private sector to consolidate under the institutional umbrella of a national chamber of commerce or business association. This would not only serve the needs of business but also result in a stronger private sector capable of taking the lead in generating economic growth and jobs for the country. At present there is no one private sector institutional voice able to speak for the business community and interact authoritatively with the government. Similarly, there is no single national institution with the capacity and mandate to aggregate private sector interests, formulate common policy positions, and push for their adoption.

Creation of a chamber of commerce is key to private sector development in Cape Verde. As the government, with few exceptions, is incapable of efficiently producing and selling the goods and services necessary for economic development, it is essential that the private sector be strengthened to carry out its principal role as the engine of growth. To do that, it has to organize as an autonomous sector, representing its own interests before the government, setting agreed-upon goals and priorities, devising relevant strategies to achieve them, acquiring the necessary human and financial resources, and evaluating and monitoring performance and impact of their activities.

Several benefits would derive from the organization of a chamber of commerce. These include:

- Providing the government a nationally representative organization with which to enter into public policy dialogue
- Reorienting the private sector toward the need to participate in international markets as exporters
- Serving as a national institution to aggregate and articulate private sector interests and needs
- Receiving and channeling resources from international donors for activities to strengthen the private sector
- Coordinating training and technical assistance interventions for the private sector at the subsector and company levels

While chambers of commerce can be organized according to different standards, they carry out some universal activities. Given the incipient status of private sector organization in Cape Verde, it would be best to organize a chamber at a level commensurate with its capacity. Several important functions need to be considered.

B1a. Representation

A key role of the chamber is representation of its members' interests, especially before the executive and legislative branches of government (in a democracy). Ironically, in Cape Verde the government has been most insistent on this role. Senior officials complain there is no single authorized person or entity with whom to interact and engage in dialogue. Articulating the interests and needs of the private sector is a priority. A chamber, however, should not just be reactive to government proposals and policies. It should actively propose its own initiatives and present, where desirable, alternatives for consideration.

B1b. Research

To present competent policy positions and evaluate government proposals, a chamber should have a research capability. This does not mean necessarily that a chamber should hire permanent, full-time specialists in policy research to conduct the appropriate analyses. Instead, a chamber should contract with local resources—or seek donor-funded assistance—to develop policy alternatives and review government initiatives. This will be difficult to do in Cape Verde. But perhaps through the expatriate community contact can be made to recruit the necessary human resources. Another alternative would be to seek resources from nearby countries such as Senegal.

B1c. Mobilization and Organization

A principal benefit of a national chamber is its ability to mobilize and organize its members for specific purposes, especially when pushing for policy changes. The *associacao* or guild structure in Cape Verde already forms an organizational infrastructure that can be tapped for these purposes. It is the principal means by which the private sector can make itself felt as a major player in the policy making process. Moreover, the capacity to act as a single group for common goals has the added advantage of acting as a catalyst to help integrate the islands politically, socially, and economically. In a culture where *individualismo* is so ingrained, mobilization and organization of the private sector will be a challenge but one that cannot be avoided. Given the state of the economy and feedback from a sample of business persons, now is probably an opportune time to organize the private sector.

B1d. Services

Many if not most chambers in the developing world provide services such as training, technical assistance, and business development to their members. These range in type, and generally depend on needs of the membership and the ability to provide funding. A common model involves initial donor funding to support training and technical assistance services, eventually to be replaced by a fee-for-service structure. Services are divided into two main categories: training and technical assistance.

Some training is not a service in that it is provided free of charge at the national, sector, or subsector levels. A central purpose of this kind of training is to raise the

awareness of the business persons (and public officials) with respect to specific issues, such as exports and nontraditional products. It is also used as a tool to reinforce a sense of institutional identity among members. At the same time, these kinds of interventions are useful in reaching out to officials from the public sector and including them in workshops to support the exchange of ideas, concerns, and issues of both government and business. Making each sector aware of the other's needs promotes better communication and better policy.

Company-level training is less common. However, chambers are used to coordinate and funnel resources for training and, more often, technical assistance to companies to strengthen their management, production, and marketing. Much technical assistance and training has focused on export, a major development strategy in all parts of the world.

Another important service, actually a form of technical assistance, is business development. A chamber should, where possible, work to develop new and diversified businesses, helping entrepreneurs improve their current production and profits and encouraging new investors to establish operations. This is a classic function of a chamber, especially in developing countries.

B1e. Information and Communication

Another important activity of a chamber is the collection, maintenance, and distribution of information vital to business. In a world market, information has taken on greater importance than ever, particularly with respect to market intelligence for exports. A similarly important information need is by foreign investors seeking data on local markets, labor, taxes, etc. Although PROMEX is coordinating export and foreign investment, experience has demonstrated the need for a private sector information capability to respond more rapidly and accurately to private investor needs. Too frequently government information is supply rather than demand driven. Ideally, of course, the chamber should coordinate closely with PROMEX—and the Ministry of Economic Coordination and IADE, for that matter—as there are so few resources available in Cape Verde that economies of scale need to be employed wherever possible.

B1f. Promotion

A national chamber is the natural link to the international business community, particularly foreign investors and potential consumers of exports. The chamber should develop formal linkages with its counterparts in major markets such as Europe, West Africa, and the U.S. Given that foreign investment and particularly exports constitute the only avenue for Cape Verde's economic future, it is essential that the chamber develop activities in this area, coordinating closely with PROMEX. Another "promotional" activity is public awareness. While this is critical in many countries, especially where strong opposition exists

to the private sector, it does not seem to be appropriate for Cape Verde where such tensions are comparatively mild.²

B2. Structure

The chamber of commerce should be structured along functional lines as much as possible. Care should be taken not to make a large institution (the resources probably do not exist to make that a danger in any event). Staff should be selected for their professionalism and competence. As much as possible, computerized data, financial, and administrative management systems should be installed. The structural plans of the ACIAB and ACAS are adequate now to organize a national chamber.

While it would be preferable to have one national chamber with centralized functions to avoid duplication of effort, it is imperative that in Cape Verde donor assistance agencies not impose conditions that would intercede in the organizational process which is close to consummation. It is essential to understand the role of a Cape Verdean chamber, or ANE, as the fruit of years of attempts to organize. The ACIAB and ACAS have reached a *modus vivendi* which, if properly nurtured, has the potential for developing into a full-fledged national chamber of commerce. While this should be the ultimate institutional objective, the most important point is that as long as the organization carries out the functions that are required by the local business community, it is fulfilling a key role in strengthening the private sector—which is the central goal.

Very important to the organization of the chamber of commerce is the role of the board of directors. The board structure already on the ACIAB's and ACAS's drawing board provides for adequate cross-sector and regional representation (see Figure 1 on page IV-3). Board members should be elected and the by-laws should state explicitly that adequate regional and sectoral representation is guaranteed. This is especially critical to ease the concerns of the smaller sectors and islands. Second, the board should receive training. It is essential that executive staff not be micro-managed by the board. The division of functions between board and staff should be made clear both in the by-laws and in practice.

B3. Leadership

Organizations cannot adequately compensate for a lack of leadership. There does not appear to be a single leader or small group of leaders able to provide the kind of direction to the private sector that stems from dynamic leadership. The mission may wish to consider leadership training for the more positive and strong members of the private sector. The chamber should be headed by one or more recognized leaders who can mobilize the membership to pursue aggressively and effectively the kinds of policies and actions that will serve the needs of private enterprise and the nation.

²The flip side of awareness promotion is that it can flame incipient opposition to the private sector. Thus promotional strategies need to be considered very carefully.

SECTION V FINANCIAL AND CREDIT NEEDS

A. Characteristics of the Financial System

As has been pointed out already, the structure of the financial system of Cape Verde presents a major obstacle to private sector development. The formal financial sector can be characterized as being structurally deficient and dominated by two state-owned institutions, the Banco de Cabo Verde (BCV) and the Caixa Economica de Cabo Verde (CECV). According to the World Bank (1992b: 9), there is also one government-owned insurance firm (Garantia) and one public social security company, the Instituto de Seguros e Providencia Social (ISPS). Recently, a privately owned insurance company, Impar, was established.

The BCV governs the country's financial system as a monopoly. Until the latter half of 1993, when the Banco do Atlantico became operational, it provided central, commercial, and investment banking services. It is responsible for more than 90 percent of total domestic credit, while the remainder is extended by the CECV (World Bank, 1992b: 9). The CECV is a savings and loan institution for consumer credit, whose principal activities include offering salary advances for public sector employees and mortgage financing for owner-occupied housing. The CECV receives its funding from deposits, the BCV, and from the GOCV Treasury Department. No information was available in the materials reviewed for this report relating to the current activities of the two insurance companies.

The credit offered by Cape Verde's financial system has been made available to both the public and private sectors and to foreign-owned firms. According to the African Development Bank (ADB, 1993: 13), the Central Government receives on average only 13 percent of the credit made available to the domestic market. Private sector and mixed-ownership enterprises acquire on average 58 percent of the total credit; public enterprises receive an average of 29 percent of the credit.¹ The World Bank (1992b: 18) reports that deposit and lending rates were fixed during 1975-84 and 1985-91. Rates up to one year were about 8.5 and 11 percent, respectively. The BCV offers no lines of credit.

B. Private Sector Experiences and Perceptions

The experiences and perceptions of the private sector of Cape Verde's banking system, captured through extensive interviews of small, medium, and large enterprises in Praia and Mindelo, reflect the inadequacies of the present structure of the financial sector.

¹The ADB document did not disclose the source of this information, nor did it indicate the years in which the credit was allocated. The document also did not provide details on the terms of credit (length of loan, interest rate, or loan amount), or the efficiency in processing the loan request. Clearly, a more comprehensive analysis of Cape Verde's financial sector is required in order to compare financial sector reforms with the former structure of the financial system.

Over two-thirds of the respondents believed that credit is the single most important need to private sector development in Cape Verde. More than one-half of the respondents believed that credit was the single most important need to the development of their own business.

Nearly two-thirds (60 percent) of survey respondents had received credit from the BCV. The purpose of the credit varied widely: several businesses reported requesting credit for expansion, purchase of equipment, and import financing. Many entrepreneurs used their own funds to start up their businesses. Reported credit terms also varied widely: interest rates fluctuated from 12 to 17 percent; the length of the loan varied from 180 days to 7 years. In most cases, respondents cited personal assets or inventory as the loan guarantee. While the loan terms varied widely, the single largest obstacle to credit cited was uniform: delays in processing loan requests. Coopers & Lybrand (1993: 74) also reported that investors have found the BCV to be so slow that requests for working capital were often approved after a firm's cash flow problem had already been solved. Several respondents to the survey reported that delays were often attributed to the amount of paperwork required by the BCV, such as current and projected balance sheets, income statements, and business plans. Several business owners reported that many of their applications were delayed or rejected because they did not understand the loan application process or how to write a business plan and that the BCV offered no assistance in facilitating the application process.

C. Planned Government Reforms

The implications of the current financial structure are serious for private sector development in Cape Verde. More importantly, the dominance of the state in the ownership of the present financial institutions does not permit competitive financial intermediation. As a starting point in the financial sector reform process, the government has created a separate central bank and commercial bank. According to the World Bank (1992a: 22), professional training for approximately 60 employees was to be provided by the Bank of Portugal beginning in 1992 and continuing for two more years. BCV officials did not disclose information during interviews on what might take place during the next three years or their views on the responsibility of the private sector in meeting their credit obligations.

The World Bank (1992a: 18) also reports that due to a projected increase in the money supply that was expected in 1992, credit allocated to the private sector was to have increased by 15 percent; credit allocated to the public sector was to have decreased by the same percentage. Plans to liberalize interest rates are to be put in effect once the BCV is reorganized.

D. Private Sector Needs and Financial System Constraints

Past financial policies have obviously made a large impact on the private sector. The current framework reflects longstanding unsolved problems caused by the lack of credit and underdeveloped financial markets, non-existent competition in financial intermediation, and inadequate market information. For the private sector, these restrictions are mainly reflected in its underdevelopment and inactivity in the productive sector of the economy. The structure of the financial system is a great cause for concern for the private sector because it

impacts the establishment of new and future enterprises, current operations of existing businesses, and the development of their products and services.

While the reorganization of the BCV is a first step in the process of financial sector reform, the fact that the new commercial bank is majority-owned by the GOCV attests to the continuing control by the public sector of the financial system. To foster a more competitive and productive environment and to provide the private sector with the credit it needs to develop a complete restructuring of the financial system must be undertaken. Although the Ministry of Finance and Planning (1992: 30) advocates improvement in the financial and information systems, it appears to lack a concrete plan of stimulating private sector activity through financial mechanisms. The following actions should be taken to promote private sector business activity:

- As part of the deregulation of the banking system, a broader range of financial intermediaries should be licensed to provide services including short, medium, and long-term credit for all types of business loans. For example, leasing companies, trading companies, manufacturers, and other enterprises should be approved for start-up capital, working capital, import financing, and/or purchase of equipment.
- While credit should facilitate the market entry of new firms and the expansion of existing firms, it should not restrict the withdrawal of firms from the market and create credit approval problems for industries with excess operating capacity.
- Credit should be allocated in an efficient and timely manner. Increased competition should ensure that delays in the credit approval process do not hinder access to credit.
- Training in writing business plans and financial management should be offered to business owners to facilitate the credit application process.
- A regulatory/supervising framework will be required to oversee the new financial intermediaries.

In sum, the government should efficiently mobilize credit to the private sector by establishing regulations with the broadest eligibility criteria.

Macroeconomic reforms that reduce the role of the state through privatization efforts could provide the framework for the eventual development of securities markets, several years hence.² Care must be taken to avoid domination by government securities and money market instruments of short duration, which often are subject to high transaction costs and regulatory and market structure deficiencies. Capital markets are an important means by which enterprises can finance their expansion, and through which the Cape Verdean economy could, at least theoretically, develop its competitiveness in international markets. However,

²It is probably much too early to consider seriously the development of a capital market. However, in keeping with the Scope of Work, the issue is being addressed.

capital market development is a long-term process that must be carried out gradually and with the commitment of the government. Because of this, the GOCV would have to encourage businesses to actively participate in the market and thus promote its development.

SECTION VI OTHER PRIVATE SECTOR SUPPORT NEEDS

A. Export and Investment

As has been discussed, development of a productive export sector is the only viable strategy for Cape Verde to attain economic independence. A review of the literature shows that four industries hold the greatest potential: tourism, fishery, light manufacturing (in export processing zones), and entrepot/transshipment services. The business community, by contrast, is mixed in its views as to which sector represents the greatest potential for economic growth and development. To a large extent, responses reflect a vestigial import mentality and a belief that commerce still represents the greatest opportunity.

A1. Tourism

While tourism represents an alternative strategy for improving the economy, particularly "ecotourism" and water sports, a great deal needs to be accomplished to develop this industry. The infrastructure is inadequate to support an effort to establish a serious tourism capacity and so is the current air fleet. A lack of trained and experienced human resources constitutes another obstacle, as does the absence of quality hotels and restaurants. Service to the public is also a major deficiency. Private travel agency services need to be improved and air services greatly expanded. Currently, international connections are infrequent, and inter-island transportation is unreliable and expensive. Equipment too needs to be updated and maintained more carefully. Still, given the shortage of realistic development alternatives, the GOCV needs to support and expand activities designed to promote international tourism.

This should be done, however, with a careful eye on the environment. Tourism is at best a mixed blessing. While it brings sorely needed revenues, it also requires substantial public investment and needs to be controlled in order to protect the environment—the very thing tourists come to see—and the nation's culture. As a small country, Cape Verde has to be especially vigilant to avoid an overload of tourism.¹ The experience in Caribbean, Indian Ocean, and Pacific island countries demonstrates that tourism is one of the most promising sectors for small island nations with few resources.

A2. Fisheries

Fisheries development is a stated priority of the government (Ministry of Finance and Planning: 44-46). While some in the private sector feel fisheries to be of little potential, development experts (World Bank: 1993b) believe the sector to have significant economic

¹The government seems aware of these issues and is disposed to embark on a tourism strategy (see Ministry of Finance: 46-48).

potential. Several problems, however, need to be addressed. First, the private sector has to be encouraged to invest in fisheries, developing a production, processing, and export capacity. Second, foreign investment, preferably by way of joint ventures, needs to be acquired, and the GOCV should put in place incentives to help this come about. Second, the government needs to undertake a series of steps to make this possible, including:

- Development of adequate protection of fishing grounds from international poachers.
- Licensing and strict control of foreign fishing vessels.
- Conclusion of fishing agreements with neighboring countries as well as major fishing nations such as Japan and Norway.
- Improvement of ports and creation of adequate cold storage facilities.
- Provision of relevant training opportunities for private sector entrepreneurs interested in developing fishery businesses.
- Creation of a broad National Fisheries Institute to underwrite training, technical assistance, and research.

The GOCV is already aware of these needs and has included them as goals to achieved in its III NDP (Ministry of Finance and Planning: 46-48).

A3. Light Manufacturing/Export Processing

A third industry with potential for economic growth and development is export processing zones (EPZs) for light manufacturing, especially in fish and seafood processing and garment assembly. A detailed study by Nathan Associates and The Services Group (1993) concluded that Cape Verde has comparative advantages in the region for this kind of industry, including "world class" legislation, a documented demand and sufficient space for EPZs. Cape Verde also has the advantage of being a signatory to the Lomé Convention, giving it preferential market access to the EC—at least for the time being.

While this situation presents a clear opportunity for Cape Verde, care needs to be taken that it not fall prey to the "vicious cycle." The government has to move aggressively to upgrade infrastructure, train and educate human resources, and implement incentives. Moreover, it has to plan ahead for when its preferential access accorded by the Lomé convention expires. New markets and market opportunities need to be explored soon, and measures taken to promote the necessary investment for expanded exports.

A4. Entrepot/Transshipment Services

Another possibility worthy of further exploration is the development of entrepot/transshipment services. Given its political stability and relative proximity to the

African continent, Europe, and Brazil, Cape Verde may be attractive to companies as a distribution point and even a center for "quasi" wholesale shoppers. For example in Curaçao, exporters maintain warehouses for products purchased by market vendors from Haiti, Venezuela, the Dominican Republic, and the entire English-speaking Caribbean. Other corporations may want to consider Cape Verde as a bonded warehouse center, providing the opportunity to maintain inventories, at minimum cost, that are close to markets in Africa and Europe.

Once again, it will be necessary for the GOCV to move aggressively to improve infrastructure to be able to offer entrepot services. The GOCV also could provide the land—in addition to utility hook-ups—to build storage facilities and local investors and companies could provide warehouse management and ancillary services to distributors.

B. Donor Assistance

Cape Verde is the recipient of assistance from a range of donor agencies. Because of the many number of agencies and projects, it was beyond the scope of this report to track down all the different initiatives. However, an example of what was found points to the pluses and minuses of a plethora of projects. It is useful to look at a sample of the kinds of assistance being provided.

The UNDP is funding private sector support activities in training and technical assistance. However, under its mandate the United Nations cannot work directly with private enterprise but must go through government agencies. The net effect is to dilute the impact of the assistance. Among projects currently funded are: (1) support to the Ministry of Tourism, Industry and Commerce to create IADE, offer training, and underwrite a restructuring study for a local firm, DOCI; (2) with UNCTAD, technical assistance to the same to help create legislative incentives for increased foreign trade (export); (3) an import project to furnish training in commercial English and import management, as well as technical assistance in establishing an Information Unit in the Ministry to collect and disseminate information on trade; (4) a tourism project to improve governing legislation, computerize statistics services, and review sites for a potential tourism complex. Other UN and multi-lateral aid is provided by the UN Food and Agricultural Organization (FAO), the UNIDO World Health Organization, and the African Development Bank. In addition, bilateral assistance comes from a host of countries including Portugal, France, Switzerland, Sweden, Norway, Austria, Germany, Japan, Italy, the EC, and the U.S.

While foreign assistance is welcome in Cape Verde and obviously needed, it nevertheless poses some problems. First, the GOCV itself has noted that the absorptive capacity of aid in Cape Verde has been less than expected (Ministry of Finance and Planning: 41). Second, donor agendas do not always coincide with the objectives of the government. Equally important is the fact that there is little coordination of donor projects, which reduces the potential impact of scarce resources, makes national development planning difficult, and runs the risk of not meeting expectations. While all the projects reviewed were

working toward similar if not identical ends, no efficient mechanism existed to coordinate them, either within the government or among the donors themselves.²

C. Training

While private sector training needs have been touched upon earlier in this report, it is useful to highlight several important human resource development issues. First, in addition to short-term skills training across the private sector, there is an urgent need to upgrade the basic educational system itself. This was a theme that emerged in interviews with both private business persons and government officials.

Second, development and strengthening of the private sector depends on training of public as well as private sector managers and workers. For example, persistent complaints about bureaucratic delays, particularly in the banking system, are in part due to under-trained personnel especially at the management level. As the private sector, especially those businesses involved in imports and exports, are dependent on the way government functions, it is essential that public officials receive training (and technical assistance) to improve efficiencies.

Third, the private sector itself needs comprehensive training, from line workers to senior managers. As Cape Verde begins the process of expanding its export capacity and competing in the international market place, skilled and productive workers will be vital to the nation's competitiveness. While many (51 percent) private sector respondents felt that existing training facilities were adequate, virtually all said they required training for their workers and themselves. Moreover, the study on training, which parallels this report, indicates that while "adequate" facilities exist, entrepreneurs feel training curricula are theoretical and do not provide the practical skills required by business. This is not surprising as most if not all public training institutions have virtually no interaction with the private sector and consequently little idea of its human resource development needs.³

With only one exception respondents reported they provided some kind of training to their employees, mostly informal on-the-job training. At the same time, 87 percent of the sample said they thought the government should underwrite the costs of training. Given existing public resources, the GOCV seems to agree. Once again, however, the government must consult closely with the private sector to design curricula that meet "real life" business needs. By the same token, the private sector needs to be aggressive in demanding this from government.

²There is a coordinating unit within the Ministry of Foreign Affairs but it has not effectively exercised any coordination of donor resources.

³This may be a pattern across governmental agencies. PROMEX's contact with the private sector, for example, is marginal.

SECTION VII CONCLUSIONS AND RECOMMENDATIONS

It is clear that major challenges exist along the road to Cape Verde's economic development. While the government has expressed its commitment to the private sector as the engine that will drive recovery—through policy reforms, a comprehensive privatization program, and investment incentives—it still has to ensure that these measures are effectively implemented. This is vital since an invigorated and competitive private sector represents the developmental common denominator. That is, if the other dimensions of development—health, education, environmental protection, employment—are to succeed, they will require tax revenues to underwrite their costs. Only a productive private sector can do this in a sustained fashion, because external transfers, especially donor assistance, cannot be relied on indefinitely.

A. Political

The government needs to take strong action to improve the performance of the bureaucracy, especially in the banking sector and customs service. Training, especially for senior management, should be provided. A concerted effort needs to be made to modernize the organizational culture of the bank and customs agency as well as other public agencies. This will require changing the incentive system, delegating authority and responsibility, and eliminating administrative redundancies. Hence, training and technical assistance interventions should be designed and implemented to work with senior executives to change management attitudes, practices, and styles.

The government must also interact with the private sector in a more systematic way. PROMEX and training institutions have to be instructed (and evaluated) to be more proactive in incorporating the private sector in program initiatives before the fact. More concerted efforts to use private sector members of the PROMEX board to gain greater understanding of private sector needs should be made. Surveys, workshops, and seminars should be conducted. The GOCV will no longer be able to use the excuse that there is no single private sector organization with which to deal since the ACIAB and ACAS are in the final steps of forming a national association.

The GOCV should continue to push through legislative initiatives to liberalize the economy, including investment incentives and customs reform. Most important, however, is the continuing requirement to improve implementation of existing reforms, thereby enhancing the performance of the bureaucracy. This is a test of the government's commitment to economic reform and private sector development.

B. Financial

The new Banco do Atlantico must be allowed to function as a commercial bank free of the bureaucratic constraints encumbering the present system. Creating a separate institution will not by itself ensure this but the new state-owned commercial bank should represent the first step to establishing private banking in an open market.

The government should take steps, under the World Bank's public enterprise reform initiative, to improve the operating efficiency of the BCV, reducing delays in acquiring loans and eliminating excessive paper work. Similarly, the Banco do Atlantico should reach out to the private sector and expand its customer base by making credit more accessible and diversifying its restricted product line.

In the meantime, concerted efforts to ensure efficiency of the loan-making process in the new commercial bank should be undertaken immediately. In addition, allowing new types of financial intermediaries to operate and provide specialized services should be considered.

C. Human Resources

The *mentalidade* issue should be addressed in discussions between the government and private sector. Both sides must seek ways to wean private enterprise from its dependence on government and to define and agree on the appropriate role for each sector. (This could be facilitated by professional mediators such as those available through the Joint Negotiation project at Harvard/MIT or Endispute.) The educational system should confront the cultural impact of colonialism and statism, using schools to help foster more modern values of self-reliance. This need should not be underestimated, as it permeates the entire society.

In the short term, material from the training needs assessment being conducted (a companion report to this study) should form the base of an urgently needed national training program for the private sector. This would offer all kinds of training including entrepreneurial, management, technical, marketing, and worker. Curricula should be practical and designed to reflect the needs of the private sector. Assistance should also be given to individual companies to strengthen on-the-job training interventions.

Particular attention needs to be focused on management training. Senior management is the pivotal human resource, since the way a company and its workers operate depends on the leadership, knowledge, and know how of key decision makers. Problems at the lower levels of an enterprise usually stem from management deficiencies.

Similar training interventions should be made available to government managers and workers, especially in institutions and agencies directly affecting the private sector. In addition to providing training to streamline bureaucracy, curricula designed to make government officials more aware of the needs of the private sector should be developed, concentrating in particular on business's need for quick decisions, predictable and fair implementation of regulations, and minimal paperwork.

The government should strengthen its ties with the expatriate communities, providing financial incentives (e.g., tax holidays, exemptions for certain imports, etc.) for skilled persons willing to return to Cape Verde. Care needs to be taken, however, not to grant incentives that result in unfair discrimination against local business, especially those engaged in export activities. The GOCV should develop a well-coordinated strategy to recruit expatriate investment and skilled human resources, helping Cape Verdean communities in the U.S., Portugal, and Holland to organize.

The GOCV must finish its revision of the labor code as soon as possible, giving management much more discretion over human resources decisions based on performance.

D. Infrastructure

The \$70 million World Bank package for infrastructure improvements should be finalized as soon as possible. The GOCV must establish carefully thought-out priorities for expenditure of these funds, concentrating on areas that will strengthen the private sector, particularly exports—such as EPZs. This should reflect in rank order the priorities of the III NDP.

Privatization of infrastructure management should be encouraged, if not the outright divestiture of ports, telecommunications, and utilities.

E. Exports and Investment

Exports should be given first priority to strengthen the private sector. USAID should focus its efforts on supporting technical assistance and training initiatives enhancing the management, marketing, productivity, and quality control of enterprises committed to exports.

The four areas of greatest potential—tourism, fisheries, entrepots, and EPZs—should represent the focus of donor and GOCV assistance. PROMEX should be especially active in seeking investment and marketing opportunities for activities in these sectors. The recommendations in The Services Group report should also be followed up.

PROMEX should develop a strategic plan for promoting exports and investment in conjunction with the private sector (the new AEN). The agency should also establish and implement a systematic working relationship. A similar effort should be undertaken with IADE. This will require outside technical assistance and training.

The pace of privatization should be accelerated by generating new foreign investment.

More organized efforts should be made jointly by the GOCV and private sector to recruit expatriate investments, including use of investments as discussed above.

F. Organization

USAID should work closely with the ACIAB and ACAS to provide assistance to ensure the successful creation of a national chamber/association. However, the evolution of this entity should not be pushed prematurely. The two associations have arrived at a good working relationship and should not be rushed into meeting some artificial deadline or arbitrary donor objective.

The mission should underwrite private sector leadership training (including development of negotiation skills) with the goal of helping identify and encourage a group of progressive and dynamic leaders able to galvanize the private sector and lead it into the 21st century.

The mission should also work with the GOCV to formulate a plan and mechanism to manage all donor assistance. The GOCV should do this within the framework of III NDP goals and priorities.

SECTION VIII NEXT STEPS

Several studies of the Cape Verdean economy have already been undertaken, many of them in the last year. They express a consensus with respect to the nature and extent of the economic and social problems faced by the country, and the kinds of strategies required to achieve growth and development. The present private sector training needs assessment and scheduled analysis of the informal sector will essentially complete examination of the national economy. With the empirical base in place, it is now time for concerted action to finalize overall strategies, obligate resources, coordinate external assistance, and implement projects.

Cape Verde has few options for economic growth and development. Its mercantilistic traditions, history of import substitution policies, and lack of an adequate natural resource base have hampered its capacity to compete successfully in the international market. Hence, an effective strategy for enhancing the private sector and thereby boosting the economy needs to incorporate three major components: (1) creating an export and investment capacity; (2) strengthening the private sector; and (3) increasing the efficiency of the public sector. Required interventions include technical assistance, training, and institutional development (see Figure 2 below).

A. Creating an Export and Investment Capacity

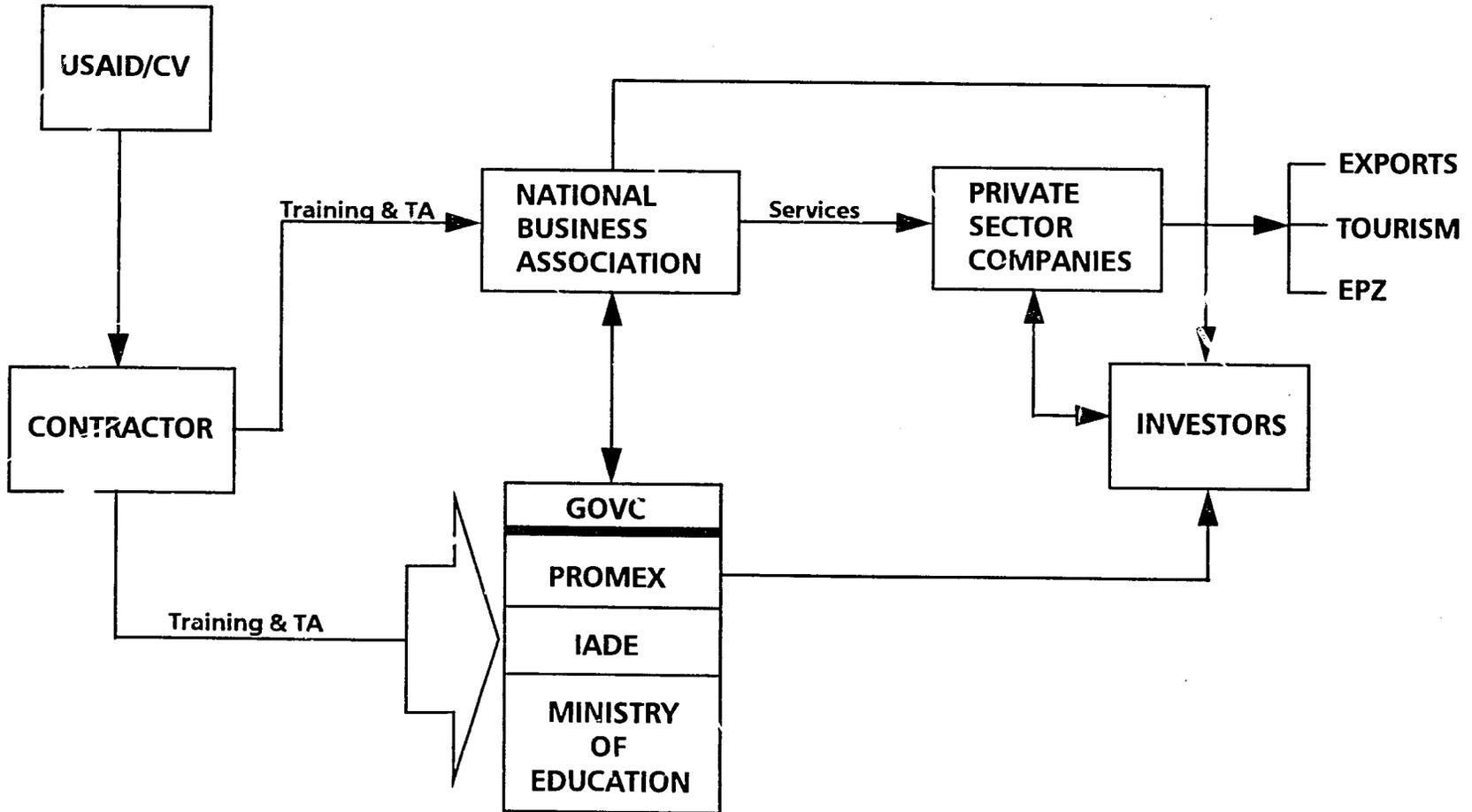
It has already been shown that the internal market alone cannot sustain a viable national economy. Cape Verde must export to be able achieve economic growth and development. This is the consensus of the donor agencies that have studied the problem. There is similar agreement with respect to the three principal areas in which Cape Verde has economic potential: fish (tuna), tourism, and export processing zones. This report also recommends investigating the feasibility of establishing entrepot/transshipping services.

Cape Verde is already canning and exporting some tuna, but this activity needs to be expanded, both in volume and markets. Market studies need to be undertaken, and quality control and packaging will have to be supported to meet international standards.

While the country stands to benefit from increased tourism, a great deal will be required before tourism can be promoted. Infrastructure improvement, particularly airports, is essential. Hotels need to be upgraded and new accommodations built. Staff in hotels and restaurants need to be trained to provide better service. Markets need to be targeted, especially in Europe. Given Cape Verde's climate and topography, marketing efforts will have to aimed at specific niches, generally at those market segments interested in nature, wind sports (i.e., wind surfing, sailing), and aquatic sports (i.e., fishing, diving).

Figure 2

PRIVATE SECTOR SUPPORT PROJECT



VIII-2

Export processing zones for light manufacturing is a third export opportunity for Cape Verde and has certain comparative advantages including: one of the most literate populations in the ECGWAS region, political stability, a government committed to liberalization and engaged in reforming economic policies and providing financial incentives to investors, a strategic location (with relatively easy access to markets in continental Africa, Europe, and Brazil), and market access through the Lomé convention. Obviously, the more rapidly and effectively the GOCV puts into place infrastructure improvements, the greater the possibilities for attracting EPZ investors and operators.

In addition to these export areas, two or three potential markets for local goods exist in the Cape Verdean expatriate communities in Portugal, the U.S., and even Holland. The market potential for selected products needs to be explored in each of these countries as part of an overall export strategy.

The success of the government's export and investment agency, PROMEX, has been limited and there is a need to provide the private sector itself with the capacity to reach out to foreign (and local) investors and promote exports among colleagues in other countries. The new National Business Association would be the logical location for an export and investment promotion project—one which eventually would become self-sustaining.

Equally important is development and implementation of a complementary investment promotion strategy focused on foreign investors. In addition to the typical kinds of investment promotion strategies and markets, emphasis should be given to encouraging investment from the expatriate communities, whether for export industries or domestically oriented businesses.

Project activities to promote exports and investment that could be supported by USAID/CV include:

Export:

- Survey of companies with export potential and interest.
- Determination of international market demand and requirements (products-volume, specifications, design, etc.) and feasibility/competitiveness.
- Development of training and technical assistance for producers in product design, production techniques, quality control, and management.
- Development and implementation of company-specific marketing strategies and business plans.
- Establishment and management of international data bank on markets and transportation.
- Assistance in financial packaging for pre- and post-export credit.

- Identification and selection of trade fairs to promote Cape Verde export products and development of promotional materials.

Investment:

- Development of a carefully structured *targeted* investment strategy. Experience demonstrates that targeted investment promotion initiatives are the most successful.
- Development of promotional materials.
- Definition and agreement on the respective roles of the private sector (AEN) and government (PROMEX) in implementing investment efforts, including development of mechanisms to ensure cooperation and coordination between the two.
- Identification and training of investment promoters (including decisions on who the promoter should be, e.g., contract, direct hires through the AEN, government, through the embassies).
- Development of capacity to link into relevant investor data bank networks.

B. Strengthening the Private Sector

For Cape Verde to pursue an effective export and investment promotion strategy, significant technical assistance and training will have to be provided to the private sector. As described in detail elsewhere, local businesses are ill-prepared to compete in the international market. Aside from the absence of experience and tradition in export, the business community lacks adequately trained human resources at all levels and know how in terms of quality control, marketing, investment promotion (especially overseas), and strategic and business planning. One problem, of course, is the small scale of business operations in a country the size of Cape Verde. The steps required to organize and strengthen the private sector are similar to those needed to create a national chamber of commerce.

For the private sector to become an effective force, it needs to have the kind of national identity that can best be provided by an institution such as a national chamber of commerce. The first steps for putting such an institution together have already been taken. Project interventions to assist this process should include:

- Review of AEN's mission, proposed structure and functions, membership, and finances.
- Identification and selection of staff (should be kept to a minimum).
- Formulation of strategic and operating plans.
- Design and implementation of appropriate administrative, financial, and information management systems.

- Provision of training for board members and key staff.
- Membership development.
- Conduct of initial studies including at a minimum: needs assessments of key sectors such as tourism and light manufacturing, review of current policy reforms affecting the private sector especially with respect to export, investment, and credit; and presentation of recommendations for improvements.

The ultimate range of services to be provided by the AEN or subsequent chamber to its members has already been elaborated. In general, services should include technical assistance, training, information, lobbying, and research. Outside technical assistance and training will be required to assist the private sector to consolidate the AEN and make it an effective organization. While it may be desirable to have the AEN spearhead investment and export promotion activities eventually, these latter initiatives should *not* depend on or wait for the organizational consolidation of the AEN. Experience elsewhere shows that such a premature linkage would cripple both the institutional development and export/investment promotion projects.

C. Public Sector Development

If the private sector is to be able to carry out its role as the engine of growth, the public sector must facilitate the process. A private sector development strategy must include a project component that provides technical assistance and training to the public sector to make it more efficient. This would entail assistance in the reform of regulations and bureaucratic procedures, redesign of agency organizational structures, job descriptions and staff deployments, intensive management training (including management-by-objectives and performance planning and evaluation), and strategic planning. This is a long process that requires substantial follow-up but is critical in a country where the private sector is underdeveloped and government has acted as a major impediment to economic growth.

C1. PROMEX

Assistance through the EDS needs to continue to be provided to PROMEX to strengthen its operations which, to date, have been less than successful. In addition to the need to involve more forcefully the private sector in the decision making process it is essential to redefine the role of PROMEX in promoting exports and investment. That role should include three specific functions:

- *Balcao unico*, or one-stop window, for licensing, taxes, and other bureaucratic procedures for both investors and exporters. This is perhaps the single most important function PROMEX could provide.

- *Advocacy* on behalf of the private sector, acting as an in-house ombudsman for Cape Verdean private producers and exporters and promoting policy and procedural reforms to strengthen the ability of the private sector to export and stimulate foreign investment.
- *Information*, especially the collection and storage of data on local labor and consumer markets, demographics, and other information required by potential investors. PROMEX could also maintain a database on external markets and shipping, which ideally would be placed in the National Business Association, where exporters could have quick access requiring little or no paperwork.
- *Itineraries*. PROMEX should interact closely with the National Business Association in arranging itineraries and visits for senior public officials and potential investors.

Most important is for PROMEX to develop and maintain a productive working relationship with the private sector. PROMEX officials need to bear in mind that a central purpose of their mandate is to support the export and investment needs of the private sector.

C2. Banco de Cabo Verde

A USAID-funded private sector support project also needs to develop ways in which the private sector, especially exporters, can work more efficiently with the BCV or new financial intermediaries. Banking reforms are essential. In Nicaragua, for example, USAID is underwriting a project to denationalize the banking sector and improve efficiencies. This has achieved measurable results and should be examined, along with similar cases, as a potential model for working with the BCV.

IADE should develop programs keyed to private sector needs, especially in industries related to exports. Interventions should be designed to meet "real life" demands based on close and systematic communication with the business community through the National Business Association.

C3. Project Activities

IADE is already receiving assistance and PROMEX is being provided assistance under the EDS project. Ideally, a project agreement between USAID/CV and the BCV for technical assistance and training would stand to benefit the private sector substantially. The kinds of project activities under such an agreement should include:

- Implementation of a management diagnostic to identify bottlenecks to more efficient administration of BCV policies and activities.

- Development of a technical assistance and training agenda, along with BCV's senior executives, stressing on-the-job training interventions. This would be directed in large measure at changes required in the organizational culture of the Bank.
- Support the establishment of a separate regulatory/supervisory function.
- Design and establishment of administrative policy reforms and streamlining of management systems and practices.
- Coordination of visits by senior Bank officials to developing countries where banking reforms have worked.
- Design and implementation of "brainstorming" sessions with members of the private sector to seek ways to improve access to and management of credit.
- Support with technical assistance the establishment of new private financial intermediaries.

It is important to underscore the need to provide training, as much as possible, to senior management. Unless the Bank's executives "buy in" to proposed reforms, there will be little change.

D. The Emigrant Community

Cape Verde has a unique strength in its expatriate community. The private sector development strategy needs to factor in this resource and develop ways to tap its potential benefits in new ways.

D1. Investment

Investment comes in to Cape Verde principally in the form of housing construction and remittances. This needs to be complemented by a well designed and organized program to identify additional business opportunities and match them to potential expatriate investors. This should be a principal activity of the AEN.

D2. Export

The emigrant communities represent potential markets for a variety of local products. Market studies need to be conducted to identify these products and efforts organized to export them. This kind of strategy can possibly lead as well to an expansion of such markets to create non-expatriate demand.

D3. Skills

While it is obvious that the expatriate communities represent a potential source of investment as well as markets for Cape Verdean products, they also constitute a wealth of human resources. A private sector support project should include a component to explore ways of recruiting skilled human resources back to Cape Verde, both for government and business. Similarly, a project should undertake initiatives to use expatriate Cape Verdeans to provide technical assistance and training in their areas of expertise. These would be short-term interventions that would not require a permanent move back to Cape Verde. It might even be possible to train Cape Verdean in expatriate businesses overseas, offering them on-the-job training in successful enterprises.

Specific project alternatives are spelled out in the companion report on the expatriate community in the U.S.

E. Levels of Effort

Suggested levels of effort for alternative project activities include the following.

E1. Export and Investment Promotion

Given the levels of need and lack of experience in investment and export promotion, a successful project would require at least one long-term advisor over a three-year period, supplemented by 200 person-days of short-term technical assistance and training. In addition, travel to potential markets in Europe and Continental Africa will be required, with a minimum of 12 trips (eight to Europe and four to Africa). Local travel also will be needed.

E2. Private Sector Strengthening

Most of the of activities under this component would be geared toward developing the AEN, or a national chamber of commerce. This would require one long-term advisor for two years, plus 100 person-days of short-term technical assistance and training. Participant training for leadership development—four persons—is also recommended. Optional travel to one or two developing countries for observation of other chambers is advisable (perhaps the Canary Islands).

E3. Public Sector Development

Ideally, this project component would support the services of one long-term advisor for a period of one year plus 60 days of short-term technical assistance and training services.

The estimated burdened salary and benefit cost for the long- and short-term advisors is \$195,000/year for the long-term advisor; \$700/day for the short-term consultants.

F. Lessons Learned

Experience elsewhere in the developing world serves as a useful guide for designing a private sector support program for Cape Verde. A few important lessons need to be considered.

- Public sector export and investment agencies tend to be of limited value. Care needs to be taken not to invest too much time, effort, or resources into such institutions; rather, it is important to focus primarily on private sector institutions such as chambers of commerce or development associations.
- Development of private sector organizations, such as a national business association or chamber of commerce, is important. However, activities related to the private sector can be promoted independently of the institutional development component of a project.
- This is particularly the case with respect to export promotion. In Bolivia, for example, the USAID-funded export promotion project consistently has exceeded its targets primarily by working directly with companies, not government or private sector institutions. Hence, training and technical assistance in areas such as product design, production techniques, marketing, and quality control that are provided directly to the entrepreneur have helped to stimulate exports and create direct, permanent export-to-importer relationships.
- The roles of the public and private sectors need to be agreed upon and spelled out clearly. The government needs to provide the policy, regulatory, and institutional climate in which the private sector can flourish. USAID has enjoyed some success in bringing this about—at least in part—in El Salvador and Bolivia, for example.

ANNEX A

INTERVIEWS CONDUCTED

ANNEX A
INTERVIEWS CONDUCTED

Sector Name	Title	Organization/Location	Date
USAID/U.S. Embassy			
Barbara Kennedy	Mission Director	USAID/Praia	6/24
Jose Goncalves	Program Administrator		6/24
Veronica Martins	Economic and Commercial Officer	U.S. Embassy/Praia	6/29
Donors			
Djilali Benamrane	Sr. Field Economist	UNDP/Praia	6/29
Joao da Fonseca	Commercial Director	Embassy of Portugal/Praia	7/1
Antonio Rodrigues	Director	EEC/Praia	7/1
Astrid Harz	Program Officer	UNIDO/Praia	7/6
Alain Le Ravellec	Mission Chief	French Cooperation/Praia	7/6
France Maurette	Counsellor		7/6
Elza Botas	Counsellor for Cooperation	Embassy of Portugal/Praia	7/9
Government of Cape Verde			
Antao Fortes	Director General	Direccao Geral da Industria e Energia/Praia	6/28
Sergio Centeio	Director, Privatization Project	Ministerio das Financas e Planeamento/Praia	6/29
Claudio Veiga	Secretary of State	Ministry of Justice and Labor/Praia	6/29
Jose Tomas Veiga	Minister	Ministerio Coordenacao Economia/Praia	7/2
Manuel Varela	Director General	Direccao Geral do Plano/Praia	7/6

Jose Maria Neves	Official	Ministerio Administrativo Publica/Praia	7/9
Public Sector Organizations			
Antonio de Pina	Branch Director	Electra (Empresa Publica de Electricidade e Agua)/Praia	6/28
Rui Fortes	Commercial Director	CTT (Empresa Publica Correios e Telecomunicacoes)/Praia	6/30
Jose Lopes	President	PROMEX/Praia	6/30
Alexandre Monteiro	President	IADE (Instituto de Apoio ao Desenvolvimento Empresarial)/Praia	6/30
Almerindo Fonseca	Director, Investment Dept.	Banco de Cabo Verde/Praia	7/1
Maria Leite	Managing Director	EMPROFAC/Praia (Pharmaceutical manufacturing)	7/1
Helena Santos	Director	CENFA (Centro de Form e Aperfeicoamento Administrativo)/Praia	7/2
Raquel Lima	Director	IFAP/Praia	7/6
Julio Silva	Secretary General	UNTCS (Uniao Nacional dos Trabalhadores de Cabo Verde)/Praia	7/6
Maria Matos	Coordinator	IFAP/Praia	7/6&7/9
Franklim Do Spencer	Director	ENAPOR (Empresa Nac. do Porto Grande)/Mindelo	7/7
Jorge Duarte	General Manager		
Jorge Melo	Delegate	Camara Municipal de S. Vicente/Mindelo	7/7
Ruy Lopes dos Santos	Electrical Engineer	DRIE (Dir.Regional da Industria e Energia)/Mindelo	7/7
Emanuel Miranda	General Manager	ELECTRA (Empresa Publica de Electricidade e Agua)	7/8
Joao Dias da Fonseca	Engineering Director		
Ana Ribeiro	Director	Dir. Regional de Comercio e Turismo/Mindelo	7/8

Magdalena Torres	Director	Escola Tecnica de Mindelo	7/9
Antonio Barbosa	Director	Centro de Formacao Nautica de Mindelo/Mindelo	7/9
Euridice Mascarenhas	Director	COEP (Center for Professional Orientation)/Mindelo	7/9
Private Sector Organizations			
Luis Graca e Costa	Managing Director	Ceris/Praia (mixed ownership: beverage manufacturing company)	6/92
Dr. Joao Medina	President	Rotary Club/Praia	6/29
Owner/Director		Linmac (transport)/Praia	
Carlos Vaz	Managing Director	Aluplast/Praia	6/30
Carlos Vasconcelos	President	FEC (Forum Empresarial de Cabo Verde)/Praia, Installation Committee	6/30
Owner/Mg.Dir.		Pica Pau (import/export, candy manufacturer/Praia)	
Aureliano Ramos Nicolau de Melo	Administrator Technical Director	CONCAVE (construction, architectural & engineering services firm)/Praia	6/30
Orlando Mascarenhas Helena Tolentino Magdalena Neves	President Coord. (NDFE) Member	Asociacao Comercial de Sotavento/Praia	6/30 7/9
Maria Goncalves	Owner/Mg.Dir.	Business Center/Praia	7/1
Jose Gomes	Commercial Director	SITA (paint manufacturer)/Praia	7/1
Orlando Barbosa	Owner/Mg.Dir.	SOFT (computer hardware & software sales)/Praia	7/1
Jean Andrade	Owner/Mg.Dir.	Casa Luar (grocery, hotel, import & export)/Praia	7/1
Antonio Robalo	Owner/Mg.Dir.	ELECTROMECC (metal manufacturing)/Praia	7/1
Antonio Da Moeda	Director Santiago Regional	Shell (int'l petroleum co.)/Praia	7/2
Luis Cunha	Managing Director	Multicopia/Praia	7/2

Josue Silva	Owner/Mg.Dir.	Papelaria Central (office supply distributor)/Praia	7/2
Jorge Querido	President Owner/Manager	SOFIPE (investment company)/Praia Hotel Panorama/Praia	7/2 7/2
Cecilia Brito	Owner/Manager	Meconagrafia (office equipment supplier)/Praia	7/2
Francisco Amado	Owner/Manager	Solverde (agricult.exporter)/Praia	7/6
Fatima Fialho	General Director	Cabetur (Sociedade Caboverdiana de Turismo)/Praia	7/6
Manager		Fabrica Favorita (biscuit & bread manufact.)/Mindelo	7/7
Antonio Semedo	Owner/Mg.Dir.	Semedo & Semedo (import/export, grocery, furniture manuf.)/Mindelo	7/7
Eugenio Vera Cruz Manuel Almeida	Director Commercial Dir.	FAMA (Fabrica de Massas de Cabo Verde)/Mindelo	7/7
Jose Pires dos Santos	Partner/Manager	Contag (accounting & mgmt consulting)/Mindelo	7/7
Leonildo Monteiro	Executive Administ.	Cabnave (ship repair services)/ Mindelo	7/8
Antonio Canuto	Administrator	CAP (Centro de Apoio ao Prim. Emprego), Shell Int'l/Mindelo	7/8
Antonio Santos	General Manager	Companhia dos Tabacos de Cabo Verde/Mindelo	7/8
Jose Moreira Pinto Pedro Almeida Olavo Cardoso	Secretary Member Member	Asociacao Comercial de Barlavento/Mindelo	7/8
Padre Valente	Director	Escola Salesiana de Mindelo/Mindelo	7/9
Elizabeth Coutinho	Coordinator	Centro de Gestao e Marketing e Contabilidade de Mindelo/Mindelo	7/9
Carlos Almeida	Manager	Adega (grocery)/Praia	7/9

ANNEX B

SURVEY RESULTS

Table B1: Typology of Cape Verdean Businesses.										
Business Type	Ownership Type	Business Location	Respondent's Title	No. of Employees			No. of Managers	No. of Supervisors	Revenues (mill. CV escud.)	
				Total	Full-Time	Part-Time				
export/import, transportation	Priv	Praia	Shareholder & Director	23	23	0	1	0	20+	
beverage manufacturer	Mix	Praia	Mg Dir.	122	110	12	5	8	20+	
food processor & distributor	Priv	Praia	Director	20	20	0	2	2	20+	
hotel & restaurant	Priv	Praia	Owner/Mg Dir.	83	68	15	1	3	10-20	
aluminum construction	Priv	Praia	Mg Dir.	18	18	0	1	0	20+	
computer hardware & software sales & s	Priv	Praia	Mg Dir.	8	8	0	1	0	20+	
hotels & investment	Priv	Praia	Pres.	NA	NA	NA	NA	NA	NA	
business svcs	Priv	Praia	Owner/Mg	29	9	20	1	0	-5	
metal mechanic manuf.&svc	Priv	Praia	Mg Dir.	100	100	3	1	2	20+	
paper & office supply	Priv	Praia	Owner/Mg Dir.	7	7	0	1	0	10-20	
bus.svcs+ office supply + tech.assist.	Priv	Praia	Owner/Mg Dir.	10	10	0	1	3	20+	
restaurant	Priv	Praia	Owner/Mg Dir.	20	20	0	2	1	10-20	
paint manufacturer	Mix	Praia	Commerc.Director	24	24	0	2	5	20+	
office supply	Priv	Praia	Owner/Mg Dir.	3	3	0	1	1	5-10	
construction, archit. & engineer svc	Priv	Praia	Tech Dir	200	20	180	2	0	20+	
grocery	Priv	Praia	Reg. Mgr	30	30	0	1	4	20+	
travel agency	Priv	Praia	Mg Dir.	17	17	0	4	0	20+	
banana exporter	Priv	Praia	Mg Dir.	91	85	6	2	2	20+	
holding company	Priv	Mindelo	Partner/Mgr	26	22	4	2	1	20+	
tobacco manufacturer	Priv	Mindelo	Gen.Mgr	68	48	20	2	2	20+	
int'l oil	Priv	Mindelo	Admin.	75	0	s/t contract.	11	15	20+	
pasta+ coffee manufacturer	Mix	Mindelo	Mg Dir.	28	26	2	3	0	20+	
ship repair svcs	Mix	Mindelo	Admin.	220	200	20	3	2	20+	
import/export.grocery,furniture manufact.	Priv	Mindelo	Own/Mg Dir.	NA	NA	NA	NA	na	20+	
biscuit,bread manufacturer	Priv	Mindelo	Mgr	67	60	7	2	3	20+	
No. of Priv Enterprises:				21						
No. of Mixed Enterprises:				4						
Ave No. of Employees,Managers,Supervisors:				52	37	12	2	2		
Ave Revenues for Businesses (mill. of CV escudos):									18.5	
Total no. of Businesses having revenues...									18.5	
	less than 5,000,000 CV escudos:								1	
	between 5,000,000 and 10,000,000 CV escudos:								1	
	between 10,000,000 and 20,000,000 CV escudos:								3	
	more than 20,000,000 CV escudos:								19	

Table B2: Perception of Private Sector of Appropriate GOCV Role in Private Sector Development.		
Business Type	Appropriate Government Role	Is Role Presently Served by GOCV?
construction,archit. & engineer svc	support private sector	Y
grocery	liberalization	Y
paint manufacturer	support private sector	Y
restaurant	support private sector	Y
pharmaceuticals	privatize slowly	Y
int'l oil	liberalization,change mentality to free market economy	Y
biscuit,bread manuf.	open up opportunities for private sector	Y
holding company	prof.training,clear govt policies,policy implement.,mentality	Y
travel agency	support private sector, create regulations for tourism industry	Y
banana exporter	create quality control through organization&policies,eliminate tax on fuel	Y
bus.svcs + office supply+ tech.assist.	support private sector	Y
beverage manufacturer	promote private sector, create industrial policy	Y
computer hardware & software sales & svc	reform credit policy	Y
business svcs	support private sector	Y
paper & office supply	facilitate import process	Y
export/import,grocery,furniture	NA	NA
tobacco manufacturer	education & training	N
pasta + coffee manufacturer	create economic & financial alternatives	N
export/import, transportation	support private sector;reform labor code	N
ship repair svcs	take leadership role in liberalization & private sector development	N
hotels&investment	finance feasibility studies;provide venture funding	N
office supply	liberalization,especially imports	N
metal mechanic manuf.&svc	support older enterprises	N
Food processor & distrib.	create policy framework;provide finance & infrastructure	N
hotel & resturant	promote private sector, provide credit,liberalize imports	N
aluminum construction	support provide sector;credit	N
No. of firms believing that appropriate GOCV role is presently being carried out?		15
Percent of total:		60%
No. of firms not believing that appropriate GOCV role is presently being carried out?		10
Percent of total:		40%

Table B3: Cape Verdean Private Sector Perceptions about Most Important Government Policies Affecting Private Sector Development and Own Business.

Business Type	Policies Affecting Private Sector Development	Own Business
export/import, transportation	NA	NA
beverage manufacturer	training, industrial policy	commercial policy
Food processor & distrib.	finance, export & investment \policy	finance
hotel & resturant	credit	liberalization
aluminum construction	credit	credit
computer hardware & software sales & svc	finance,human resource,energy,ideas,information	space
hotels&investment	NA	NA
business svcs	infrastructure, information	government action,information,lower taxes
metal mechanic manuf.&svc	training,credit,labor code reform,change mentality	NA
paper & office supply	NA	more clients
bus.svcs+office supply+tech.assist.	cut bureaucracy	credit,better repayment terms
restaurant	credit+training	credit+training
pharmaceuticals	credit+training	management consulting,training
paint manufacturer	NA	NA
office supply	water	credit
construction,archit. & engineer svc	credit,training,infrastructure	credit
telecomm. +postal	NA	NA
grocery	education;foreign direct investment	more liberalization, less bureaucracy, mentality
travel agency	mentality+credit	credit
banana exporter	organization	fiscal incentives to be able to compete;more secure market
holding company	financial policy & planning	stronger internal market
tobacco manufacturer	NA	NA
int'l oil	training +finance	NA
elect. +water	finance,technology, market guarantee	efficiency in production,compet.pricing,labor code
pasta+coffee manufacturer	NA	expand market
ship repair svcs	must change mentality,credit,feasibility studies	vitalized economy
export/import,grocery,furniture	NA	NA
biscuit,bread manuf.	credit,liberalization	exporting ability

Table B4: Cape Verdean Business Views on Having Trouble in Hiring and Dismissing Employees

Business Type	Problems
hotel & resturant	Y:labor code
biscuit,bread manuf.	Y:labor code
elect. + water	Y:labor code
export/import,grocery,furniture	Y:labor code
ship repair svcs	Y:labor code
grocery	Y:labor code
construction,archit. & engineer svc	Y:labor code
paint manufacturer	Y:labor code
holding company	Y:labor code
banana exporter	Y:labor code
travel agency	Y:labor code
restaurant	Y:labor code
bus.svcs+office supply+tech.assist.	Y:labor code
metal mechanic manuf.&svc	Y:labor code
Food processor & distrib.	Y:labor code
export/import, transportation	Y:labor code
int'l oil	NA
tobacco manufacturer	NA
pasta+coffee manufacturer	NA
beverage manufacturer	NA
computer hardware & software sales & svc	NA
telecomm. +postal	NA
paper & office supply	NA
office supply	NA
hote!s&investment	NA
business svcs	NA
pharmaceuticals	N
aluminum construction	N

Table B5: Firms Presently Members of Business Associations & Reasons Stated for Joining		
Business Type	Member of Association	Reason for Joining
construction,archit. & engineer s	Y:construction assoc.	lobby;provide initiative
paint manufacturer	Y:commercial assoc.	NA
hotels&investment	Y:Sotavento	Y
bus.svcs+ office supply+ tech.as	Y:Sotavento	join forces
office supply	Y:Sotavento	information,to be known on nat'l level
banana exporter	Y:FEC,agric.guild	resolve problems among members
holding company	Y:Bartalovento	exchange ideas
pasta+ coffee manufacturer	Y:Barlavento	lobby
int'l oil	Y:Barlavento	public relations,provide help
export/import,grocery.furniture	Y:Barlavento	Y:facilitate importing
biscuit,bread manuf.	Y:Barlavento	lobby
ship repair svcs	Y:Barlavento	support other businesses
grocery	Y	believes that will lead to Chamber of Commerce
Food processor & distrib.	Y	NA
metal mechanic manuf.&svc	Y	self interest
hotel & resturant	Y	join forces
telecomm.+ postal	NA	NA
export/import, transportation	NA	NA
paper & office supply	N	NA
elect.+water	N	NA
business svcs	N	NA
computer hardware & software s	N	no benefit
aluminum construction	N	NA
beverage manufacturer	N	NA
travel agency	N	NA
pharmaceuticals	N	NA
restaurant	N	no benefits
tobacco manufacturer	N	members have "comerciante mentalidade"
No. of firms responding		
	"YES":	16
	"NO":	10
Percent of total respondents responding		
	"YES":	62%
	"NO":	38%

Table B6: Cape Verdean Firms' Need for a Chamber of Commerce:		
Business Type	Need for Chamber of Commerce	Reason for Need of Chamber of Commerce
ship repair svcs	Y	provide link between private sector & govt
paint manufacturer	Y	provide information, make business contacts
computer hardware & software sales & svc	Y	provide information, create business opportunities
int'l oil	Y	promote private sector intervention
beverage manufacturer	Y	promote business, lobby
Food processor & distrib.	Y	promote & defend private sector interests
elect. + water	Y	product quality control, provide information
banana exporter	Y	obtain credit
holding company	Y	lobby, strengthen private sector
biscuit, bread manuf.	Y	lobby, join forces
hotels & investment	Y	lobby, change mentality
pharmaceuticals	Y	lobby, change mentality
export/import, grocery, furniture	Y	lobby
business svcs	Y	lobby
aluminum construction	Y	lobby
hotel & restaurant	Y	lobby
metal mechanic manuf. & svc	Y	lobby
restaurant	Y	lobby
bus. svcs + office supply + tech. assist.	Y	lobby
paper & office supply	Y	lobby
office supply	Y	liason between islands
pasta + coffee manufacturer	Y	join forces, provide training
travel agency	Y	join forces
grocery	Y	information; exchange ideas, lobby, int'l trade
construction, archit. & engineer svc	Y	demand financial support
export/import, transportation	Y	change mentality, organize private sector, provide training
tobacco manufacturer	Y	NA
telecomm. + postal	Y	NA

Table B7: Cape Verdean Firms' Proposed Organization and Funding of Chamber of Commerce.

Business Type	Organization	Funding
beverage manufacturer	NA	dues & svcs
tobacco manufacturer	all sectors	dues
ship repair svcs	all sectors	dues
grocery	all sectors	dues
holding company	all sectors	dues
computer hardware & software sales & svc	all sectors	dues
export/import, transportation	all sectors	dues
aluminum construction	all sectors	dues
Food processor & distrib.	all sectors	USAID
paint manufacturer	NA	NA
telecomm. + postal	NA	NA
export/import, grocery, furniture	NA	NA
metal mechanic manuf. & svcs	NA	NA
pasta + coffee manufacturer	all sectors	GOCV + dues
business svcs	all sectors	GOCV + dues
biscuit, bread manuf.	all sectors	GOCV + dues
elect. + water	all sectors	GOCV + dues
hotels & investment	all sectors	GOCV + dues
hotel & restaurant	all sectors	GOCV + dues
banana exporter	all sectors	GOCV + dues
construction, archit. & engineer svc	all sectors	GOCV + dues
office supply	all sectors	GOCV + dues
pharmaceuticals	all sectors	GOCV + dues
travel agency	all sectors	GOCV + dues
paper & office supply	all sectors	GOCV + dues
restaurant	all sectors	GOCV init + dues
bus. svcs + office supply + tech. assist.	all sectors	GOCV init + dues
int'l oil	all sectors	GOCV
Percent of respondents stating that funding should be provided by ...		
	GOCV + dues	58%
	dues only	29%
	GOCV only	4%
	other	8%

Table B8: Private Sector Sources of Financing, Purpose of Loan Request, Loan Terms and Greatest Obstacle to Credit.

Business Type	Finance source	Finance Purpose	Credit terms	Obstacle to credit
business svcs	own funds for start-up;BCV for equipment	start-up;equipment	14%,2yrs.personal guarantee	delay
int'l oil	own funds for most financing needs	expansion	NA	financial system structure
paper & office supply	own funds	NA	NA	NA
banana exporter	own funds	investment	NA	delay
grocery	own funds	NA	NA	NA
restaurant	own funds	NA	NA	delay,not in touch with private sector
export/import,grocery,furniture	own funds	import financing	NA	delays
biscuit,bread manuf.	own funds	NA	NA	system does not function
construction,archit. & engineer svc	own capital or client retainer	working capital	short	no financial policy, no credit
export/import, transportation	no need	NA	NA	NA
tobacco manufacturer	NA	NA	NA	improper training of banking sector personnel
telecomm +postal	NA	NA	NA	NA
hotels&investment	NA	NA	NA	NA
elect + water	BCV,int'l lending institutions	projects	s/t=14.5%;m/t=7-14%;l/t=4-7%	delays
beverage manufacturer	BCV,foreign investors	working capital	13%,3 mos	none
travel agency	BCV,ADB	hotel construction,tourism transport	NA	none
metal mechanic manuf. &svc	BCV+private loans	expansion	NA	delay
pasta+coffee manufacturer	BCV	working capital	10yrs,14%	delays
holding company	BCV	NA	10%,90days	delays
ship repair svcs	BCV	working capital	14%	..
aluminum construction	BCV	equipment	14.5%,1yr,assets	delay
computer hardware & software sales & svc	BCV	import finance,working capital	12.5%,90days	delay
Food processor & distrib	BCV	working capital,expansion	NA	bureaucracy
hotel & resturant	BCV	working capital	12%,120days,property & inventory guarantee	delay
paint manufacturer	BCV	NA	14%,5yrs	none
office supply	BCV	import financing	17%,7yrs.personal property	delay
bus svcs+office supply+tech assist.	BCV	equipment	180days	delay
pharmaceuticals	BCV	short-term needs	1yr	none

Primary source of funds for percent of respondents:

BCV:	60%
own funds:	36%
other:	40%

Table B9: Cape Verdean Firms' Relationships with Foreign Businesses and Joint Venture Partnerships.		
Firms having foreign business partners:	Firms wanting foreign business partners:	Firms wanting joint venture partners:
Business Type	Business Type	Business Type
metal mechanic manuf.&svc hotels&investment int'l oil office supply holding company ship repair svcs export/import,grocery,furniture computer hardware & software sales & sv beverage manufac.urer	hotel & restaurant construction,archit. & engineer svc pasta+ coffee manufacturer telecomm.+ postal travel agency banana exporter aluminum construction food processor & distrib. business services export/import, transportation	office supply ship repair svcs holding company grocery computer hardware & software sales hotels&investment metal mechanic manuf.&svc export/import,grocery,furniture int'l oil hotel & restaurant construction,archit. & engineer svc pasta+ coffee manufacturer telecomm.+ postal travel agency banana exporter food processor & distrib. business services export/import, transportation
No. of firms:		
9	10	18
Percent of respondents:		
32%	36%	64%

Table B10: Firms' Perceptions of Incentives and Disincentives to Investment in Cape Verde.		
Business Type	Incentives	Disincentives
banana exporter	privatization	weak transportation system, poor product quality control
food processor & distributor	NA	weak economic policy, financial structure, government monopoly, mentality
holding company	good legal framework	poor legal implementation
computer hardware & software sales & svc	NA	no investment guarantee mechanism; delay in credit approval; high taxes
beverage manufacturer	policy reforms	monopoly banking
restaurant	NA	lack of qualified manpower, bureaucracy
pharmaceuticals	NA	lack of infrastructure
construction, archit. & engineer svc	none	lack of credit, no foreign direct investment policy, lack of training
tobacco manufacturer	none	lack of credit to promote exports
travel agency	NA	lack of credit
paint manufacturer	none, must be created	labor law, lack of infrastructure, no training
biscuit, bread manufacturer	none	labor law
grocery	none	labor code
ship repair services	none	infrastructure, legal framework, labor law, lack of training
int'l oil	liberalization	high taxes, customs regulations
pasta + coffee manufacturer	none	high industrial tax
elect. + water	NA	high cost of fuel, customs regulations
bus. svcs + office supply + tech. assist.	NA	bureaucracy, credit
export/import, transportation	NA	NA
export/import: grocery, furniture	NA	NA
hotel & restaurant	privatization	NA
office supply	NA	NA
metal mechanic manuf. & svc	NA	NA
paper & office supply	NA	NA
business services	NA	NA
aluminum construction	none	NA
hotels & investment	NA	NA
telecomm. + postal	facilitation	NA

Table B11: Infrastructural Constraints to Private Sector Development

Business Type	Transportation Problems	Storage Problems	Power and Water Problems	Telecommunication Problems
export/import, transportation	NA	NA	NA	NA
beverage manufacturer	Y, maritime	NA	none	Y
food processor & distrib	Y cost	NA	Y	Y
hotel & restaurant	Y theft cargo not treated well	N	N	sometimes
aluminum construction	N	NA	water costly, no prob w/ power	Y
computer hardware & software sales & service	Y more difficulties inter-island than international	Y	power Y, water N	Y inter-island problem
hotels & investment	NA	NA	NA	NA
business services	Y delays	Y expensive	N	N
metal mechanic manuf & svc	Y delays	N	Y unreliable, insufficient	N
paper & office supply	NA	NA	N	Y
bus svcs + office supply + tech assist	N	NA	Y high costs	Y high costs
restaurant	N	N	Y high costs	N
pharmaceuticals	N	Y better ventilation	Y enormous problem	N
paint manufacturer	N	N	N	NA
office supply	N	NA	Y	Y
construction archit & engineer svc	Y irregular	Y, enormous problem because of municipal law for land use; bureaucracy	Y enormous problem	N
telecomm + postal	NA	NA	NA	Y: inadequate infrastructure to operate internationally
grocery	Y inter-island costly & irregular, N international	N	Y	N
travel agency	Y especially air (not enough capacity & expensive)	NA	N	N
banana exporter	Y	NA	Y	N expensive
holding company	Y costly	N	N	N
tobacco manufacturer	NA	NA	NA	NA
int'l oil	Y delays (especially inter-island)	NA, because have pipelines	Y	Y
elect + water	Y irregular inter-island	N	NA	Y expensive
pasta + coffee manufacturer	Y inter-island	N	Y high costs	N
ship repair services	Y irregular	N	Y: have own desalinator	Y
export/import grocery furniture	N	N	NA	NA
biscuit, bread manuf	N	N	Y own generator, costly	Y, maybe not for investors

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Table B12: Firms' Perceptions on Adequacy of Training in Cape Verde	
Business Type	Are Adequate Human Resources Available?
paint manufacturer	Y
bus.svcs + office supply + tech.assist.	Y
metal mechanic manuf &svc	Y
telecomm. + postal	Y
biscuit,bread manuf.	Y
export/import.grocery.furniture	Y
travel agency	Y
aluminum construction	Y
restaurant	NA
tobacco manufacturer	NA
computer hardware & software sales & service	NA
holding company	NA
hotels & investment	NA
paper & office supply	NA
ship repair services	N
int'l oil	N
export/im,port, transportation	N
beverage manufacturer	N
elect. + water	N
banana exporter	N
office supply	N
pharmaceuticals	N
business services	N
construction,archit. & engineer svc	N
grocery	N
food processor & distrib.	N
hotel & restaurant	N
pasta + coffee manufacturer	N
No. of Firms Believing that Training Facilities are Inadequate:	14
Percent of Respondents Believing that Training Facilities are Inadequate:	64%
No. of Firms Believing that Training Facilities are Adequate:	8
Percent of Respondents Believing that Training Facilities are Adequate:	36%

Table B13: Important Training Needs of Cape Verdean Private Sector Firms

Business Type	Important Training Needs
paper & office supply	workers
pasta+ coffee manufacturer	worker, technicians/professionals
ship repair services	worker, financial management
elect. + water	technicians
bus. svcs + office supply + tech. assist.	technicians, professionals
pharmaceuticals	technicians, administrative staff, marketing/sales, accounting, computer, professionals
office supply	technicians
metal mechanic manuf. & svc	supervisors, administrative staff, technicians, professions, worker
hotel & restaurant	stock management, service, supervisor
tobacco manufacturer	project evaluation
paint manufacturer	middle managers, technicians
construction, archit. & engineer svc	middle managers, high level managers, technicians
aluminum construction	managemers, workers
travel agency	managers, technicians/professionals, computer, marketing/sales
banana exporter	managers, technicians/professionals, computer, accounting, marketing/sales
holding company	managers, computers, clerical, service
int'l oil	managers, accountants, marketing/sales
grocery	managers, supervisors, workers, administrative staff, computer, marketing, basic education
telecomm. + postal	managers
biscuit, bread manuf.	all levels
restaurant	all levels
business services	all levels
food processor & distrib.	technicians
export/import, grocery, furniture	NA
computer hardware & software sales & service	NA
export/import, transportation	NA
hotels & investment	NA
beverage manufacturer	NA

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Table B14: Summary of Public and Private Sector Training Needs
technical skills
leadership skills
marketing/sales skills
accounting
computer operation
supervisory skills
stock management
project planning
middle & senior management
service skills (hotel & restaurant management, retail sales)
basic education skills
financial management
legal skills (lawyers, judges)
statistical skills
port managers and shipping management
oceanographers and fishing industry skills
commercial and contract law skills
import/export skills
private sector banking and credit procedure skills

Table B15: Cape Verdean Private Sector Firms Offering Employee Training and Believing that Government Should Help Pay Training Costs.		
Business Type	Offer Employee Training?	Believe GOCV Should Help Pay for Training?
computer hardware & software sales & service	Y:sent 1 employee abroad	Y
int'l oil	Y:extensive	NA
construction,archit. & engineer svc	Y:On-the-Job,IFAPE does some t	Y
ship repair services	Y:On-the-Job+extensive in-hous	NA
biscuit,bread manuf.	Y:On-the-Job	Y
metal mechanic manuf.&svc	Y:On-the-Job	Y
pasta + coffee manufacturer	Y:On-the-Job	NA
export/import.grocery,fn.rniture	Y:On-the-Job	NA
grocery	Y:On-the-Job	N
beverage manufacturer	Y:On-the-Job	N
telecomm. + postal	Y+sends abroad	Y
office supply	Y	Y
banana exporter	Y	Y
travel agency	Y	Y
business services	Y	Y
paper & office supply	Y	Y
hotel & restaurant	Y	Y
food processor & distrib.	Y	Y
pharmaceuticals	Y	Y
paint manufacturer	Y	Y
bus.svcs + office supply+tech.assist.	Y	Y
restaurant	Y	Y
aluminum construction	Y	N
elect. + water	NA	NA
holding company	NA	NA
tobacco manufacturer	NA	NA
hotels & investment	NA	NA
export/import, transportation	N	NA
Percent of total respondents offering employee training:		96%
Percent of total respondents believing that GOCV should participate in costs:		84%

Table B16: Cape Verdean Firms' Perceptions of Economic Sectors with Most and Least Potential for Growth		
Business Type	Economic Sector with Most Potential	Economic Sector with Least Potential
business svcs	tourism,fishing industry,teleport services	NA
hotels&investment	tourism,fishing industry,manufacturing,flag of convenience	construction
int'l oil	tourism,fishing industry (marketing is the key to success)	commerce
travel agency	tourism,commerce, services	informal sector
grocery	tourism (with niche market)	industry
bus.svcs+office supply+tech.assist.	tourism (needs infrastructure),service	agriculture,industry (no water)
pharmaceuticals	tourism (needs infrastructure),commerce	agriculture
restaurant	tourism (needs infrastructure)	agriculture
holding company	services,fishing industry,electronic assembly	industry
computer hardware & software sales & svc	service	everything that currently exists
paper & office supply	paper & office supply	NA
ship repair svcs	none: very fragile economy	agriculture (should be subsidized)
paint manufacturer	none	agriculture,fishing industry,tourism
construction,archit. & engineer svc	fishing industry,tourism (needs infrastructure)	agriculture
hotel & restaurant	fishing industry,tourism	NA
banana exporter	fishing industry,agriculture,export industries	farming&cattle-raising
pasta+coffee manufacturer	fishing industry, tourism	industry
export/import, transportation	construction	maritime transport & commerce
aluminum construction	construction	industry
Food processor & distrib.	commerce,industry	tourism,fishing industry,agriculture
elect. +water	commerce,free trade zone	agriculture
office supply	commerce	tourism,fishing industry
biscuit,bread manuf.	commerce	industry
beverage manufacturer	commerce	agriculture,fishing industry
export/import,grocery,furniture	Na	NA
metal mechanic manuf.&svc	NA	tourism
telecomm.+postal	NA	NA
tobacco manufacturer	NA	NA

ANNEX C

SELECTED BIBLIOGRAPHY

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ANNEX D

SCOPE OF WORK

Encouraged by the current government's commitments to private sector development, private operators and entrepreneurs have begun to look for ways to participate in this process and, at the same time, derive more direct benefits for example, early in November 1992, a group of dynamic young entrepreneurs organized a four-day business Forum to take stock and discuss the prospects for private sector development in Cape Verde. The event, which was opened by the head of state and closed by the Prime Minister, was considered a success in that it publicly acknowledged private sector concerns and needs and received broad national media coverage. This same group which organized the Forum has requested assistance from USAID to undertake a needs assessment of the private sector in Cape Verde, with particular emphasis on its organizational and development needs.

ARTICLE I - TITLE

Program Development and Support - Project No. 655-0015

(An Assessment of the Organizational and Development Needs of the Private Sector in Cape Verde).

ARTICLE II - OBJECTIVE

The purpose of this consultancy is to undertake an assessment of the needs, potentials and limitations for the development of the private sector in Cape Verde, with special emphasis on the organization and development of the formal sector. Based on the outcome of this initial assessment, the contractor shall detail recommendations and subsequent steps, including an action plan of specific options which USAID should consider in the support to private development in Cape Verde.

ARTICLE III - STATEMENT OF WORK

Specific tasks contained in this scope of work are intended to serve as minimum guidelines for the contractor to follow in the course of undertaking this assessment. Additional questions which add to a greater understanding of the problem may also be addressed, as appropriate.

BACKGROUND

The current democratic Government of Cape Verde (GOCV) was elected in January 1991 by a landslide of popular vote on a platform of major political and economic reforms. As manifested in the Government Program, unanimously approved by the National Assembly, the following are three of the key aspects of the economic program adopted by the GOCV:

- a. Equality of access to resources and competition by all economic agents;
- b. Abandonment of the principle of economic sectors reserved for the State and which exclude private sector participation;
- c. Defense of the principle that the State should only assume direct economic participation in social and strategic sectors when the private sector expresses no interest therein.

Notwithstanding this new government encouragement, the Cape Verdean private sector today is generally considered weak and disorganized after over 15 years of neglect and marginalized treatment by the former regime. Indeed the organization of Cape Verde business organization has been characterized by a services of unsuccessful attempts to organize itself except for two commercial and industrial associations (which function as a sort of commercial carte), dating back to pre-independence days. Consequently, the private sector in Cape Verde today has little organizational foundation.

For example, no chamber of commerce exists, and attempts to organize one date back to 1985. The independent private sector, however, has consistently resisted participating in what it considers a state controlled model of Chamber of Commerce, whose principal motive was to extend even further state influence and control over private business affairs.

Currently, a series of projects and programs with donor funding are either being implemented or are anticipated in the near future to promote and support a more efficient and productive economy. These range sector from projects such as those in fisheries, industry, tourism and commerce to broader national programs such as investment and export promotion, privatization, and infrastructure development. However, most of these activities appear to be in support of the formal rather than the informal sector.

A. The Political and Economic Environment

1. Briefly characterize the Cape Verdean economy and provide a contextual background to better assess the role of the private sector in the economic development of the country.
2. Survey the macroeconomic framework of Cape Verde (i.e. legislation, trade, finance, credit, investment, labor relations, etc.) and assess the extent to which the general environment is conducive to private sector development.
3. Assess the degree to which the political leadership has been and is willing to make the necessary decisions and follow through with genuine private sector development policies.

B. The Social Context

1. Assess the perception of greater private sector participation in key areas of the economy (especially those traditionally in the parastatal domain) among key segments of the society (i.e. labor, media and other pertinent interest groups). Address questions such as better service and lower cost to the consumer, more productive and growth-oriented economy, more efficient economy, and so on.
2. Assess the potential social and economic impact of greater emigrant community involvement in the country's private development. Gauge the financial potentials and limitations of emigrants in this process. (This may be done through review and analysis of reports and secondary data available in Cape Verde.)

C. Overview of the Cape Verdean Private Sector

1. Describe briefly the productive sector in Cape Verde with emphasis on the role played by the private sector in general, and the formal sector, in particular.
2. What is the role of the informal sector in Cape Verde? What challenges does the informal private sector pose to the formal business sector? How is the informal sector viewed by formal business organizations?

3. Survey the formal private sector and create a typology of small, medium and large-scale enterprises in the context of the Cape Verdean economy. (Relevant international experiences should be used as contextual background).
4. Survey the traditional private sector and assess its willingness to participate in non-traditional business sectors.

D. Private Sector Development and the State

1. Briefly discuss the role the State should play in promoting the development of the private sector, especially in small and developing economies such as that of Cape Verde.
2. Identify and discuss specific policies and legislation, if any, the government has introduced to support the importance accorded the private sector in the mass media, public events and the press?
3. Identify and assess the principal current legislative and regulatory and/or operational constraints hindering private sector development in Cape Verde.
4. Are special programs or projects in existence or being considered to provide the support needed to develop the private sector in Cape Verde? Are sectoral or general incentives available to attract private sector investments?
5. Assess the level of confidence of the private sector in the government's current strong emphasis on the private sector. Does the private sector perceive the government to be sincere in considering the former an equal partner in the development of the country?

E. Private Sector Organization in Cape Verde

1. Describe the organizational structure of the Cape Verdean private sector. Is there formal or quasi-formal organizational structure?
2. Assess the current state of the Cape Verdean private sector and describe how it can be better organized to enhance private sector development in the country.

3. Assess the strengths and weaknesses of the private sector which impact on its effective development.
4. Assess briefly the resources (material), financial and human) limitations which currently hinder private sector development in Cape Verde.

F. Financial and Credit Access Needs of the Private Sector

1. Describe briefly the financial and credit structure in Cape Verde as well as changes anticipated in the next three years.
2. Assess the current financial and credit resources available to the private sector. Are private sector working capital needs being met? Is there a sector bias to financial and credit access or are all sectors accorded the same access? Is there congruence between financial and credit access and the government's desire to promote private sector development?
3. Assess the key financial and credit constraints facing the formal private sector.
4. Survey private sector views on credit access and interest rates, including access to domestic financial resources as well as those provided through special lines of credit via the government or other para-public financial institutions.
5. Sample the financial institutions views on the level of responsibility of the private sector in meeting its credit obligations.
6. Identify the types of credit (i.e. short, medium, long-term or a combination thereof) for which the private sector is in greatest need.

G. Other Resources and Support Needs Requirement of the private Sector

1. Assess the potential role of the private sector within Cape Verde's major program of foreign investment and export promotion? Will the domestic private sector benefit from this program? How might it benefit more?

2. Were the needs of the private sector taken into consideration in the design of specialized projects and programs such as those supported through PROMEX, IADE, the privatization program, and so on?
3. Is there sufficient direct access by the private sector to resources available under special project and programs now in place? How does the private sector view the issue of access to resources provided under these projects and programs?
4. Survey and assess the principal training needs of the formal private sector. Inquiry should focus on short-term training needs at all levels of the labor force. Identify whether required training can be provided through in-country or training abroad programs.
5. Assess other resource needs (e.g. technical, material know-how, etc.) of the private sector in Cape Verde
6. What portions of the infrastructural problems or constraints which may affect private sector development such as energy/water shortages and costs, transport systems, telecommunication, storage facilities, other support services, etc.

H. Recommendations

1. Make recommendations on the private sector development needs in Cape Verde outlining some specific alternatives and options, including organizational and resources requirements.
2. Consider and present strategic reasons why USAID should consider supporting private sector development in Cape Verde,
3. Assess and identify USAID comparative advantage in this area and recommend which interventions USAID could support to boost private sector development, including greater productivity and employment generation.
4. Gauge the level of impact support to the private sector could make in the economic viability of the country.

I. Next Steps to be Undertaking

1. Identify the basic ingredients/components required in the development of a proactive private sector development program capable of playing a leading role in the economic development of Cape Verde.
2. Prepare and present a draft terms of reference for proposed follow-on activities and/or next steps for USAID to consider in providing support to private sector development.

ANNEX E

CAPE VERDE-AMERICAN PERSPECTIVES

ANNEX E
CAPE VERDE-AMERICAN PERSPECTIVES

A. Introduction

From August 9-16, 1993, interviews were conducted with a dozen business and other leaders of the Cape Verdean American (CVA)¹ community in Massachusetts and Rhode Island, selected in consultation with a Cape Verdean community organizer and leader. Due to time, resources and, more important, methodological constraints, it was not possible to select a true random sample of respondents. Given their leadership position in the Cape Verdean American community, it is reasonable to suggest that the views of the respondents are generally an accurate reflection of the population at large. At a minimum, they have heuristic value for further study.

This report represents an addendum to the Private Sector Needs Assessment conducted for USAID/Cape Verde in July 1993. During the course of that analysis, it was discovered that one potential source of financial and human resources that possibly could be recruited in the effort to strengthen the private sector in Cape Verde was the expatriate and Cape Verdean American community. As a consequence, it was decided to examine, however briefly, views of leading CVAs with respect to potential business interest in Cape Verde, identifying in particular the principal issues impacting investor decisions.

Aside from its importance as a source of critical remittances, the CVA community—particularly in Massachusetts and Rhode Island and to a lesser extent in Connecticut and California—represents an additional important economic resource for Cape Verde. Although the U.S. Bureau of the Census reports a CVA population of only 17,000, this figure is misleading and inaccurate, as the Bureau readily admits. First, the census determines national origin by place of birth. As there are so many CVAs who have been born in the U.S.² and in countries such as Senegal and Portugal, there is no accurate way to establish the true size of the community.³ Second, judging from the flow of remittances, which

¹Cape Verdean Americans are persons of Cape Verdean ancestry who are natural citizens of the U.S. Emigres are Cape Verdeans who have moved to the U.S. and are either naturalized U.S. citizens or legal residents. While the two communities distinguish between themselves, in this report they are both referred to as Cape Verdean Americans unless otherwise specified.

²Cape Verdeans have been immigrating to the U.S. since the middle of the last century, when they were recruited for whaling ships with home ports in New Bedford and Nantucket, Massachusetts.

³Conversations with Cape Verde officials and CVA business and community leaders showed they were unanimous in their belief that a more probable figure is 300,000. Given the visible influence (e.g., Cape Verde radio station, newspapers, restaurants, clubs) in cities such as New Bedford, Fall River, Boston, and Providence, not to mention the CVA community in Los Angeles, there is no doubt that the number of Cape Verdeans and CVAs in the U.S. is substantially greater than the census figure.

averaged an annual 19 percent of Cape Verde's GDP between 1986 and 1990, two things become evident: the impact of Cape Verdean expatriates on the economy is substantial, and there already exists important expatriate investment in Cape Verde, though not necessarily channeled toward priority areas for growth and development.

Perhaps it is not surprising that many of the concerns of the Cape Verdean private sector, such as lack of credit, unpredictable regulatory enforcement, and inadequate basic infrastructure, were echoed by the CVA community in the U.S. On the one hand, while they possess a strong emotional attachment to their national heritage, Cape Verdean Americans are generally reluctant to make further investments in Cape Verde for a variety of reasons as will be seen. On the other hand, there is a clear willingness to consider investing in the island nation if sufficient conditions exist to guarantee a reasonable chance for positive returns.

B. Issues

A majority of the respondents indicated several constraints to investment (listed below), most of which have already been identified by the business community in Cape Verde itself. If potential expatriate investors are to be mobilized in any serious and organized fashion, the Government of Cape Verde (GOCV) will have to take measures to reform policies and practices impacting investors. The large majority of these are addressed in detail in the Private Sector Needs Assessment, and it is not surprising that there is agreement among Cape Verdean and CVA entrepreneurs about the problems they face in promoting investment and doing business in general.

B1. Information

There is a lack of information about investment opportunities in Cape Verde, particularly on any sustained or systematic basis. Although one business leader said he had received a good deal of information on government regulations from PROMEX (though not on business opportunities), he seems to be the exception. Other respondents were either unaware of PROMEX's activities or did not have positive or productive experiences in their dealings with the agency. Similarly, the Cape Verdean consul in Boston was reported to have had few meetings or interactions with the CVA private sector. Information that does exist on business opportunities tends to be passed on informally through family or friends, and investments made are typically for home construction as CVAs seek to stretch their retirement dollars by moving to Cape Verde.

B2. Organization

The lack of adequate information is itself part of a larger problem of an absence of organization and organizational know how; that is, how to build a well-structured, permanent organization with sustained support and a small professional staff. While several CVA organizations in New England exist, they are mostly social and sports clubs. The Cape Verdean American Business Council in Massachusetts does not meet regularly and has no executive staff. Nonetheless, it has made some attempts to organize efforts to reconnect

Cape Verdean expatriates with the country, though this has also been mostly for building homes, not for engaging in a sustained investment promotion initiative.

One problem is that there little knowledge of how to organize the CVA business community as an effective investment resource for financial or human capital. At the same time, there is a willingness and desire to seek effective ways of promoting expatriate investment in Cape Verde and encouraging skilled CVAs to share their business experience and knowledge. In other words, the raw material are there, but a catalyst is needed to crystalize them into an systematic effort—a role USAID may want to consider, if it is permissible under law and policy.

The CVA community mirrors Cape Verde in many ways, one of which is unfortunately an exaggerated identification with island of origin rather than country. This kind of regionalism has inhibited the sense of nation Cape Verde needs to achieve its development goals. Similarly, island loyalty has impeded efforts to organize expatriate Cape Verdeans as a national community abroad. It also appears to limit many investors and potential investors to dealing only in their respective islands. While this trend can be beneficial—as in the case of Francisco Freijoo Barbosa, who with a generous donation helped make it possible to construct the airport on Fogo—it restricts investment capital to areas that are not necessarily the most important for national development.

While the new government has enacted economic liberalization measures, it has not formulated a clear plan to encourage investment from the CVA community into priority areas. Nor has it made well-organized efforts to coordinate with CVA leadership to promote investment and business opportunities. Of course, this inaction is due in part to the lack of organization among CVAs. But if the GOCV is serious about reaching out to the expatriate community, it has not taken the necessary steps to bring that about. For example, it has not made any visibly organized efforts to reach out aggressively to CVA business men and women to promote Cape Verde as a place to invest. In addition, the GOCV has not helped develop and formalize linkages between the Cape Verdean and CVA business communities; or sought CVA input and feedback into the development of policy incentives for investment. Similarly, there is no formalized system to provide information on investment and financing opportunities.

B3. Government

While the GOCV has made some significant policy reforms, as documented in the Private Sector Needs Assessment report, it has yet to put them into practice, at least to the extent that the Cape Verdean and CVA business communities have been able to substantially expand production of goods and services. Both private sectors view the GOCV as saying the right things but failing to implement initiatives passed through the National Assembly.⁴

⁴Interestingly enough, one CVA business leader said a major drawback of the government is that it gives the impression it is only interested in big deals, not small investments. Since almost all CVAs are small businessmen, they cannot get the kind of support from the GOCV they need to make investments.

B3a. Rules of the Game

Several respondents expressed some distrust toward the GOCV. While all CVA entrepreneurs interviewed agreed that the country's leadership was going generally in the correct economic direction, they noted that obstacles to investment remained. First, there was a concern that the rules of the game—i.e., enforcement of regulations—were not fixed, especially with respect to customs. All respondents who had dealings with customs complained that import levies varied according to the discretion of the inspector.⁵ These assertions were indicative of a larger perception that the government was still unable to guarantee predictable practices and adequate dispute resolution procedures. For example, in one instance a CVA businessman objected to an import duty levied on his products, which he claimed was set arbitrarily by an inspector. As a result he was put into jail, equally arbitrarily in his view. While this may be an extreme case, it does point to the kinds of regulatory and procedural problems that affect investor attitudes and behavior.

In another case, a Portuguese American who is closely tied to the CVA community reported that he proposed leasing and upgrading several fishing boats belonging to PESCOVE, the government-owned fishing fleet. When he arrived for a key meeting with the GOCV official in charge, she had already left her office. The investor had to wait six days before another meeting was scheduled. Before an agreement could be concluded, the GOCV canceled the lease arrangement, announcing it planned to privatize PESCOVE, which has still not happened.

These examples confirm the almost universally held belief within the private sector that while the GOCV may have reformed its economic policies, it has yet to improve the bureaucracy charged with implementing them. Indeed, there is a strong predilection on the part of CVA business people for the government to stay out of business and let the two private sectors deal with each other, perhaps through the Associação de Barlavento and Associação de Sotavento.

B3b. Lack of Infrastructure

The lack of infrastructure is another major obstacle to investment and business development in general. Despite CVAs' desires to invest in Cape Verde, the absence of adequate water, energy, and transportation systems reduces the nation's attractiveness and limits potential business opportunities, especially in the export sector. The same complaints registered in the Private Sector Needs Assessment about the state of the national infrastructure were echoed by CVA business leaders.

In contrast, the absence of transportation has created a market niche for at least one enterprising CVA who owns a shipping line in New Bedford. He began operations in 1988, making two or three trips annually between New Bedford and Cape Verde. He is now up to eight voyages yearly and plans to expand to one trip per month. The majority of his cargo consists of consumer products being shipped by CVAs to relatives in Cape Verde. The

⁵This was a common complaint among Cape Verdean nationals as well.

owner is now seeking to transport U.S. exports to the ECOWAS region and return with African goods, to cover the costs of deadheading.

B3c. Investment Scale

There is a perception that the new government is looking for large- rather than small-scale investment, shunning CVAs who are interested in modest ventures. While this could not be confirmed, the fact is that PROMEX has a poor reputation among the CVA business community, which says the agency has a disappointing track record in reaching out to potential CVA investors and producing investments for Cape Verde. At the very least, this perception points to the need for PROMEX to be much more aggressive in tapping into potential investor interest in the U.S. Moreover, the fact of the matter is that Cape Verde cannot accommodate or attract much relatively large-scale investment, with the possible exception of hotel construction and management and light manufacturing. As CVAs represent a potential source of more appropriately scaled revenues,⁶ it would be useful for PROMEX to develop a strategy to target investors in terms of scale and business opportunities, taking advantage of the CVA community's ties with Cape Verde and its willingness to invest in the country.⁷

B4. Finance

Several CVAs reported problems with financing investments in Cape Verde and cited their troubles as examples of government inefficiency and interference in the private sector. Predictably, CVA entrepreneurs pointed to the delays and red tape encountered in obtaining credit from the Banco Central de Cabo Verde. Although the GOCV recognizes this problem and has taken tentative steps to rectify it by moving to establish a commercial bank, difficulties in securing finance also reveal a lack of coordination among government agencies in pursuing common economic goals.⁸

B5. Culture and Human Resources

CVAs are especially well positioned to see clearly the juxtaposition of the Cape Verdean mentality with the more modern values of U.S. culture. This is particularly reflected in a concern about the quality of management in Cape Verdean enterprises, both

⁶The actual amount of potential investment revenues could not be determined due to a lack of available data. However, given the positive attitudes toward investment possibilities in Cape Verde, it may be reasonably assumed that there is private capital available for business ventures. If desirable or necessary, subsequent analyses may be able to establish orders of magnitude with respect to the dollar size of investment potential and any specific areas of investor interest.

⁷Those interviewed for this report generally indicated no specific area of investment interest. Rather they were open to opportunities that could reasonably be expected to yield positive returns.

⁸An important example of this problem cited in the Private Sector Needs Assessment is the lack of authority and ability on the part of PROMEX to coordinate export and investment promotion-related activities of ministries and agencies, effectively undermining GOCV economic goals.

senior and mid-level. Several CVAs pointed to the need to improve management in the private and public sectors, and some suggested that an initiative be developed to repatriate CVAs and Cape Verdean emigres, to serve as managers or provide training to counterparts in business and government.

Foreign investment does not come anywhere near meeting the country's economic needs. For several important reasons, listed in the report and elsewhere, overseas investors have been reluctant to put money into ventures in Cape Verde. However, CVAs' apparently strong emotional attachment to their homeland may well compensate in part for the lack of a more favorable investment climate. This attachment may attract CVAs to put their money into ventures that non-CVA investors would decline.

C. Conclusions and Recommendations

The CVA community continues to represent a potentially important source of human and financial investment in Cape Verde. Virtually all of the obstacles to larger and more sustained investment were already spelled out in the Private Sector Needs Assessment. This report on CVA investment attitudes basically confirms what was learned in Cape Verde.

1. The GOCV—through PROMEX, the consul, and the embassy—has no visible strategy for promoting investment from the CVA community. There is a critical need for the government to develop an organized, collaborative effort to promote financial and human investment from CVAs. Such an effort must include:

- Timely and complete information on investment and business opportunities.
- A matchmaking service for investors and entrepreneurs, identifying business opportunities for interested CVA investors and Cape Verdean business persons and bringing them together.
- Assistance in gaining access to credit and credit guarantees, along with risk insurance.
- A "one-stop shop" to expedite licenses, levies, and paperwork.

2. Policies and regulations to create a climate favorable to investment must be implemented by the GOCV, including:

- Ensuring adherence to the rules of the game, especially in the customs agency.
- Providing similar guarantees with respect to adjudication of commercial disputes.

3. The problem of inadequate infrastructure is severe and should be addressed immediately through the pending World Bank loan and French assistance. Investment and development cannot take place until a modern transportation system, efficient and reliable energy, and sufficient water supplies are made available.

4. Greater government and private efforts must be made to overcome the anachronistic *mentalidade* that has hampered development throughout the history of Cape

Verde. This has been both a cause and effect of Portuguese dominion, and needs to be challenged by the entrepreneurial spirit and experience of the CVA community, much of which has embraced the values necessary to compete successfully in a modern economy.

D. Next Steps

D1. Transshipment/Entrepot Services

The CVA private sector is for the most part in agreement with the conclusions reached in the Private Sector Needs Assessment that the three principal areas of opportunity for Cape Verde are tourism, fisheries, and light manufacturing and export processing zones. One other area that holds potential, however, was also highlighted: transshipment/entrepot services. Cape Verde is strategically located among four continents: Africa, Europe, South America, and North America. In addition, the country is one of the most literate and politically stable in the ECOWAS region, enhancing its attractiveness as an entrepot. The major drawback, of course, is its deteriorated infrastructure. However, with pending World Bank and French assistance, Cape Verde should make significant infrastructure improvements in the next two to three years.

Any private sector development project should explore the feasibility of establishing transshipment/entrepot services as an integral part of a development strategy.

D2. CVA Community

There is little question that the CVA community, possibly along with the Cape Verdean community in Portugal, represents a potentially significant financial and human resources base for the economic development of Cape Verde. To access these resources, several steps should be considered:

- This initial study should be expanded and specific questions answered empirically, such as: what is the skills composition of the CVA community and how could professionals be organized and supported to provide technical assistance and training to the Cape Verdean private sector?; what conditions are required to promote significant investment?; how could this investment be channeled into priority sectors?; what would be the most effective way to mobilize the CVA community to provide investment capital and trained human resources, and how should this be structured and managed?; and what should USAID's role be in such an effort? The mission may even want to consider a similar study of the Cape Verdean community in Portugal.
- The results of this study should be used to design, develop, and implement a strategy to organize and mobilize the CVA community. This should include definition of the respective roles of the Cape Verdean private and public sectors.
- Given the mixed experience of the CVA community with the GOCV, Cape Verde's private sector should take the lead in working with CVAs, through the

Associação Empresarial Nacional. At the same time, however, the government should designate one high-level agency (e.g., PROMEX) to coordinate with this initiative, helping acquire licenses and permits and generally facilitating the bureaucratic processes involved in securing foreign investment.

LIST OF RESPONDENTS

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