
CAPE VERDE



Diagnostic Trade
Integration
Study Update
2013

National Implementation Unit,
Enhanced Integrated Framework-
Cape Verde, Ministry of Tourism,
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Forward

The economy of Cape Verde has had strong performance, registering an average annual GDP growth rate of over 5% in the last decade. The statistics also show that the results of economic growth in Cape Verde have been translated into real gains in poverty reduction (in its multiple dimensions), the reduction of inequalities, and in greater access by the population to basic services such as water, sanitation, education and health care.

The development efforts of the Cape Verdean nation and its solid economic and social performance, accompanied by political stability, which was evidenced in democratic elections in the last decades, led to Cape Verde's graduation in 2008 as a middle-income country – based on fulfilling 2 of the 3 criteria for graduation established by the General Assembly of the United Nations, namely, the gross national income per capita and the human development index. However it has yet to fulfill the criterion regarding the vulnerability index.

Additionally, as a Small Island Developing State, Cape Verde has suffered the negative impact of the global economic and financial crisis, which has profoundly altered the conditions of the world economy and, consequently, has engendered a repositioning of development strategy, taking into consideration the priorities of the country in the context of its vision for the future. This new approach is reflected in the Growth and Poverty Reduction Strategy Paper (GPRSP III), and deepened in the newly released Diagnostic Trade Integration Study Update (DTIS 2013).

It should be remembered that the DTIS is made possible within the scope of the Enhanced Integrated Framework (EIF), a program of operationalizing Aid for Trade directed at Least Developed Countries (LDCs), and which Cape Verde is one of the beneficiaries as a special case due to its graduation group from the LDCs to the middle income category.

The orientation of these strategic documents, the GPRSP III and DTIS 2013, around trade as an instrument of development stresses, most notably, the potential of this sector to contribute to the sustainable improvements in the quality of life of Cape Verdeans.

The Government of Cape Verde is aware that the country has achieved significant gains, both economic and social, but also that there are still many challenges that must be addressed resolutely in order for certain that our vision of “creating a dynamic, competitive and innovative economy, with prosperity for all,” as proclaimed in the Program for the Eighth Legislature (2011 – 2016), can be realized.

Thus, the DTIS 2013, as an Action Plan for Trade Development and Competitiveness of Cape Verde, focusing on the various sectors of the economy, all with great growth potential, in an integrated manner and in line with the overall strategy of the country, will be a key instrument to achieve the major objectives of economic policy set by the Government.

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Abbreviations and Acronyms

ADEI	Agency for Business Development and Innovation
AfDB	African Development Bank
AfT	Aid for Trade
AGOA	Africa Growth and Opportunities Act
BCV	Bank of Cape Verde
CAADP/ECOWAP	Comprehensive Africa Agriculture Development Programme/Economic Community of West Africa States Regional Agriculture Investment Programme
CCIASB	Chamber of Commerce - Inward Region Chamber of Commerce of Industry, Agriculture, and Services
CCISS	Chamber of Commerce - Leeward Region Chamber of Commerce of Industry and Services
CET	Common External Tariff
CIN	International Business Center
CPE	Centro de Politicas Estrategicas
CVE	Cape Verdean Escudos
DECRP	Documento de Estratégia de Crescimento e de Redução da Pobreza/GPRSP
DGAL	Directorate General of Customs Administration
DGASP	Directorate General for Agriculture, Forestry and Livestock
DGPOG	Directorate General for Planning, Budgeting and Management
DGT	Directorate General of Tourism
DTIS	Diagnostic Trade Integration Study
ECOWAS	Economic Community of West African States
ECV	Cape Verdean Escudos
EDIC	Estudo Diagnóstico da Integração do Comércio/Diagnostic Trade Integration Study
EIF	Enhanced Integrated Framework for Trade-Related Technical Assistance to LDCs
ENAPOR	National Agency for Port Administration
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organization
GAT	Transition Assistance Group
GDP	Gross Domestic Product
GDP	Gross Domestic Product
GPRSP	Growth and Poverty Reduction Strategy Paper
HORECA	Hotéis, Restaurantes e Cafés/Hotels, Restaurants and Cafes
IDA	International Development Association
IMF	International Monetary Fund
INE	Instituto Nacional de Estatísticas de Cabo Verde/National Institute of Statistics
LDC	Least Developed Country
LDCs	Least Developed Countries
M&E	Monitoring and Evaluation
MC	Ministry of Culture

MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDR	Ministry of Rural Development
MDR	Ministério do Desenvolvimento Rural
MECC	Ministry of Economy, Growth and Competitiveness (former)
MFP	Ministry of Finance and Planning
MIREX	Ministry of Foreign Affairs
MTIE	Ministry of Tourism, Industry and Energy
NGO	Non-Government Organisation
NIU	National Implementation Unit
NOSI	Operational Nucleus for the Information Society
NSC	National Steering Committee
ODA	Official (Overseas) Development Assistance
OECD	Organisation for Economic Cooperation and Development
OMC	Organização Mundial do Comércio/World Trade Organization
OMS	Organização Mundial da Saúde/World Health Organization
PICTA	Pacific Island Countries Trade Agreement
PONG	Platform of Non-Governmental Organizations
ROO	Rules of Origin
SIDS	Small Island Developing State
SME	Small and Medium Enterprise
SPA	Special Partnership Agreement
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TRIPs	Trade Related Aspects of Intellectual Property Rights
UCRE	Coordinating Unit for State Reform
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

■ EXECUTIVE SUMMARY

1. Introduction

This Report is an update of the Cape Verde Diagnostic Trade Integration Study, titled *Cape Verde's Insertion into the Global Economy*, produced and validated by the Government of Cape Verde in December 2008. Like the previous 2008 study, this *Cape Verde Diagnostic Trade Integration Study Update* provides a critical examination of the major institutional and production constraints that hinder Cape Verde's ability to capitalize fully on the growth and welfare gains from its integration into the world economy. As a policy report, this study offers a set of priority policies and measures that can be implemented by both the public and private sectors to mitigate and surmount these supply side and institutional constraints. These recommendations are summarized in an Action Matrix. The Report is fruit of the generous support of the multi-donor program the Enhanced Integrated Framework (EIF).

In every crisis there is an opportunity. Four years after the validation of the country's first Diagnostic Trade Integration Study in 2008, Cape Verde finds itself in a drastically altered external environment. Cape Verde faces a worsened external environment than four years ago, when it was also traversing years of crisis as global food and energy prices escalated. Just as the country was validating its first trade study in late 2008, and celebrating its graduation from the list of Least Developed Countries, the onset of the deepest global recession in recent memory triggered an even worse external situation as the country's principal source of markets, investments, remittances and aid, the Eurozone, unraveled economically and politically. As the Eurozone crisis spread, it was Cape Verde's misfortune that the crisis contaminated precisely its biggest Eurozone partners and donors, such as Portugal, Spain and Italy. For such a highly dependent and exposed economy like that of Cape Verde, the deteriorating external sector has had a substantial negative impact on its macroeconomic performance. At the time of the validation workshop and graduation in 2008, no one could have foreseen or predicted the severity of the global crisis that followed. Despite traversing these years of adversity and external shocks, and suffering palpable setbacks, Cape Verde's economy had proven surprisingly resilient, especially its principal sector, tourism. To its great credit, the country's economic fundamentals are solid, and have been carefully and prudently managed over the years. For this reason alone, the country has thus far weathered the global and Eurozone crisis. Yet the near and medium term future remains uncertain. The country's margin for maneuver has narrowed, its options far more limited, and hard choices lie ahead.

Thus, there is no better time than now to analyze Cape Verde's position in the global economy, and to examine the many challenges and opportunities it faces. The first diagnostic trade study outlined an ambitious agenda and set of policy strategies to enhance Cape Verde's participation in the global economy. Written prior to the global crisis, the study did not, and could not, anticipate the scope and depth of the subsequent global and Eurozone crises. A few short months before the validation of the first DTIS Cape Verde joined the World Trade Organization (WTO). It has spent these four years adjusting to this status and implementing its commitments. At the same time, the country seeks greater economic integration with the European Union. Since 2008 the government has been investing heavily in the country's economic infrastructure, focusing especially on fostering transformation in key sectors like agriculture, fisheries, tourism and creative industries. For these and many other reasons, it is both timely and urgent to review the road traveled since 2008. It is an opportune moment to reassess the country's options, to rethink strategies, and to chart a new way forward that is practical, implementable, and that builds on the country's competitive advantages and current successes.

1.1 Scope and Objectives of the Report

The Report is organized around seven (7) main studies focusing on these transversal and sectoral issues. A number of separate case studies on successful export-oriented business ventures and experiences are presented in the Annex. The sectors and transversal areas were chosen based on their priority designation in the III Growth and Poverty Reduction Strategy Paper (2012-2016) and the Program of Government (2011-2016), in addition to their acknowledged importance to growth and trade development. The seven studies are:

- Trade Policy and Institutions
- Business and Investment Climate
- Small and Medium Enterprises (SMEs) for Export
- Agriculture and Agribusiness
- Fisheries and the Maritime Economy
- Culture and the Creative Economy
- Tourism

The focus and contents of this Report are guided by the national development priorities of the people and government of Cape Verde. The main objective of each of these studies is to identify the critical supply side and institutional constraints facing the sector or area, and to offer a set of policy reforms and interventions to mitigate these constraints. In addition, the studies also identify existing or potential opportunities, particular with respect to opportunities for production expansion, export growth, new market potential, local level entrepreneurial activities, and small and medium enterprise development.

Right at the start, it is critical to clarify what this Report does and what it does not do. In terms of scope, this is a Report on Cape Verde's international trade, and it focuses exclusively on production and institutional matters. It examines domestic institutional and supply-side constraints to trade. The Report addresses key transversal issues (business and investment climate, small and medium sized enterprises, trade policy) and closely examines a limited number of economic sectors (tourism, agriculture, creative industries, and fisheries). The issue areas and sectors are selected based on their priority designation in the country's principal development strategies, namely the Program of Government (2011-2016) and the new III Growth and Poverty Reduction Strategy Paper (2012-2016). As a Report on trade, it examines these issue areas and economic sectors from the perspective of trade, examining constraints as well as opportunities. This Report is thus limited in scope and objectives. Many other issues, sectors and matters are omitted. Indeed, the Report does not rehearse the usual diagnosis and analyses on Cape Verde, its economy or the economic sectors, much of which is contained in the original DTIS and remains valid. Known facts and exhaustive diagnoses are left out of this Report, since it is unnecessary to duplicate here the many reports and studies that are available today on Cape Verde's macroeconomy, political economy as well as specific sectors and transversal issues.

Importantly, this Report is very conscious of "consultancy report fatigue." There is in Cape Verde a legitimate skepticism, perhaps cynicism, with yet-another report, especially donor-driven reports. Many reports remain shelved, unseen and unread except by the focal point. Others fall immediately into irrelevance because of their generality, or because they simply duplicate the same diagnosis everyone already knows but provides no practical solutions, or because of their profusion of interesting but unimplementable ideas. Aside from report fatigue and irrelevance, there is also in Cape Verde a real

problem of poor dissemination and knowledge sharing, with many very good policy reports and empirical research being produced but are unread and unknown to individuals both inside and outside the organizations responsible for their production. Good reports that make sound and executable policy recommendations do not circulate internally inside the same ministry, and do not reach the attention of high level policy makers. Cape Verdean institutions, both private and public, lack rudimentary knowledge management systems. One lamentable result, aside from the wasted resources to produce unread reports, is report duplication. This Report puts a premium on going directly into the most critical issues, and prioritizes recommendations that are realistic, practical and implementable in the short and medium terms. The analyses and recommendations of this Report are intended equally for government as well as private sector actors. Both the government and the private sector have a shared responsibility, separately and collaboratively, to implement practical and effective measures and reforms required to enhance the country's productive potential and competitive position. Moreover, this Report is only the beginning, not the end of the process. Next must come sector- and issue-specific operational strategies and action plans and their implementation. Implementation is the key. In the views of many people inside and outside government in Cape Verde, implementation and follow-through have been an Achilles Heel of the country. Finally, this Report is nationally owned. It is not driven by the objectives and priorities of donors, but rather by the country and the development priorities it adopts through its own governing processes and consultations with stakeholders. The Report is made possible by the support of the EIF, but the EIF places national ownership and national priorities first and foremost.

Cape Verde already has a high degree of trade integration, as this Report notes. Its development strategy for transformation can be viewed as primarily a trade-driven strategy for growth and poverty reduction. Indeed, Cape Verde is an ideal country for the international community to support in terms of promoting trade integration. In fact, Cape Verde has been ahead of the curve, committing to an open economy, trade integration and trade-driven development long prior to joining the EIF process. This trade integration study provides the analytical foundations for the policy recommendations and actionable trade related technical assistance and capacity-building interventions necessary; the Report is the analytical basis for the projects, measures and interventions to be carried out by the country and supported by the country's donors. The recommendations in the Report will be used to formulate proposals, under Tier 2 of the EIF, to mobilize donor support to implement the reforms and actions identified as priority. An important next step is to formulate "bankable" project proposals based on the diagnosis and recommendations of the DTIS Update. The aim and scope of the Report is to diagnose the major issues, constraints and opportunities facing Cape Verde's trade, and to make policy recommendations on measures and strategies to improve the country's trade. The Report's strategic objective is to inform policy formulation and evaluation of alternative policy choices.

1.2 The Road Ahead: Building Trade Capacity for the Transition to High Income

The purpose of this Report is to contribute to the national dialogue and policy debate on the best options and strategies for the country to move forward. Its purpose is not simply to illuminate public dialogue on how best to navigate the current global crisis, but to inform policy on effective strategies to support the country's transition from a lower middle income country (LMIC) to an upper middle income country (UMIC). In other words, the challenge facing Cape Verde today as this Report is being drafted and validated, is not limited to the immediate challenge of superseding the present global economic recession and mitigating the risks it presents to a small, open, and highly externally dependent

economy. The real challenge is much broader and longer term. It requires a major upgrade in the institutional, human and productive capacity of the country, rather than tinkering at the margins or implementing routine policy adjustments. Building national trade capacity is essential to Cape Verde's next development transition. It will be an indispensable factor in the country's ability to assure and support increasing living standards for its citizens. Not only is Cape Verde an open economy, *and* has an outward oriented development strategy to make the country a hub for international services, but the experience of other countries that have successfully made the transition to upper middle and high income categories shows that a competitive trade capacity is essential to this transition. Export capacity development and diversification will be a key factor in the economy's future growth. Cape Verde may not be able to duplicate the success of the high performing East Asian "tiger" economies, who had the industrial and manufacturing base and a permissive external political environment for the kind of industrial policy they adopted. Others, like Singapore, actively and aggressively positioned themselves as high quality, high efficiency exports services hubs in global supply chains. The experience of the successful cases of transition in East Asia shows that these countries were successful in the structural transformation of their economies through innovation, aggressive industrial policy, aggressive economic diplomacy, diversification of their economies, including diversification into greater number of export products as well as movement into higher value added products over time. In view of the objectives of this study, it is worth noting that in the country cases of successful transition from middle income to high income, their transition was made possible by trade-led growth. Trade will not be a panacea for Cape Verde, considering its lack of scale and extremely limited productive base. However, precisely because of its micro scale, external dependency and limited domestic market, trade must necessarily be a critical pillar of development.

As has been accurately depicted in numerous studies and by international organizations, Cape Verde is a development success story. More remarkable is that Cape Verde is an unlikely candidate for development success considering its many overlapping structural debilities and unfavorable starting conditions. As this and many other studies have emphasized, Cape Verde's first phase of development, from independence to graduation in 2008, was much easier than will be the next phase of development. The first phase of development mainly involved a process of *quantity*, consisting of accumulating human and physical capital financed by cheap and low-cost external financing. Through a combination of hard work and prudent management of the state, the generosity of its international development partners and its committed Diaspora, and also luck and good fortune, the country was able to climb out of the category of Least Developed Country to Lower Middle Income Country category. This is a remarkable achievement. But the next phase of development will be much harder and more demanding for Cape Verde. The next phase involves a process of *quality* and efficiency. First, comparative experience and economic theory tell us that the transition to upper income is much more difficult, mainly because the pressures of competition are so much greater and in the global economy today there is little opportunity for new countries (new entrants) to compete on the basis of low cost, low skills, and mass quantity. If only a small number of countries have managed to graduate from the LDC list since 1971, an even smaller number have graduated all the way to the top. Achieving lower middle income status, as Cape Verde has done today, may be historically and comparatively easier. However, between 1960 and 2008, of the 101 middle income countries that existed in 1960 only 13 countries were able to break into the high income category. Second, and critically, there is a price for success. Cape Verde will now lose some of the critical ingredients that fueled its past success, especially development aid and remittances. In other words, Cape Verde's successful transition and transformation into a globally competitive upper middle income country will depend on its internal capacity to muster the creativity, innovativeness, and effectiveness of its citizens, institutions and business enterprises.

MAJOR FINDINGS IN THE DTIS UPDATE 2013

As noted, the many structural constraints characterizing the Cape Verdean economy (insularity, micro scale, climate, etc.) are widely familiar and analyzed in numerous studies. The major findings listed here focus primarily on trade-related factors that condition, positively or negatively, Cape Verde's external competitiveness and scope of its global integration. Many of the findings, such as narrow or restricted productive capacity or lack of export diversification, are common and unsurprising for any small developing state. The major findings are:

Niche competitor potential: Despite its narrow productive base and reduced scale for export, Cape Verde has good potential to be competitive in certain niche markets and segments, both as a low volume-high value added exporter of niche products and services (agro-foods and liquors; fresh and processed fisheries; digital cultural content and other cultural exports such as music) as well as global services (tourism; back-office services; maritime and air transportation services; other internet-based services). Cape Verde is already a big exporter of cultural products (a world-famous music, that has generated a lot visibility and interest in the country). It has privileged market access to one billion consumers in Europe, North America, and West Africa, including large Diaspora communities in the world's two biggest markets that give its exporters a ready-made market. Capitalizing on its international visibility, careful work is needed to create and market a national brand. "Cape Verde" is the niche product – from which the country's individual niche products derive their competitive edge, by incorporating celebrating the unique cultural and historical characteristics of the society.

Deficient Quality Infrastructure: At many levels, Cape Verde is not ready for globalization and global market competition. In order to capitalize on these niche opportunities, privileged market access, and become competitive in global services, Cape Verde must urgently improve the quality and efficiency of its products and services. The country lacks a quality infrastructure. The legislative framework exists, but macro level institutions and bodies are lacking or not yet fully implemented, and the micro level of producers, production processes and firms is

characterized by serious deficiencies. Even in existing global services such as tourism, the industry suffers from quality handicaps and inefficiencies that make it uncompetitive in terms of cost. No quality, no exports.

Production and Other Supply-side Constraints: As analyzed in several other studies, numerous constraints face Cape Verde producers, especially in primary sectors – poor climate, poor soil fertility, limited arable land and marine resources, fragmented production and ownership structures, antiquated techniques, and so on. Added to this list is the stifling disincentive of costly and inadequate transportation and distribution systems. Producers face high costs and difficulties getting their products to market, and often opt not to produce. The more interesting finding in this Report, however, is that some of these production constraints can be overcome through targeted capacity building and other interventions – basic business management skills, new production techniques, production planning and scheduling, post-harvest management, etc.

Domestic Market Unification: The country's biggest development bottleneck is its fragmented geography and lack of a unified domestic market, inducing multiple market failures and confronting producers and businesses with high transaction costs. It is cheaper to ship a 20' container from Praia to Lisbon than it is to ship the same container from Praia to Mindelo. Cape Verde is not just small, a micro-economy. It is a *fragmented* micro-economy. Sustained investment is needed to improve inter-island transportation as critical to production and exports, including "internal" exports to key consumer markets such as the big cities and tourism islands. Inter-island transportation, however, is only one piece of the larger national logistics system (warehousing and storage, cold storage, distribution) to permit the efficient movement and distribution of goods domestically and across borders.

Need for Economic Diplomacy and Export Promotion: Economic diplomacy comprises a broad range of policies, activities, actors, institutional capacities and skills, all guided by a clear and well coordinated national strategy. It encompasses active promotion and marketing of the country's commercial interests, products, and services, including investor targeting to realize the strategic goals of the Agenda for Transformation to develop specific clusters and turn

Cape Verde into an international services hub. It also includes active defense of the country's commercial interests, whether in international trade negotiations or protection of domestic industry and national products and services against unfair trade practices. Economic diplomacy involves multiple actors, beginning with the heads of state, and all key ministries and agencies. It is not the exclusive domain of the diplomatic service. Cape Verdean diplomacy has proven able in the past, but more is required today. Trade and foreign investments, not development aid and remittances, will be the lifeblood of the economy, and the country must sell more goods and services and in more markets. Its economic diplomacy is recognized as deficient, even in basic actors such as international negotiations skills and investor targeting.

High Cost of Doing Business: Despite good progress and a steadfast reform agenda, the cost of trading and doing business in Cape Verde remains high. From basic factor inputs and operational costs (water, electricity, telecommunications), to a rigid labor markets, to persistent administrative burdens on citizens and businesses alike, doing business, importing and exporting consume time and money. As a result, the competitiveness of Cape Verdean businesses is undermined and foreign investors discouraged. Reforms must be accelerated and more targeted.

Low Institutional Capacity: This is a common finding in research reports on Cape Verde. Key trade-related institutions have reduced capacity in terms of

organizational resources, staffing, technically qualified and specialized human resources, and analytical capacity. The lack of basic data collection and statistical capacity in key sectors hinder effective, evidence-based policy making and policy evaluation. Finally, poor institutional coordination continues to be a problem.

Creative Economy Skills: In the areas of ICT-based services and creative industries, Cape Verde has some potential to exploit opportunities in the global market. Indeed, ICT-based services provide the country the avenue to overcome many of its structural constraints and development bottlenecks. In addition, the country already has a strong presence and visibility in global markets through its music. Its unique cultural and historical qualities offer competitive advantages. All these potential areas have in common knowledge and creativity. That is, the creative economy encompasses multiple sectors and areas that rely on knowledge and creative potential of citizens as a source of growth, jobs, and exports. To exploit these opportunities, however, the country must invest heavily and smartly in developing the creative capacity of its people. A focused investment strategy is needed to align skills development with the strategic goals of the Agenda for Transformation – developing the key clusters such as tourism, maritime and air services, financial services, and cultural industries.

2. Summary of the Key Constraints and Market Failures

To build an internationally competitive trade capacity, founded on a diversified and versatile mix of high quality exports of goods and services, Cape Verde must overcome several constraints at the level of production as well as institutional environment. The work ahead will be difficult, complex, and demanding on policy commitment and follow through. Some of these constraints, as is widely acknowledged, will be exceedingly difficult to overcome regardless of the commitment and resources available because they originate from market failures and debilities that are structural to an economy with the kind of geographic, climatic and physical characteristics of Cape Verde. Information age technologies and the globalization of knowledge-based services offer countries like Cape Verde the possibility to escape these structural limitations. For now, these structural constraints create more and different obstacles to entrepreneurial activities than otherwise found in other countries; they distort the normal operation of the economy and, thus, also drastically alter the traditional relationship between the state and the economy, the role of the public and the private sectors.

The challenges ahead are daunting. These challenges can be divided into two related categories. The first may be called “transition” challenges, or rather general, macro level challenges that Cape Verde faces as it makes its transition to upper middle income status. The second category consists of challenges specific to the trade sector, with a focus on supply side and institutional factors.

First, the development goals the country has established for itself are ambitious: economic transformation based on high speed *and* inclusive growth, motored by a competitive and innovative private sector, modernization of the state, society and infrastructure, while also ensuring sustainability, human development, and social cohesion. The vision is beautiful and ambitious. The task is difficult. Second, to realize this vision and ambitious agenda, critical obstacles stand in the way today – besides the current challenges represented by the global crisis and the macroeconomic threats of reduced fiscal space and growing national debt: (a) diversification of the productive bases of the economy and mitigating the risks of overspecialization and a mono-culture economy; (b) diversification of the tourism product, together with the urgent short term need to improve the quality of the existing product as well as the medium term challenge of fostering greater forward linkages of the sector to the rest of the economy; (c) developing a human capital relevant and capable of competing in a 21st Century global economy; (d) rapidly building up the organizational capacity and competitiveness of the private sector; and (e) building up the organizational and policy capacity of public institutions to create the enabling environment, to manage and implement the Agenda for Transformation and, importantly, to manage effectively the macroeconomic challenges that the transition to upper middle income will bring. The private sector will be the determinant of the country’s transformation. It is the motor. However, the capacity of the public sector is equally critical. Not only must the public sector rapidly increase its capacity and efficiency to foster an enabling environment, but it must quickly build up the institutional and human resources capacity to guarantee and manage macroeconomic stability, especially in the areas of managing the country’s debt as it is forced to rely more and more non-concessional external financing as well as managing public investments in order to ensure efficiency and greater economic returns. This is a critical, although overlooked, future challenge.

In terms of the trade sector, the challenges are equally daunting, as revealed in the individual chapters below. The unpleasant reality at the moment is that Cape Verde does not have an export base or product quality consistent with the country’s transition ambitions. Cape Verde has a narrow, overly concentrated export based and trade structure. Its tourism services exports have experienced

spectacular growth, yet its merchandise exports basically remains limited to fisheries, comprising over 80% of merchandise exports. In summary, Cape Verde's trade challenges include:

- Expanding the quantity and improving the quality of the existing merchandise exports. The quality challenge is huge, for existing as well as potential new products and services, and an autonomous national quality assurance and regulatory framework, nor a national standards and measurement system (metrology), has not yet been fully implemented;
- Diversifying and expanding Cape Verde's basket of goods and services that it can export, looking specifically to opportunities to develop niche products and foster services exports that capitalize on the country's geostrategic position, its human and cultural resources as well as capitalize on opportunities opened up by globalization and information and communications technology;
- Diversify and multiply the number of export markets and destinations, especially in the sub-region;
- Deepen its penetration of existing destination markets, specifically in terms of developing new segments (niche, organic, ethnic, and Diaspora) in its traditional markets in the European Union and the United States;
- Move up the value chain, in both merchandise and services such as tourism.

2.1 Summary of the Key Supply-Side Constraints

The individual chapters examine specific economic sectors and transversal issue areas, and will provide detailed analysis of the constraints and opportunities. This section here highlights only a few of these constraints.

However, the reader must be aware of two critical points. First, it is not the scope or objective of this Report, in neither this section nor the individual chapters, to examine and provide an exhaustive list of all the constraints the sectors and economy face. The Report deliberately focuses only a few issues deemed critical or overlooked by other reports, giving priority consideration to constraints that are subject to implementable reform measures and interventions in the short term (2-3 years). This Report does not believe it is useful to reiterate the many known facts and constraints of the Cape Verdean economy, nor to repeat the findings of the many studies published on the subject. These constraints, both structural and market-based, are frequently cited in studies, including: financing, the cost and reliability of inter-island transportation, small scale and high degree of fragmentation in production, especially in primary sectors like agriculture and fisheries, weakness of a national logistics chain, including cold storage, high costs of international transportation induced by insularity, high factor costs, also the quality and reliability of basic infrastructure and utilities, labor market distortions and skills shortage.

As such, there are several macro-structural constraints and production-related constraints that this Report will not examine in-depth because they are both widely known and treated with exclusive attention in many other reports. However, understanding and acknowledging these constraints are fundamental to any analysis of the possibilities and limitations of the Cape Verdean economy. Cape Verde's structural constraints, its development handicaps, give rise to multiple market failures and distortions that are not common in other economies. Some of these constraints not discussed exhaustively in this Report – such as infrastructure and transportation or, more accurately, a national logistics system – are so critical that if they go unresolved the policy recommendations made in this

Report will not have any impact. Because these structural constraints are discussed in other studies, we do not dwell on them in this Report.

These constraints are familiar, and are listed in Box 1.

The key supply-side constraints to trade development cited in this Report include, among others:

- Production fragmentation, both in terms of physical geography as well as the size of production units in the agricultural and fisheries sector;
- Poor quality and lack of quality management along the chain from production to consumption;
- Weak or insufficient national logistics system, especially in the areas of warehousing, cold storage, processing and distribution;
- High cost of basic inputs;
- Shortage of skilled and specialized labor force, and general deficit of human capital consistent with demands of global competition and the country's Agenda for Transformation. In general, Cape Verde's knowledge infrastructure is inadequately aligned with the economy's current needs and the long term requirements of the Agenda.

2.2 Summary of Key Institutional Constraints

Cape Verde is endowed with good governance, credible institutions, and a stable macroeconomic environment, thus providing an essential foundation for business and investment. Reforms are on-going, and progress is being made. The reform agenda is moving in the right direction, even if not fast enough or addressing the right priorities in the view of critics. Institutional constraints persist, however, and they are making the Cape Verdean economy and its businesses uncompetitive. This institutional drag on the country's competitiveness as well as drag on a pro-growth business climate is revealed in every major international survey. The machinery of the state, and the overall institutional and regulatory framework, continue to be characterized by low capacity, inefficiency in functioning and responsiveness, persistence of antiquated norms and procedures, a mentality oriented toward process rather than results and solutions, and poor coordination. The Report identifies several institutional constraints to trade development in Cape Verde. Like the supply-side constraints, many of these institutional constraints are also very familiar and have been debated in numerous forums and studies. The principal institutional constraints to trade and exports identified in the Report are:

- Low organizational capacity among both private sector and public sector

Box 2 Structural Constraints Cape Verde Economy

- *Physical Geography:* geographic fragmentation and thus discontinuity of the domestic market; micro size; arid climate; limited arable land; insularity;
- *Natural endowments:* poor soil and marine fertility; lack of exploitable natural resources aside from the vast ocean and renewable resources like wind and solar;
- *Economic Infrastructure:* including roadways, ports, telecommunications, energy, water, sanitation, recognized by everyone as a critical constraint, and several reports have been produced on this subject. The country invests heavily in building up its economic infrastructure, but there is a serious deficit in terms of quality, sufficiency, reliability and cost;
- *National logistics system:* the narrow focus has been on inter-island transportation, but from an economic and market transaction point of view, transportation is just one of several critical nodes in the larger national logistics system of moving, transferring and distributing people, raw materials and inputs, and merchandise internally and externally. For example, giving the country's geographic fragmentation and unfriendly terrain on the main producer islands, a national chain of warehousing and cold storage is recognized as critical to the fisheries and agricultural sector for the domestic market as well as exports.

- Low capacity in policy formulation, implementation, monitoring, policy evaluation, statistical collection and treatment, and evidence-based policymaking, especially among key institutions involved in trade and investment
- Uncompetitive doing business climate, primarily related to access to financing and bureaucratic inefficiencies and gaps
- Adverse and inefficient customs, ports, and other administrative procedures and formalities
- Poor policy and institutional coordination
- Human resources limitations, both in terms of understaffing of key agencies as well as skills and specialization

In examining Cape Verde’s trade potential, two common themes run throughout this Report. The first is the well-known structural handicap the country faces in its development – the absence of a unified domestic market and lack of a national logistics and supply chain. The issue often focuses on the availability, cost, and quality of inter-island transportation. But as the chapters in this Report make clear, and as businesses, farmers and entrepreneurs have always insisted, the problem goes beyond transportation to include consolidation and distribution, cold storage, warehousing, processing and handling. The scale and efficiency of logistics and supply chains are critical underpinnings of the global economy today. They are even more critical for a country like Cape Verde characterized by geographic discontinuity, lack of a unified domestic market, fragmentation of production, and proliferation small scale producers. We must bear in mind that farmers and businesses face high barriers in “exporting internally” from one island to the other. It is difficult and costly for people and goods in Cape Verde to move around.

The second critical issue is quality. The issue of quality appears over and over, in every discussion and in every analysis. On the supply side, a lot of work needs to be done to improve quality and standards. Some progress has been made to implement components of a national quality system, but more and urgent work is needed in this area. No quality, no exports. It is this simple. To appreciate the critical importance of quality, it is sufficient to consider that Cape Verde is privileged to benefit from preferential market access arrangements to the world two biggest markets. Together with the preferential regional market in West Africa, these three preferential access agreements gives the Cape Verdean economy and its exporters a total market of almost 1 billion consumers. However, market access is not enough. What is important is market entry. Cape Verdean products must now meet the market entry requirements of existing and new market destinations. While Cape Verde must ensure that it retains the uniqueness and intrinsic attributes of its products, it must build up its internal capacity to satisfy the unavoidable technical and other non-tariff barrier (NTB) market entry requirements of importing countries.

3. Building on Success: Summary of Key Export Opportunities

As this Report makes clear, there are several products and services that Cape Verde is currently exporting and has the potential to export. Several products are identified based also on their high potential for domestic consumption and “internal export” to the tourism sector. The current and potential exports identified are:

- Fisheries
- *Grogue* and other sugar cane-based liquors
- Goat cheese

- Coffee
- Wine
- Processed fruits and vegetables
- National gastronomy products
- Tourism travel services (sun and beach products as well as new products such as ecotourism, adventure and extreme tourism)
- Business processing services
- Internet-based services and digital content products, especially cultural and creative content such as music

The identification of these products and services is based on a preliminary field analysis, assessment of current production and export trends, interviews with sector specialists and stakeholders, and some existing product chain studies. For all these product and services groups, subsequent empirical (quantitative) value chain and product chain studies will be necessary, including specific export potential assessment and empirical analysis. In addition, it will be equally important to conduct market studies to identify the most attractive and viable (realistic) markets for these products and services.

With regard to exports and supply-side constraints, two related themes appear in the sector chapters of this Report. First, as observed in the chapters on SMEs and trade policy, the global economy provides Cape Verdean entrepreneurs and firms novel opportunities to overcome the structural constraints to production and trade cited in Box 1 above. That is, by mobilizing the power of new technologies and the World Wide Web, Cape Verdean producers of knowledge products and services can directly exploit the global and transnational markets, and thereby overcome the traditional structural handicaps of Cape Verde, such as micro size, geographic discontinuity, and insularity. Of course, business climate and macroeconomic constraints, such as access to financing, will have to be resolved. Yet technology today opens up new entrepreneurial options. Especially in services, new technologies allow firms and entrepreneurs to bypass the traditional need to have a significant foothold and share of the domestic market before it export. The second important theme looks inward and not outward. That is, if Cape Verde can resolve the “internal export” problem it will be able to unleash powerful forces of entrepreneurial activity, rising household incomes and job creation. That is, by mitigating or removing the barriers that hamper the growth of local markets (community, island, national) and micro level entrepreneurial activity, the country will be able to improve economic growth and per capita income but also be in a better position to export. This theme is salient in the chapters of agriculture, creative economy, and fisheries. Critical bottlenecks such as the inter-island transportation and national logistics obstruct both local production and consumption as well as exports.

By their nature and sectoral specificities, these products and services can have a big impact on inclusive-growth objectives in national development. Many are employment intensive and rooted in the rural economy. Many of the products and services listed above are already being exported. The dual challenges they face are to increase quantity and, importantly, quality. In addition, some merchandise and services exports are at an incipient but promising stage, such as pharmaceuticals and professional services, primarily civil engineering and construction sector related expertise, both directed exclusively at the West African and Lusophone markets. Finally, there are some current exports, specifically clothing apparel and footwear and footwear parts, which have been very important in the past. This Report does not examine these exports in view of their decline and uncertain futures. Cape Verde simply cannot compete in these low-skill, low cost mass production industries against countries like Bangladesh, Vietnam, China, El Salvador, or Turkey, particularly with the expiration of the Multi Fibre Agreement.

As challenging as the road ahead is for Cape Verde to develop a competitive trade capacity, it is also important to note that Cape Verde is achieving a modicum of success in export markets. In the end, only the test of international market competition will determine whether Cape Verde and its products and services are truly competitive. For its part, Cape Verde can build on success. First, in terms of the broader political economy, Cape Verde's enormous advantage is a stable and credible macroeconomic environment, and an institutional framework that, despite its many weaknesses, is welcoming to deep and sustained reforms. Policy and institutions matter. It has quickly emerged as a tourism-based economy, and tourism services exports have grown impressively.

Beyond tourism, a number of merchandise exports have found their way into international markets. Fisheries exports are experiencing unprecedented growth. This reflects primarily the pioneering initiative of one firm, but the hope is that this will have a catalyst effect in the sector. Cape Verde's national alcoholic beverage, *grogue*, which is distilled using the same traditional, artisanal methods of long ago, is being exported to the United States. The most recent phenomenal success case is *Vinho Chã*, commonly referred to as Fogo wine, which is produced and bottled inside the crater of a live volcano and from vines grown on the rich volcanic soil inside and around the slopes of the volcano. From goat cheese to jams and spreadable fruit to traditional arts and crafts, there are dozens of cases of innovative projects and initiatives underway in Cape Verde focused on producing for the national as well as export markets. A critical feature of these initiatives is that, in the majority, they are typically community based and cooperative projects, whose success can have a tremendous impact on family incomes and poverty alleviation. The case of the *Cooperativa Resistentes* in the Planalto Norte of the island of Santo Antão is both inspiring and promising. A poor and remote community in a harsh terrain and unforgiving climate, the villagers have begun to produce cured and traditional cheese which have found their way to best taste awards in Italy and the international Slow Food movement. Their story is promising for their community and because their experience holds lessons in entrepreneurship, producer organization, and effective cooperative economics that can be replicated in other communities. Their story, like those of Fogo wine, *grogue* and the many other promising initiatives all over the country, is also very instructive for policy. They all face common problems and obstacles – lack of national certification, access to financing, high cost of water and electricity, transportation difficulties, lack of cold storage, lack of technical support and policy attention from ministries, high cost of packaging and marketing.

Producing merchandise and services in sufficient quantity and quality is not enough, nor can they be done in absence of identifying and accessing destination markets for such products and services. First, as noted in the section above, Cape Verdean exporters are in a privileged position to have preferential access to a global market of nearly 1 billion potential customers. This is a big advantage for the fisheries and services sectors. However, this Report emphasizes niche possibilities for Cape Verde. In identifying the export potential of several products listed above, their potential is determined not solely by their intrinsic qualities and Cape Verde's comparative advantage in producing them, but their potential is also determined by the prospects of finding (or creating) specific demand markets.

Cape Verde can be competitive in certain market niches, while capitalizing on global consumer trends and changing tastes such as the "slow food" and organic movement. The fair trade movement likewise opens up new possibilities. An important but largely untapped market segment for Cape Verdean products and services is the Diaspora market. There is some debate inside Cape Verde as to the potential for this Diaspora market. Many dismiss it, but without offering any empirical basis. To appreciate the potential for the Diaspora market, it is sufficient to witness firsthand at Praia airport the packages and coolers that returning emigrants on the Boston bound flights bring back home with them. From liquor, to biscuits to fresh fish, more than half of the passengers of the twice weekly flights will

have these items with them, for gifts as well as personal use. This is an important market signal. While all of these transactions and “exports” are informal, the market is providing an important signal that a potential exists in this segment.

4. Summary of the Key Findings

4.1 Policy Context and Macroeconomic Environment

The quality of the macroeconomic environment is fundamental to growth and a key pillar of national competitiveness in the global economy today. Sound macroeconomic management has been a critical ingredient in Cape Verde’s growth performance and development success. Decades of state modernization reforms, especially in the area of public financial management, have substantially strengthened the country’s macroeconomic management capacity. A new generation of reforms has been focusing on revenue collection efficiency and a national planning system, to include debt management and public investment management systems. Fiscal and monetary stability have been the guiding objectives. Policies have been framed or readjusted on the basis of the overriding criterion of protecting the stability of the monetary and exchange rate regime. Good governance, a stable and credible monetary policy, heavy investments in economic infrastructure, low inflation policies, stable institutions, and openness to trade and foreign investments have been characteristic of Cape Verde’s political economy since the early 1990s, and there is no expectation of reversal in these fundamentals. In fact, from the standpoint of this study, the most important quality of the country is its openness and desire for reforms, including radical reforms.

Nonetheless, the weak external environment, namely the global crisis and the Eurozone crisis specifically, have created serious pressures on the economy and giving rise to new risks. Growth rates slowed in the last three years, and are expected to be positive but lower in the next two years. The fiscal and current accounts deficits have worsened. One of the biggest concerns today is the rising national debt levels, with total debt (public and private) over 83 percent of GDP in 2012. Another lingering concern is slump in the construction and real estate sectors, which would undermine stability of the commercial banking sector. This deteriorating external environment finds Cape Verde without fiscal space, and reserves have been under pressure. The expansionary policies of 2009, while sound and involving growth-inducing public investments in infrastructure, were responsible for both the worsening deficits and debt. External transfers, namely overseas development assistance from bilateral and multilateral partners, experienced sharp drops in the last two years. Foreign direct investments came to a standstill since 2009. Belt tightening policies have been the norm since 2011 and are expected to continue in the short term. In this gloomy and unfavorable macroeconomic setting, some positive trends have helped to buttress the blow from the Eurozone crisis. First, remittances inflow has been robust, and continued strong into the third trimester of 2012. Secondly, exports performed well. This is promising from the standpoint of this Report, and reveals a foundation of success for the country to build up the quality and diversity of its export supply capacity and deepen its integration into the world economy. Third, the country’s tourism industry continues to prove itself resilient and capable of dynamic growth even during a global economic crisis.

The country’s economic fundamentals remain in place, but the risks to macroeconomic stability are real. However, it is critically important to stress that these risks confronting Cape Verde’s economy are not the result of bad policies and poor management. They are the result of the external global and Eurozone

crisis. Indeed, giving the severity of the global and Eurozone crisis, and given the high degree of exposure and dependency of the economy on the Eurozone, the real surprise is that the contraction and growth slowdown in Cape Verde were not much worse. A large part of the reason they were not much worse is precisely because the country's macroeconomic management had been sound and built on prudent policies. The worst of the Eurozone crisis may be passing, and the global economy is expected to begin a slow and lengthy recovery. This will provide a more favorable external environment for Cape Verde as it implements the recommendations of this Report to build up its trade capacity and generate growth through a new development strategy based exporting a diverse mix of quality products and services to the global market.

4.2 Trade Policy and Institutions

As this Report makes clear, Cape Verde already has a high degree of trade integration. As a small, open and highly dependent economy, the country and its economy rely heavily on trade even to ensure national food security. Cape Verde consistently runs one of the largest visible trade deficits in the world, relying heavily on the import of most consumer and capital goods. The economy is becoming more reliant on trade; not just on imports as the economy develops, but on services exports such as tourism and transport. Whilst tourism growth has been a source of economic strength thus far, goods exports are neither increasing nor diversifying and almost entirely comprise fisheries and clothing. For these reasons and more, now may be an appropriate time to consider fresh opportunities in the services sector. This is not to discount the possibility of expanding existing goods exports or developing new growth areas, such as in fisheries or niche agricultural products, but the biggest opportunities for diversification and value-addition lie in the services sector. In addition the nature of the services industry suits the characteristics of the Cape Verdean economy.

During consultations for the DTIS update a number of stakeholders and government officials expressed a desire for more specificity and direct applicability in the national context. Whilst considerable attention has been placed on goods trade, e-business and e-commerce may hold much greater export potential. The expansion of broadband access should be the major national economic priority. Internet access in Cape Verde is currently too slow and expensive, and other country examples such as Singapore suggest that an orientation toward ICT may enhance Cape Verde's position as a successful exporter of services. ICT has a number of specific advantages in distant, small and fragmented states, reducing the need for domestic and international physical transport, allowing access to research and enhancing diaspora links. Telecoms liberalisation could bring with it important trade openings, given appropriate design of the telecoms regulatory framework aimed at ensuring reasonable costs and good service.

Although Cape Verde's development experience has been very different to that of Singapore, several parallels exist including small size, a high level of human resources, a lack of resource burden and an increasing orientation toward services. Lessons include the need to actively cultivate the levers of economic control including taxation, spending and investment. Education, infrastructure and national savings also have implications for trade policy. In addition the example of Singapore suggests that trade should become much more central to Cape Verde's development strategy. Cape Verde's physical isolation may not matter as much as it did a decade or more ago, allowing more opportunity to potentially emulate the Singaporean progression from basic production to higher end value-addition.

Yet in order to attempt to follow this process the institutional framework still needs to improve. It is suggested that one step in the direction of better institutional design would be to conduct a Trade

Capacity Building and Action Plan as performed in a number of other EIF countries. In Cape Verde at least three related institutional capacity constraints are apparent:

- The analytical capacity of the MTIE (Ministry of Tourism, Industry and Energy), particularly with regard to negotiations
- Coordination with the Ministry of Foreign Affairs (MFA) and overall trade mainstreaming
- The MTIE structure

Following the Singaporean example Cape Verde may wish to consider the creation of an Economic Development Board (EDB) to oversee the generation and implementation of trade, business and investment policy, operating with direct authority over existing Ministries. Another option is to consider a more general form of trade mainstreaming such as that followed in Chile, Uruguay or Lao PDR under which existing ministries are linked through an official structure. A more radical choice may be the creation of a pool or Unit of talented civil servants working on broad economic policy issues with the mandate to enforce their findings. Reporting directly to the Prime Minister's office, the Unit could address issues from finance, to investment, to tourism, to trade policy, operating on an as-needed basis with different Department and Ministries.

A number of obstacles face the trade situation over the near term. However, many of the perceived challenges amount to a question of whether the glass is half-full or half-empty. Smallness can often be considered an advantage since it allows adaptability. A lack of 'resource burden' can often be considered a benefit since it allows a move into higher value-adding activities, particularly in the services sector. In order to turn these perceived challenges into opportunities, policy tools must be used actively so that economic structure can be directed in an appropriate direction. Cape Verde does not yet have the institutional capacity or size to be able to develop an East Asian-style proactive industrial policy, but it must strive to mold the economic environment toward its own ends. An activist trade strategy is hard to develop, but it is preferable to passively submitting to the diktats of the global economy.

At least three broad strategic challenges confront trade policy over the longer-term: building productive capacity; trade negotiations policy and the development of linkages. Whilst difficult, it may be possible to conduct an explicit linkages strategy aimed in particular at connecting the tourism operators with local farmers. Support from the senior government level for trade negotiations is currently positive, although a wider cross-section of the business community and society needs to be reflected in the official position. Among other things this will require further development of private-sector organisations. Services trade requires specific attention in future negotiations, and it would be worth paying close consideration to services commitments at the regional and multilateral levels over the long term, with the integration of goods and services commitments. The Special Partnership Agreement (SPA) with the European Union (EU) may hold greater opportunities than in ECOWAS, despite the rapid economic expansion seen in some West African countries. Fast-growing markets such as Angola have great potential for Cape Verde, and avenues are already being explored in the pharmaceutical industry. Whilst the Economic Partnership Agreement (EPA) brings with it vital and secure access to Europe, on the current likely terms it is difficult to see how such a treaty could live up to the development aspirations of the Cotonou agreement. Given development of the telecoms sector and the Internet, specific business opportunities will emerge, many of which cannot be predicted in advance. However services offshoring and business process outsourcing are already at a nascent stage and may hold significant future potential. A number of services may be delivered online, including music, microwork such as digital handicrafts, flower bouquets or data entry; accounting and legal services; front and back office services; proof reading; design; and translation. Cape Verde's electronic government platform and

unique electoral system may be marketable internationally. Other potential new areas of services trade include adventure sports and music festivals, and it may be worth holding one-off pilot events to determine the future viability of these activities.

4.3 Business and Investment Climate

Cape Verde has been making steady progress since the 1990s to improve its business and investment climate – at the level of fiscal and regulatory policy, administrative services and procedures, modernization of public administration but also human capital investment and heavy investment in economic infrastructure. Notwithstanding this progress, and the strong political commitment to building a competitive, private sector-led economy with a business-friendly environment, Cape Verde today is not competitive. The cost, in time and money, of doing business in Cape Verde remains high. More troubling, Cape Verde's competitive position in the world economy has deteriorated in the last few years. Its ranking of 122 out of 144 in the 2012-2013 *Growth Competitiveness Report* by the World Economic Forum was a decline of 3 points over the previous year.

Cape Verde is in a unique and crucial stage of its historical development. In its present global context and stage of development, the country has significant opportunities in terms of levers of economic growth and improvement of people's lives. Its rise to Middle Income Country category, its recognition as one of the most stable and well-governed Africa, together with factors such as the marked expansion of tourism and its strategic location in the corridor of the Atlantic - at a time when you register a strong growth of trade and FDI flows to Africa – represent a wide array of opportunities that can be exploited.

However, the country faces several structural challenges in its economy, which limit its ability to turn potential opportunities into real growth opportunities and improve living standards. Notwithstanding its successful trajectory since its independence in 1975, and the strong investments made in the last decade in physical infrastructure, the country's business environment remains comparatively unattractive and its economy remains uncompetitive. Constraints in terms of starting and closing a business, protecting investors, obtaining building permits, access to electricity and finance, labor market inefficiencies - just to name a few - make that Cape Verde is the only position 122nd among 185 countries evaluated in the 2013 *Doing Business Report*. This situation is worrisome, particularly in a context where the economic growth model adopted so far (based mainly on donor aid, remittances, and public investment) is exhausted and the country must build a foundation of growth primarily on promoting private investment.

Without pretending to exhaust the exhaustive analysis of all the constraints in this area, emphasis will be given, so those constraints whose removal or disposal have a most significant impact in terms of attracting private investment (domestic and foreign), foster a more efficient and competitive integration in world trade, promote economic growth and job creation. Particular attention must be paid to issues related to efficiency of the state, the small scale of the economy, access to finance, logistics efficiency and competitiveness and access to information. With regard to foreign trade, especially exports, we can summarize the main constraints in five dimensions: (i) efficiency of state, (ii) scale, (iii) financing, (iv) logistics, and (v) information.

4.4 Small and Medium Enterprises for Export

A nation's prosperity depends on its competitiveness – the productivity with which it produces goods and services. As Cape Verde continues its graduation from low income to medium income country, it will increasingly have to depend on its own resources in order to survive, prosper, create employment opportunities, and improve the quality of life of its citizens. Any discussion of Cape Verde's competitiveness and export potential must necessarily include a close examination of the role of small and medium enterprises (SMEs). They are the ones who will compete and who will export. Yet, SMEs as well as big enterprises in Cape Verde face severe constraints. Nevertheless, given the global economy today, technology, opportunities for niche markets, and even the Diaspora market, it is possible for Cape Verdean SMEs to adopt a business model of "Born Global."

Small and medium enterprises are a major source of job creation for many countries in the world, and nowhere would the benefits of this job creation be better served than in Cape Verde. However, small and medium enterprises in the country, along with larger firms, are severely constrained in how much they can grow, and thus how much manpower they can employ, by the extremely small size of the local market and its limited consumption power. It is further plagued by fragile and inefficient domestic infrastructure, inadequate production bases, insufficient qualified personnel, scarce access to finance and many other binding constraints. If this sector is to continue to survive and reach the growth scales required to close the employment gap, it is imperative that operators of this sector more frequently consider and successfully implement projects to internationalize and expand into foreign markets.

The idea of SMEs becoming increasingly internationalized is not new – "Born Global" SMEs compete on quality and value, where price competitiveness is taken for granted. They seek to meet the needs of particular market segments better than any other entity in the world and are able to create, through a combination of their flexibility, fast movement, technological innovation and capacity, and competition in niche markets, a market where they essentially have no competition. The emergence and success of the Born Global firm suggests that, in fact, firms do not necessarily have to build a strong domestic base before launching their operations globally. This concept is especially pertinent to SMEs operating in domestic economies such as that of Cape Verde, where a strong domestic base is extremely difficult to build.

As of the end of 2012, there were 129 companies with exporting licenses from the Chamber of Commerce in the Sotavento and 231 from the CC-Barlavento, for a total of 360 companies. Of these, in 2009, there were 36 entities that utilized their exporting license to send merchandise abroad. In 2010, this number remained the same (though not necessarily the same entities as 2009) and it increased to 48 entities in 2011. In sum, between 2009 and 2011, there were a total of 77 individual entities that utilized their export license. The gap between those with a license and those actually achieving any export numbers suggests that existing export support programs are largely failing their target group.

It is possible to draw some salient conclusions about the preparedness of the country's exporting SMEs. Importantly, we can draw some conclusions about the current stage of SMEs relative to exports in terms of market selection, entry mode, information needs and acquisition, the efficacy of export support programs, the importance of management styles and organizational resources.

Market Selection – From the history of how these firms first began to export, it is evident that these firms all began exporting by selecting a few countries that were psychologically close to their domestic business. This makes sense in the initial stages of exporting; these markets are easier and less costly to

penetrate. However, the expectation is that these firms should gradually expand their foreign operations to a greater number of host countries, including those that may be more psychologically distant, but who still provide a consumer for various niche products.

Entry mode – Phone interviews show that none of the firms distribute their products to external markets by utilizing direct export methods such as agents, distributors and sales branches. Instead, these firms are clearly in a less advanced stage where they use indirect methods, in most cases resident buyers who are themselves psychologically close to the domestic market.

Information Needs / Acquisition – Of the eleven companies SMEs that were interviewed, eight did not have any sort of market information gathering system nor do they seem to be preoccupied with the need for establishing one. Only two of the companies seem to have attempted to gather information before launching into new markets, and of these, only one actually carried out a market study, suggesting a lack of understanding about the need for gathering information in order to reduce levels of uncertainty related to external markets compared with the domestic market.

Efficacy of Export Support Programs – Of the 11 companies interviewed, five of these are completely unaware of the existence of programs designed to support their efforts towards internationalization and exports.

Management Style – In almost all of the cases interviewed, the main contact was the top management level or at least the position most responsible for exports. In all of these cases, the general impression that the consultant received is that these decision makers approach exporting in an informal, unplanned and rather disjointed manner, usually because buyers approached them.

Organizational Resources – Particularly regarding human capacity, which this consultant measured as the number of employees with a university education, most of these firms have extreme limitations in terms of people who could potentially better carry out the different components of a solid export process.

Recent trends in legislation suggest increasing attention on the part of the Cape Verdean government towards incentivizing local firms to internationalize, especially through exports. However, it is to be noted that the benefits from the International Business Center have been scant at most, thus far, suggesting that the established model has not been as competitive as desired. Further, the entity attributed with the competence of managing the concession of benefits for internationalizing has no staff specifically for the Export Promotion function.

In terms of constraints that affect all SMEs, and particularly those with export potential, access to finance continues to be a key issue. The public sector has introduced a number of initiatives to address this issue, but these have not alleviated the constraints as intended, most notably the SDE and the FCC mentioned above. In large part, the inadequacies of the various programs designed stem from 4 main limitations: 1) Lack of knowledge about the existence of the fund, 2) High fragmentation of the funds, 3) Inadequate follow-up technical assistance, and 4) Internal inadequacies characteristic of the Cape Verdean SME.

Several initiatives are currently being developed, specifically to address the question of access to finance for SMEs – the two most important ones are promoted by ADEI. As SME preparedness for export becomes a more frequent topic of political conversation in the country, the effective application of

these new mechanisms will largely determine whether or not this conversation will be plausible. These mechanisms include the development of a venture capital firm as well as the national Mutual Guarantee Fund.

The many constraints in Cape Verde's business environment, and the general absence of an export culture, make it very difficult for national actors to gain any sort of domestic competitiveness, let alone international competitiveness. For almost any product, it is unlikely that the country will be able to reach some sort of quantity/quality paradigm with sufficient momentum for exports in the short- to medium- term. In regards to the quantity question, for agricultural, industrial and other products, the nation simply will not be able to produce enough to compete with traditional and new producers with more production advantages in the same timeline.

Still, there is room for some optimism in terms of exports competitiveness in the short term; the limitations facing agricultural, industrial and other products and Cape Verde do not necessarily evenly cover all of the sectors in the country. In recent years, much has been discussed about the potential for developing a strong local services economy, especially in information technology, designed primarily for exporting. In the following sections, we argue that unlike any other sector, the information technology sector may be the only sector where Cape Verde's many business and geographic limitations do not hinder development, but in some cases, may even serve as a source of comparative advantage. The Chapter explores some of the successful actors in that sector, along with their opportunities for competitiveness, the constraints that do threaten their existence and, with it, the potential for developing a balanced and profitable technological services-oriented economy in Cape Verde as the basis for a revolution of new Born Global SMEs.

4.5 Agriculture and Agribusiness

Progress achieved in the agricultural sector in Cape Verde, especially in the last decade, can be seen in the growing supply of the domestic market, the impact on poverty reduction and the growing shift from subsistence agriculture to an agriculture more and more oriented to the demands of the market. Serious constraints and bottlenecks exist along the entire plant-to-plate value chain of the agriculture sector. Many of these bottlenecks reflect the paucity and fragmentation of agricultural land, insufficient and irregular precipitation, poor soil fertility, the insularity of islands and rugged terrain. These natural factors, coupled with weak infrastructure, weak national logistics, and the seasonality of production, result in the great difficulties of bringing agricultural production to the domestic market.

Cape Verde has potential for the horticultural production, which has developed largely due to the incorporation of new technologies, investments made in the sector, and practical response to the growth of the domestic market. Agriculture in Cape Verde is predominantly based on subsistent family production, consisting of very small plots and rain-fed farming. Irrigation, especially drip irrigation, is growing fast but is still small. This production fragmentation and lack of scale presents major challenges to efforts to increase national production. The growing commercial orientation in the sector includes the participation of business enterprises in the production and commercialization of animal rations, poultry, wine, and sugarcane based liquors. In recent years, a great deal of attention and public outcry has focused on production surpluses, often resulting in production going to rot and waste because of the difficulty of getting production to market. These surpluses result from good soil and climate conditions, but they are primarily the result of poor planning capacity on the part of farmers, together with the lack of market information systems that enable a better understanding of the domestic market. This is a

critical area that needs policy intervention to smooth out production seasonality, consisting of both working closely with and training farmers as well as establishing a national market information system.

In this context, before considering exports, it is necessary to solve two major challenges - increasing and optimizing production and commercialization (bringing product to market), regardless of the market (domestic or export). Resolving these two big constraints, subsequent attention can be directed at understanding the potential markets for Cape Verdean agricultural products, and thus directing efforts to meet the quality and other market entry requirements of the export market. Quality is a major preoccupation, and much work remains to be done in the sector all along its value chain. However, this quality assurance system cannot lose sight of the value that the “Cape Verde” brand adds to the products as niche products because the national branding constitutes a competitive advantage for its export.

Considering the unique conditions and attributes of Cape Verde, a realistic export strategy must focus on niche products and niche markets, such as organic, ethnic, fair trade, nostalgia products (“productos di terra” for the Diaspora) and other low volume-high added value products. In addition to investments to increase production, including training, scheduling production to minimize the issues of seasonality of production and post-harvest losses, greater effort should be directed at the improvement of sanitary conditions of products, on quality control, a system of logistics, distribution and marketing to facilitate access of agricultural products into target markets inside and outside the country.

A number of products chains should be developed, working along the entire product chain, many of which are already being exported, even informally: such as, wine, *grogue*, cheese and coffee, ensuring that these products do not lose their brand of unique origin or their intrinsic qualities. The rationale for identifying these specific niche products is practical – they are already being exported and experiencing limited success. Work on these product chains, which must include trademark registration and denomination of origin, where applicable, can serve pilot cases that could be improved and extended to other products. Cape Verde is a small country. Institutional capacity is also limited. Working one product chain at a time can have a significant impact on household incomes, and the lessons and best practices can easily and quickly be shifted to other product chains.

The major obstacle to commercialization is the absence of an efficient and adequate national logistics system. The problem is magnified by the extreme degree of production fragmentation, both in terms of the proliferation of small plots and the geographic discontinuity of the country. Another chronic problem farmers face is the high rate of post-harvest loss. One promising solution has been the construction of a network of collection, treatment and distribution centers. Private management of these post-harvest centers should be promoted, with an active role in the training of farmers and other chain operators, promotion and dissemination of market information. Domestic support policies and institutions must also be established to foster quality export-oriented production. Exporters face different requirements from those required at the national market, thus specific export supports are required, such as: credit lines for export, applied research, agribusiness development centers, grants, and so on. Export market information need to be improved, which is just one component of a much larger program to conduct empirical research to identify and understand the real bottlenecks faced in the process of export of agricultural products and creating special task forces to resolve these bottlenecks. The strategy of promoting exports of agricultural and livestock products necessarily requires the organization of production and farmers, market information, the improvement of marketing, and public policies that promote increased production, quality systems, and support for exporting enterprises.

4.6 Fisheries and the Maritime Economy

The fisheries sector has been designated by the successive governments as a strategic sector of vital importance to the social and economic development of the country. In the last few years, the fisheries sector decisively assumed the leadership of the country's exports, overshadowing traditional exports such as clothing and footwear. According to the data records for the year 2011, a total of over 40 Tons of fresh fish were exported. Total fisheries exports in 2011 earned the country more than 4.457 billion escudos (ECV) or over €40 million euros. In fact, the sector's contribution to the economy has experienced more positive developments lately, mainly due to increased exports of canned fish. On the other hand, exports of frozen, which has been a very important segment, experienced considerable setbacks due to lack of adequate infrastructure conditions such as cold storage.

In recent decades, in recognition of the role of the sector in the economy, huge investments from public and international cooperation were spent in an attempt to modernize and develop the sector. However, despite the progress made, it is observed that the gains have not been sufficient to alter substantively the main determinants of the modest contribution that the sector brings in the framework of the main macroeconomic aggregates of the archipelago - about 2% of GDP.

However, from a social standpoint, the sector is increasingly important, especially in terms of initiatives to combat poverty. The sector's contribution is critical in terms of employment opportunities and incomes, especially for those living in coastal communities where alternative opportunities for employment and economic diversification are still very scarce. The latest data indicate that in 2011, direct employment provided within the framework of activities of the sector represented approximately 4% of a working population of 177,000 people. More than 6,000 people, including youth and female heads of households, found the sector to sustain their households.

Domestic production of seafood products reveals a tendency over the years to stabilize catches around 10,000 tons/year, a figure far below the global potential of exploitable fish resources the country possesses. According to the latest estimates and corrections, the resource potential of the country is estimated at 36,000 to 44,000 tons/year. It is clear that there is an underutilization of the country's fisheries potential, and that the fisheries are not being exploited at optimum levels. As such, there are clear opportunities (and a necessity) to adopt strategies and interventions to enhance production capacity and, thus, the sector's contribution to the country's social and economic development.

However, limitations in terms of scientific knowledge about the dynamics and evolution of the main stocks of available and exploitable resources, together with other factors such as illegal fishing, poor management, supervision and control of marine activities, as well as poor control of the catches by licensed vessels, are limiting factors in the expansion of production.

In view of these conditions, the focus should consist, first and foremost, in creating the conditions for sustained improvement in the productivity and competitiveness of the sector, based on an ecologically and economically sustainable approach. Under this approach, efforts must be directed to impart greater efficiency in the distribution channels and commercialization of seafood products in order to provide industry players a greater share of the value chain, increasing the income levels of the operators and the welfare of fishing communities.

The expansion of export capacity should be embedded in a broader strategy to promote and exploit the complementarities between the domestic and foreign markets, based on an approach focused mainly on

intangible factors, such as training and capacity building of stakeholders in the sector, in promoting quality products, research, and the introduction of modern technologies for capture and fish processing in order to better respond to new opportunities, preferences and requirements of an increasingly wider internal consumer market.

Strengthening the capacity of deep-sea resource exploitation, and the alternatives that are offered within the framework of fisheries agreements with countries in the sub-region, could contribute to increase opportunities in the sector and to the diversification of catch. The primary result would be to strengthen the capacity to supply the domestic market, thus, taking advantage of improved market opportunities offered by the tourism sector and increased demand of the canning industry.

The products with high commercial value, including species such as *fanhama*, *madeira garopa*, and other demersal species of great depth, should be an object of applied research to support an exploratory commercial fishing to assess the profitability of these fisheries and their competitive potential within global market opportunities.

In summary, the increase of exports and competitiveness of fisheries products is one of great challenges for all the agents operating in this sector. However, the possibility of increased contribution of exports to the national economy via the increase of current fisheries exports faces multiple constraints and challenges. Based on the data and information available today as well as the results of the SWOT analysis conducted in this study, the proposed strategy to develop the sector is structured primarily around 3 axes of priority interventions. The strategy proposed should be based on the following priority vectors:

1. Strengthened institutional research capacities, including planning and management of fishery resources, so as to provide knowledge that enable measures of promotion and resource exploration that are profitable, biological and environmentally sustainable. Improved human and institutional capacity for assessment of the availability of different fisheries, their dynamics, distribution and location, may contribute decisively to guide the process of developing the sector and sustain viable alternatives for increasing production and productivity of sector without compromising the fragile balances that characterize the marine ecosystem the country.
2. Improving competitiveness of sector, through training and improving the technical and professional capacity of operators in modern methods and innovative techniques of catch, transformation and improvement of product quality. Rising incomes may thus be achieved not only by improved catch techniques but also by diversification of fisheries, investing in capturing marine resources still little exploited as well as capitalizing more the opportunities for fishing in waters outside our national territory in the framework our existing fishing agreements and treaties. Market value and incomes in the sector can be increased for fisheries products, including innovative transformation and processing methods as well as exploitation of market opportunities for products other than fresh fish. The introduction of products semi-prepared is one of the opportunities to be explored, once we evaluate the needs and costs of importing the basic inputs.
3. Capacity building for surveillance, monitoring and control of fishing activities in the archipelago, through the implementation of systems of co-management in which the associations of fishing communities, professionals, and industry players are given increased responsibilities in supervision, management and control of fishing activities, mainly in landed catch. The

strengthening of human and material resources for the monitoring and supervision of activities in the area of the EEZ of the archipelago in essential.

4.7 Culture and the Creative Economy

Cape Verde is best known in the global marketplace for its music. The music has become its national brand. A strategic goal of development planning in the last decade has been to develop a cultural industry, to capitalize on the country's music, arts, traditions and gastronomy and commercialize them in the national, especially tourist, and global marketplace. This paper goes beyond the narrow concept of cultural industry to propose the broader concept of creative economy, a new paradigm for human, social and economic development. This paper seeks to show that not only is the Creative Economy a strong generator of wealth and quality of life, but that it also has potential - combined with the Green Economy – to become the vector for sustainable development of the country. This is due to its potential to enable and leverage the other areas of the economy and society. This new paradigm of the Creative Economy is an expansion of the knowledge economy. The Creative Economy mobilizes tangible resources (information technologies) as well as intangible resources – culture, knowledge, creativity, and values. The Creative Economy is based on the infinite and renewable resources of the country – its human and cultural capital.

Aware that Cape Verde can skip the mistakes of the Twentieth Century model of development, and directly adopt new models of the 21st Century, the focus here is on the future and innovation. Therefore, the paper shows how the forces that are shaping the future are organized in a Virtuous Cycle of Abundance. For the first time in the history of mankind it is possible to advance exponentially by combining Creative Economy, New Technologies, Collaborative Models and expansion of the concept of wealth.

The paper explains the evolution of the concept of the Creative Economy, and how it begins from the arts and culture and expands to other areas of society and economy. As will be clear in this study, we are dealing with a territorial approach and an ecosystem. The Action Matrix details what kind of governance, policy actions and instruments will allow the Creative Economy to fulfill its role as an engine of development. Approached as an ecosystem, policies and measures cannot stop on policies for specific segments of the Creative Economy, but those that simultaneously reveal and activate the potential of various other segments. Metaphorically, we could say that actions are not isolated to the fruit, but to encourage the entire orchard. A simulation is incorporated in order to make concrete these new models, with a focus on microeconomics and on the local level – just as proposed by the Ministry of Culture. We simulate a set of integrated actions and their outcome potential.

We conclude that the Creative Economy + the Green Economy may be the engine of development for the country. Moreover, Cape Verde can be a model for the world, especially in the context of setting up an experiment for global convergence of best practices around a common cause, and synthesized in something like "Cape Verde Makes Sense." By centralizing the intangible resources, new technologies, permaculture, fair trade, and collaborative processes, which converge on a "Co-Laboratory Verde," Cape Verde would be able to attract researchers, institutions and cutting edge methodologies from around the world. As a model for the new paradigm, Cape Verde can develop differently *and* make a difference in the world at this historic moment that the world needs it most. And the country, unlike most other countries, possesses the conditions to be a pioneer.

4.8 Tourism

In the last ten years international tourism to Cape Verde has grown substantially to become one of the main drivers of the national economy. Tourism growth has also been a major driver behind poverty reduction, with the main tourist islands having the lowest national poverty rates. Such is its rapid growth and productivity, the national economy is now “tourism dependent:” tourism is the main source of foreign exchange earnings, it accounts for just under half of all economic output and 20% of all tax receipts. The industry directly contributes to around 14% of all employment – and indirectly supports around 38.7% of total employment.

As recent indicators show, Cape Verde has emerged as one of the top tourist destinations in Africa and leads among Portuguese speaking countries on the continent. It is ranked fourth in Sub-Saharan Africa, and first among Lusophone countries, based on the travel and tourism competitiveness index for 2013. The regional benchmarking, however, may not be the most appropriate from the standpoint of the global industry. Moreover, even within the region, the sector’s indicators show a big distance in competitiveness performance between Cape Verde and the regional leaders, revealing major challenges the industry continues to face.

This spectacular rise of the sector is based on a single product and, as such, the country faces major challenges in terms of product diversification while simultaneously improve the quality and competitiveness of the existing product and maximizing its multiplier effect in the economy. The industry is currently based on “all-inclusive” package holidays by Europe’s largest tour operator, which also owns major shares in 2-3 properties on the two key islands where the majority of these tourists stay. Consequently tourism to Cape Verde’s 10 diverse islands is currently highly-skewed towards all-inclusive facilities. The industry has been resilient in the midst of the global and Eurozone crisis, experiencing good growth even though 90% of tourists come from the European demand market.

As the large majority of tourists to Cape Verde are on all-inclusive package holiday deals (around 92% of all arrivals according to INE data), it can be said the primary product is “sun, sand and sea”. The growing impression among tourists who have visited Cape Verde is that there is little to do in Cape Verde beyond the three “S”s. An issue here is likely to be a significant number of returning visitors who, confined largely to their hotels, provide word of mouth stories of a holiday experience with little knowledge of what exists beyond the hotel, or the single island they visited. This image of Cape Verde as a single product destination could not be further from the truth – and illustrates a serious branding and marketing challenge for the future of the industry.

Despite its impressive growth, the tourism industry in Cape Verde faces a number of challenges. In comparative terms, the industry is not competitive. The key competitiveness issues include: poor access, low institutional capacity and sector management, adverse business climate, and high operational costs. Access is a major issue and constraint in the development of tourism in Cape Verde, especially in terms of product diversification. Next to personal security (being free from the threats of injury or illness), access is the single most critical factor influencing the form and scale of tourism development. To promote growth and expansion that benefits hosts and guests alike, tourists must be able to: a) get to a destination; and, b) move around the destination in a relatively unrestrained manner. International access remains limited, high cost, and unreliable, with a high degree of dependence on charters. The poor, unreliable, and expensive inter-island transportation system will be a major obstacle to product expansion and diversification. The sector’s institutional and regulatory framework is an area that needs urgent attention. Tourism, by nature, is a genuinely transversal sector. The industry is a very diverse,

dynamic and pervasive activity – and is widely recognized to be an unwieldy and complex phenomenon to develop and promote. The complexity of planning and management activities is partly due to the diverse activities of different sub-sectors – and the wide range of government ministries, private sector and civil society actors that are drawn into the industry’s policy and institutional environment. This is a huge institutional challenge for all governments. In Cape Verde, the sector lacks clear and resolute political leadership and high level attention. Critics often point out that, despite being the economy’s most important sector, the policy and institutional attention the industry receives is inconsistent with its importance. As an indicator, no forum or channel exists for strategic dialogue between the government and the big operators. Policy priority, building the capacity of the key policy making and regulatory institutions, improved institutional coordination and clarity of mandates are areas that need urgent attention. Looking to the future, challenges for Cape Verde tourism revolve around the need to: reduce the dependency upon the all-inclusives; strengthen the connectivity between the all-inclusives and the islands’ economy and people; and, deliver greater complementarities, balance and diversity to the overall tourism product and brand.

ACTION MATRIX: Cape Verde Diagnostic Trade Integration Study Update – 2013

2. TRADE POLICY AND INSTITUTIONS

Nº.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners/ Agencies Responsible	Priority Level	Comments/Observations
2.1	Better understanding and engagement with bilateral, regional and multilateral agreements.	Support the continuing definition of external trade strategy, including policy towards the WTO, EPA with the EU, AGOA, and ECOWAS	MTIE, MIREX	High	Development of trade policy framework document.
2.2	Liberalisation of telecoms sector. Attraction of new players in sector. Greater competition. Establishment of regulatory authority.	Continue moves toward opening up the telecoms sector to reduce consumer costs and ensure greater access.	NOSI, MTIE, MITT, MFP	High	Consider options such as universal free Internet access or tech parks with free access.
2.3	New and diversified incoming FDI. More foreign presence in ICT and related services.	Conduct investment targeting	CI	High	
2.4	Better capture of trade-related information and tacit knowledge	Develop a consolidated internal and external communications strategy and programme.	MTIE	High	Development of communications strategy.
2.5	Aim at simplifying structure and ensuring that the various divisions operate effectively. Consider an EDB,	Conduct an EIF Capacity Assessment and Action Plan for the MTIE.	MTIE	High	EIF Capacity Assessment and Action Plan.

2. TRADE POLICY AND INSTITUTIONS

Nº.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners/ Agencies Responsible	Priority Level	Comments/Observations
	mainstreaming and/or an economic taskforce or unit.				
2.6	Ensure that services are delivered and promised initiatives are followed up.	Develop M&E for trade.	MTIE, CI, MFP, MIREX, INE, DGALF.	Medium	M&E system.
2.7	Firms, either new or existing, specialising in new service or goods export.	Fund private sector-led market feasibility studies aimed at establishing the viability of suitable services exports	ADEI, private sector organizations	High	Feasibility studies.
2.8	New small start-up companies in ICT.	Consider recruiting an Internet marketing expert to train potential and existing entrepreneurs in ICT as part of an incubator programme.	ADEI, NOSI	Low	Recruitment of expert.
2.9	Increased niche exports.	Consider a Cape Verde retail outlet, marketing the country as a tourism and investment destination.	MTIE, CI	Medium	Launch of a broad-ranging programme targeting the diaspora.
2.10	Sustained calendar of events run by the private sector on a profitable basis. Spin-off benefits such as greater international recognition for Cape Verde.	Conduct pilot events in specific niche such as music or adventure sports.	MTIE, MC, DG Tourism	High.	A pilot event in an identified area with potential for long-term success.

3. BUSINESS AND INVESTMENT CLIMATE

No.	Strategic Outcome	Recommendation/Intervention	National Partners Agencies Responsible	Priority Level	Comments/Observations
3.1	<i>Cape Verde among the 75 best countries to do business in 2016</i>	Simplification of municipal procedures for business licensing a) Project for simplification and standardization of municipal procedures for business licensing	ANMCV, UCRE, NOSI	High	
3.2		Simplification of procedures for granting municipal construction permits b) Accelerate implementation of the project for land registration and cadastre (MCA II); c) Dematerialization of procedures for submission, analysis, approval and monitoring of architectural project; d) Strengthening the institutional capacity of Municipalities (Technical Staff) to shorten time for project analysis, housing inspection and granting of certificates of occupancy	ANMCV, UCRE, NOSI	High	
3.3		Improve efficiency and pace of procedures for connections to the electricity supply network; e) Modernization of procedures and channels for submission of contract applications to ELECTRA, using new technology (online application, online monitoring, etc ...); f) Improve internal efficiency / responsiveness of Electra to shorten time for application analysis and connection to the network g) Simplification and integration of procedures by ELECTRA / Municipalities for the installation of electrical networks;	Electra, MTIE	High	

3. BUSINESS AND INVESTMENT CLIMATE

No.	Strategic Outcome	Recommendation/Intervention	National Partners Agencies Responsible	Priority Level	Comments/Observations
3.4		Reduce the cost of access to electricity supply network	Electra, MTIE		
3.5		Improve the system of property registration and transaction	UCP, UCRE, MJ	High	Accelerate the implementation of the project for land register and cadastre (MCA II);
3.6		Promote / encourage more competition and innovation among operators of the financial system	BCV	High	
3.7		Revise / adapt the mechanisms of macro management of credit risk, as well as the legal / regulatory environment <ul style="list-style-type: none"> h) Implementation of the private bureau for credit information; i) Project to improve and proactively manage country risk, in order to facilitate access to foreign capital 	BCV	High	
3.8		Improve investor protection level <ul style="list-style-type: none"> j) Adaptation of legislation (particularly the Commercial Companies Code), to improve standards of governance, transparency and managers' accountability ; k) Reform and modernization of the judicial system to facilitate and simplify access to justice; 	MJ, MTIE	Medium	

3. BUSINESS AND INVESTMENT CLIMATE

No.	Strategic Outcome	Recommendation/Intervention	National Partners Agencies Responsible	Priority Level	Comments/Observations
3.9		Improve tax collection efficiency l) Simplification and reduction of taxes paid annually; m) Implementation of automatic tax credit system with interest in cases of late repayment by IRS; n) Increased online relationship between the State and Contributors;	MFP	High	
3.10		Simplify procedures of foreign trade	MTIE, Customs, UCRE, ENAPOR	Very High	Consolidation of the “Trade Single-Window” (<i>Janela Única do Comércio Externo</i>) and extend it to all the islands
3.11		Improve the mechanisms that ensure compliance with contracts	MJ	Medium	Reform and modernization of the judicial system to facilitate and simplify access to justice
3.12		Implement / enhance procedures for business closure /monitoring	UCRE, House of the Citizens, Chambers of Commerce	High	s) System of information and statistics on business mortality; t) Mechanism to support business at risk and insolvency; u) Implementation of module for companies’ shutdown and unofficial shutdown of dormant companies;

3. BUSINESS AND INVESTMENT CLIMATE

No.	Strategic Outcome	Recommendation/Intervention	National Partners Agencies Responsible	Priority Level	Comments/Observations
3.13		Improve the competitiveness of the country in terms of basic requirements (institutions, infrastructure, macroeconomic environment, health and primary education);	Public and private sector	High	<p>Need for a "shock" of Institutional Adjustment for Competitiveness - enhance / accelerate the implementation of bold and ambitious policies to improve State efficiency (legislative, executive and judicial), in 05 key areas: (i) judicial system, (ii) planning and execution of public investments, (iii) unit of public administration, (iv) national quality system and (v) institutional management of competitiveness clusters</p> <p>Policy for Adequacy of Infrastructure for Competitiveness: It is recommended that clear policies are implemented, especially in the areas of maritime transport (inter-island and regional), air transport, energy, water and sanitation, and telecommunications;</p> <p>Policy for Macroeconomic Stability for Competitiveness – the following priority initiatives are recommend :</p>

3. BUSINESS AND INVESTMENT CLIMATE

No.	Strategic Outcome	Recommendation/Intervention	National Partners Agencies Responsible	Priority Level	Comments/Observations
					<p><i>Project for risk- country mitigation</i> - establish a task force to monitor and reduce country risk, with clearly defined goals and strong government involvement;</p> <p>Improving the efficiency of the processes of development, implementation and monitoring of implementation of the State Budget, with greater involvement of the private sector and civil society;</p> <p>Promote increased domestic savings as% of GDP, coupled with improved efficiency of the domestic financial sector.</p>
3.14		Improve overall efficiency of the economy (education and training, goods market efficiency, , services and labor, financial market development, technology availability and market size);	MED, MESCI, NOSI, MT, MTIE, Chambers of Commerce	High	<p>Policy for widening potential market - Given the small fragmented size of the domestic market, this can only be "extended" in three directions: (i) unification of the internal market by improving inter-island transport, (ii) export "inward", especially for the tourism sector, and (iii) expand exports.</p> <p>Policy for Improving the</p>

3. BUSINESS AND INVESTMENT CLIMATE

No.	Strategic Outcome	Recommendation/Intervention	National Partners Agencies Responsible	Priority Level	Comments/Observations
					<p>Efficiency of Internal Markets (financial, labor and goods and services), by: (i) encourage modernization of financial markets, (ii) revise labor legislation to modernize the workforce market, and (iii) improve / strengthen regulation of markets for goods and services;</p> <p>Policy of Access to Relevant Technology for competitiveness, including: (i) Expansion of the number of people with access to relevant technology, (ii) Expansion of quantity / variety of available technology, among others;</p> <p>Policy for Human Capital Upgrade - both in quantitative and qualitative terms, by: (i) Strategic management of long-term national skills required, (ii) Mechanisms to encourage quality in education and (iii) international training of qualified Capeverdeans</p>

3. BUSINESS AND INVESTMENT CLIMATE

No.	Strategic Outcome	Recommendation/Intervention	National Partners Agencies Responsible	Priority Level	Comments/Observations
3.15		Improve the innovation and sophistication in the economy	MESCI, Chambers of Commerce, IPI, ADEI	High	<p>Incentive Policy for Research & Innovation - promoting research, innovation and entrepreneurship, which should include partnerships and structured relations between the State, education institutions, research centers (public and private) and the private sector to increase employability of skilled labor force, and to promote innovation and R & D.</p> <p>Policy for Protection of Patents and Intellectual Property - to encourage creativity, research and innovation, as well as the transformation of innovation into competitive business from Cape Verde.</p> <p>Policy for Benchmarking and Monitoring of Global Innovations that can be adopted by Cape Verde to enhance its competitiveness. Cape Verde does not have enough resources to immediately become an important center of R & D, so it is recommended that policies and mechanisms should be adopted to monitor and benchmark</p>

3. BUSINESS AND INVESTMENT CLIMATE

No.	Strategic Outcome	Recommendation/Intervention	National Partners Agencies Responsible	Priority Level	Comments/Observations
					technological advances that can leverage competitiveness increase and economic growth.
Improve Exports					
3.16	<i>Increase "internal export" in tourism</i>	<ul style="list-style-type: none"> ○ Accelerate effective implementation of the National Quality System to ensure regulatory convergence with standards of quality required by the sector; ○ 	MTIE, IQCV, MFP, tourism sector operators and associations, private sector organizations	High	"Internal Export" Project focused on empowering SMEs to integrate tourism supply chains and related industry;
3.17		<ul style="list-style-type: none"> ○ Capacity building of national companies to provide products and services for the sector; 		Continuous	
3.18		<ul style="list-style-type: none"> ○ Improve the supply chain between production centers and the islands with the largest concentration of tourist (Sal, Boavista, Santiago and São Vicente); 		Very high	
3.19		<ul style="list-style-type: none"> ○ Implement incentives policy for operators in hotel / tourism sector to purchase local products and services. 		Very high	

3. BUSINESS AND INVESTMENT CLIMATE

No.	Strategic Outcome	Recommendation/Intervention	National Partners Agencies Responsible	Priority Level	Comments/Observations
3.20	<i>Increase exports and goods and services to market ECOWAS</i>	<ul style="list-style-type: none"> Promote the removal of legal / administrative barriers to trade in the ECOWAS region, to shape the free trade agreements; 	MIREX, MTIE, CI, Chambers of Commerce	High	<p>"Discovering Africa:" Project to encourage and promote the internationalization of Cape Verdean companies towards the mainland (export, investment, etc.).</p> <p>Project for the promotion of Cape Verde as a hub for the ECOWAS market, taking advantage of the free trade agreements;</p>
3.21		<ul style="list-style-type: none"> Attract shipping companies operators towards connections between Cape Verde and countries of the West African coast; Conduct viability study on viable routes Implement incentives policies to attract private operators 	CI, MFP, MIREX, private sector organizations	High	
3.22		<ul style="list-style-type: none"> Implement the system of collecting, analyzing and disseminating information on export potential to countries in the region; 	CI	High	
3.23		Encourage business missions from Cape Verde to countries of the continent;	CI	High	

3. BUSINESS AND INVESTMENT CLIMATE

No.	Strategic Outcome	Recommendation/Intervention	National Partners Agencies Responsible	Priority Level	Comments/Observations
3.24	<i>Increase in exports to preferential markets under the agreements and facilities granted to Cape Verde</i>	<ul style="list-style-type: none"> Greater information about facilities granted to export towards strategic markets 	CI, MTIE, MIREX, Chambers of Commerce	High	<p>Project for the promotion of exports under AGOA;</p> <p>Project to promote exports to the European Union</p>
3.25		<ul style="list-style-type: none"> Training and capacity building of the Cape Verdean companies about procedures of export to relevant markets; 	CI, ADEI, private sector organizations	Very high	
3.26		<ul style="list-style-type: none"> Promote trade missions and participation in fairs in the identified markets; Create an incentives package to support export oriented firms to gain international experience and foreign market prospecting 	CI, ADEI, MFP, private sector organizations	Very high	
3.27		<ul style="list-style-type: none"> Attract operators for direct shipping services between Cape Verde and the procedures of export 	CI, MIEM	High	
3.28		<ul style="list-style-type: none"> Accelerate normative and technical harmonization of quality between Cape Verde and potential export host markets; 	UCRE, MTIE	high	
3.29	<i>Increase exports of niche products with high added value</i>	Design and implement a marketing strategy aimed at specific products within the framework of these activities;	CI, ADEI, Chambers of Commerce	High	Project to promote export of niche products with high added value
3.30		Implement programs to encourage partnerships between domestic producers and the Cape Verdean diaspora to facilitate the promotion / distribution of niche products "Made in Cape Verde."	CI, MTIE, MFP, Min. Communities	High	

4. “BORN GOBAL:” SMALL AND MEDIUM ENTERPRISES FOR EXPORT

Main Strategic Outcomes	Ref.	Specific Interventions/Actions/Recommendations	Agency/ Responsibility	Priority Level	Comments/Observations
1. Create Incentives for Domestic SMEs to Internationalize					
Clearer and more advantageous benefits to internationalisation promote Global SMEs and attract foreign investors	1	- Further revisions to the code of fiscal benefits should strengthen fiscal incentives and lower limits for SMEs and other exporting entities to obtain incentives	MTIE / Gov-CV	High	
	2	- Study and apply models for making International Business Center more competitive relative to regional competitors and for its immediate implementation; ensure that legislation is welcoming for small and medium enterprises	MTIE/CI	Medium	
	3	- Diminish grants and fiscal benefits in the Fiscal Benefits Code to include more direct benefits or centralize these further in agencies such as the Chambers of Commerce for easier and more direct access to SMEs	MTIE/ Chambers of Commerce	Medium	
2. Support ADEI's capacity for supporting a pipeline of strong SMEs serving domestic market and with export potential					
Reach smaller and micro institutions with little current access to ADEI's services.	4	- Expand offices to decentralize from the capital I city and to reach municipalities and districts with less representation	ADEI	Medium	
Existing CBO projects can be leveraged to inject entrepreneurial possibilities working with standout performers of the association.	5	- Design models to facilitate cooperation and coherency between ADEI and other donors/actors with experience specifically in community-based organizations.	ADEI	Medium	
Greater clarity as to the benefits of formalization of economic activities into SMEs, social enterprises, etc	6	- Following the completion of the Special Regime for MPMEs, this should be expanded to include a definition of and fiscal and other benefits for social enterprises	ADEI	High	

4. "BORN GOBAL:" SMALL AND MEDIUM ENTERPRISES FOR EXPORT

Main Strategic Outcomes	Ref.	Specific Interventions/Actions/Recommendations	Agency/ Responsibility	Priority Level	Comments/Observations
Policies and programs to coach companies through the process of integrating regular use of e-commerce, the internet, and social networks, especially for small companies	7	- Establish an exchange of services between ICT firms with connections to ADEI/the incubator and firms from other sectors in need of ICT assistance for equal incentive packages.	ADEI/ Incubators	High	
3. Transform CI into One-Stop Window capable of offering quality technical assistance to SMEs interested in exporting					
Improved staffing and Image	8	- Study and develop model for a Public/Private Sector Led Board of Directors that elects the primary administrator, as opposed to the current public-sector appointment model. other firms	CI	Medium	
	9	- Institute an internal system to provide continuous training and development for staff members, especially on soft skills and technical aspects of working with SMEs and	CI	High	
Establish in-house market research and analysis ability	10	Systems for ensuring the accumulation and distribution of that knowledge to key account managers internally must be promoted and distributed	CI	Medium	
Increased market information available to SMEs and other investors	11	Create Market Access Strategy Task Force staffed with 2-3 individuals in Cape Verde Investments	CI	High	
SME exports are promoted and facilitated	12	Study and implement effective market segmentation practices in the local market in order to properly create and direct export promotion programs	CI	Medium	
	13	Review client management system to ensure momentum on a case-by-case basis	CI	Medium	
	14	Study and implement global best practices in CI's online presence (website, Facebook), etc	CI	High	

4. “BORN GOBAL:” SMALL AND MEDIUM ENTERPRISES FOR EXPORT

Main Strategic Outcomes	Ref.	Specific Interventions/Actions/Recommendations	Agency/ Responsibility	Priority Level	Comments/Observations
	15	Study models for creating incentives through success recognition and export awards	CI	Medium	
	16	Launch SME Express – Born Global CV designed to offer services, assistance and “hand-holding” to SMEs with current capacity for exporting as well as SMEs with significant exporting potential, placing them on the fast track to efficient exporting	CI / ADEI	Very High	
4. Improve ability of private sector actors, through the Chamber of Commerce to provide services to SMEs					
Existing export-ready SMEs bypass delays in creating a national certification program	17	Financial support to expand the product certification program currently underway to reach more SMEs and products	MTIE / Chambers of Commerce	Very High	
SMEs can expand into more indirect forms of international networking and marketing for their products	18	Create program for Chamber of Commerce to use its potential for international networking to identify trading houses and strategic alliances and placing them in contact with promoters of niche products	Chambers of Commerce	Medium	
Stronger SME management culture created	19	Study models for, create and launch the SME Hotline	Chambers of Commerce / ADEI	High	
- SME managers exposed to strategic markets	20	Re-enforce export support and SME development programs (i.e. SME Express, FCC, etc) with sufficient funds for a certain number of prospect missions through a merit-based selection while simultaneously improving publicity about these opportunities	EIF/ Chambers of Commerce	High	
5. Address Access to Finance as A Binding Constraint in SME Consolidation					
Firms are aware of benefits of internationalizing and support programs available to them	21	Launch a series of major awareness-raising campaigns to make companies aware of benefits to internationalization and of the existing mechanisms to facilitate that process for them.	ADEI, CI, MTIE and MIREX	High	

4. “BORN GOBAL:” SMALL AND MEDIUM ENTERPRISES FOR EXPORT

Main Strategic Outcomes	Ref.	Specific Interventions/Actions/Recommendations	Agency/ Responsibility	Priority Level	Comments/Observations
Improved business fundamentals among SMEs	22	Develop and launch “Kit de Ferramentas: SME Cape Verde”	ADEI	High	
Sustainable non-commercial banking financing option available	23	Continue to study models to update venture capital firm and guarantee its sustainability	ADEI	High	
6. Capitalize on Potential for Born Global SMEs in the ITC Sector					
Strategic vision creating a regulated and highly qualified technology services sector	24	Reinforce NOSI’s original role as a small, highly qualified, high-level, public service-oriented regulator, specializing in using the private sector to create innovative e-governance solutions.	NOSI / MTIE/ANAC	Very High	
	25	Reinforce NOSI’s competence in fomenting the development of a more qualified and competent IT Private Sector, including regulation of certification and quality programs	NOSI / MTIE	Medium	
Stronger, more innovative ITC private sector capable of producing the country’s first Born Global Firms for consumers in CPLP and African Continent	26	Introduce public bid regulations that favor domestic information technology firms, or consortia of domestic and international firms/ joint-ventures over purely international bidders	MTIE/NOSI/ANAC	Medium	
	27	Introduce incentives for other private sector actors to favor domestic information technology firms over international players into the Code of Fiscal Benefits	MTIE	Medium	
	28	Consider immigration policies and incentives to further stimulate and encourage immigration of qualified information technology personnel, whether from the Diaspora or from other markets to Cape Verde	MTIE/MIREX/MJ	Medium	
	29	Strengthen intellectual property rights and cut down on licensing counterfeit software, encourage use of open-sourceware	MTIE	Medium	

4. "BORN GOBAL:" SMALL AND MEDIUM ENTERPRISES FOR EXPORT

Main Strategic Outcomes	Ref.	Specific Interventions/Actions/Recommendations	Agency/ Responsibility	Priority Level	Comments/Observations
	6.7	Study models for implementing a competitive special regime for imports and export of ITC equipment for at least five years in order to stimulate growth in the IT and IT services sectors, consider joining the International Technology Agreement of the WTO	MTIE	Very High	

5. AGRICULTURE, AGRIBUSINESS, NICHE PRODUCTS

Nº.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners/ Agencies Responsible	Priority Level	Comments/Observations
I. INCREASED PRODUCTION					
	<p>Optimization of agricultural and livestock production;</p> <p>Reduction of post-harvest losses;</p> <p>Production and dissemination of applied research information.</p>	<p>5.1 Research programs / action aimed to follow and support farmers and operators of the sector in exports, namely in the issues related with production optimization, post-harvest, logistic, marketing, brand, quality management system, certification, trading and business.</p> <p>5.2 Reorganizing of rural extension services in order to optimize the existing research results.</p>	MDR, INIDA, UniCV, ADEI, IQCV, DGC	Very High	
	<p>Agriculture modernization;</p> <p>Promotion of the agricultural and livestock private sector.</p>	<p>5.3 Improve access to new techniques / technologies, as well as access to information and technical assistance through the use of ICT;</p> <p>5.4 Encourage the creation of companies, business associations or cooperatives for the supply of packages and delivery of services across the agricultural and livestock sector (production, post-harvest, logistic and distribution, trading);</p> <p>5.5 Capacity building of agricultural producers in the specific areas of their production, including aspects of business management.</p>	MDR, ADEI, UNICV	VeryHigh	
5	Know the sectors with the greatest competitive advantage.	<p>5.6 Improve access to new techniques / technologies, as well as access to information and technical assistance through the use of ICT;</p> <p>5.7 Study sector of agricultural production, including the study of production costs in order to prioritize the ones with more competitive value for export.</p>	MDR, ADEI	High	

5. AGRICULTURE, AGRIBUSINESS, NICHE PRODUCTS

Nº.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners/ Agencies Responsible	Priority Level	Comments/Observations
II. IMPROVED QUALITY					
5	<p>Implementation of a sanitary inspection system;</p> <p>Construction of an agrifood quality system.</p>	<p>5.8 Implement the recommendations done for the improvement of export conditions in DTIS 2009, in particular the sanitary, quality and certification frameworks:</p> <p>5.9 Improving the SPS standards of food security in hotels and restaurants;</p> <p>5.10 Build a quality system for agricultural and livestock products that in the medium-long term are able to respond to a certification system that respond to the public health issues and favours and values the quality and intrinsic features of the national product and not its comparison to products traded in other markets;</p> <p>5.11 In the short term, establish a inspection seal (guarantee) that responds to the public health issues of the national product.</p>	ARFA, ADEI, IQCV	Very High	
	<p>Implementation of a quality management system;</p> <p>Trademark registration and product</p>	<p>5.12 Work the entire value chain of the following products: grogue, wine, coffee, cheese, ensuring the characterization of the products, the trademark registration and the seals of denomination of origin, where applicable.</p>	MDR, ARFA, IQCV, Producers, Chambers of Commerce	Very High	

5. AGRICULTURE, AGRIBUSINESS, NICHE PRODUCTS

Nº.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners/ Agencies Responsible	Priority Level	Comments/Observations
	certification.				
III. LOGISTIC					
	Improve current logistics and distribution system.	5.13 Study of the logistics and distribution chain in Cape Verde with the aim to identify the bottlenecks and the needed improvements for access to national and international markets.	MDR, ADEI	High	
4. INSTITUTIONAL SUPPORT AND PUBLIC POLICY					
	Meet potential export markets to promote trade meetings between operators.	5.14 Market studies aiming at understanding the markets (diaspora market, ethnic market, fair trade, organic products market) and agricultural products that Cape Verde can export.	MDR, ADEI, CI, MIREX, CPE	High	
	Promotion of exports	5.15 Trade policy – create a local support system and specific for the export of agricultural and livestock products (credit line, support office for exports, grants system, subsidies for export, etc.).	MDR, DGC, DGF, CI, MTIE	Medium	

5. AGRICULTURE, AGRIBUSINESS, NICHE PRODUCTS

Nº.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners/ Agencies Responsible	Priority Level	Comments/Observations
5	<p>Encourage the increase of agricultural and livestock companies;</p> <p>Stimulate the production by local consumption;</p> <p>Attract young people to the field.</p>	<p>5.16 Reshape public policies in order to show in a transparent way the incentives to the private sector and promote:</p> <p>5.17 The growth of private companies that operate in the entire chain of agri-business (before production (agricultural inputs), production and post-production (logistic, distribution and trading)).</p> <p>5.18 Creation of an institutional market, through a transparent procurement system, of local production products for public institutions. Example: school canteens, hospitals, penitentiaries, etc.</p> <p>5.19 Agriculture mechanization as a way of valuing agricultural and livestock work and encouraging young people to agriculture and rural entrepreneurship (automation, ICT introduction).</p>	MDR, DGF, Research institutions, ARAP, MFP, ADEI	High	
5	<p>Decrease the chain of command for the resolution of urgent and local matters;</p> <p>Promote local development; increase the empowerment of local authorities.</p>	5.20 The gradual transition of functions that until now have been performed by the central government to local government bodies and trade and agricultural associations and others that work for the development of the sector.	MDR, ANMCV	Medium	

5. AGRICULTURE, AGRIBUSINESS, NICHE PRODUCTS

Nº.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners/ Agencies Responsible	Priority Level	Comments/Observations
5	Accelerate agriculture modernization	5.21 Capacity building action of agricultural producers in the specific areas of their production, including aspects of business management. 5.22 Create adequate credit facilities to finance the sector.	MDR, ADEI, Research institutions	High	
5	Improve transparency in the transactions; Encourage investment in the sector.	5.23 Improve access conditions to arable lands. 5.24 Create the necessary legal conditions for a free market of arable lands.	MDR, DGF, MJ	Medium	
5	Develop a marketing strategy for export.	5.25 Boost tourism related to the consumption of local products (organic, ethnic, niche, gourmet and fair trade products).	MDR, MTIE, Chambers of Commerce	Medium	

6. FISHERIES AND THE MARITIME ECONOMY

Main Strategic Outcomes	Ref.	Specific Interventions/Actions/Recommendations	Agency/ Responsibility	Priority Level	Comments/Observations
Improved knowledge about the state of exploitation of fisheries resources. Updated fisheries management plans are available and their implementation ensured.	1.	Develop and implement a training and capacity building plan for the technicians of the sector in specific areas of fisheries research and management, (stock assessment, statistics, and fishing and catch technology, management and planning, and aquaculture).	MIEM/SERM/DGP	Very high	
	2.	Mobilize partnerships to implement prospecting and research programs of new catch and fishing areas.	DGP/INDP	High	
	3.	Strengthen the mechanisms of connection between research, experimental fishing and operators in order to maximize the season results.	INDP	High	
	4.	Conduct specific studies of economic and financial viability of different fisheries as a way to better target investments in the sector.	INDP/DGP	High	
	5.	Improve and upgrade the equipment supporting research, and statistical and experimental fisheries production.	INDP	Very High	
	6.	Implement measures to encourage the publication, dissemination and diffusion of research results in order to establish a close connection between theoretical findings and their application/practical use.	INDP	Continuous	
	7.	Reinforce actions of exploratory fishing to improve knowledge on technical and financial viability of fisheries underexploited from great depths.	MIEM/SERM	Very High	
	8.	Update the assessment data of the state of stocks exploitation of the major fisheries. Improve the fisheries data collection and management system.	INDP	High	

6. FISHERIES AND THE MARITIME ECONOMY

Main Strategic Outcomes	Ref.	Specific Interventions/Actions/Recommendations	Agency/ Responsibility	Priority Level	Comments/Observations
	9.	Strengthen partnerships with research marine institutions. Stimulate scientific work and strengthen the sector's bibliographic collection.	INDP/MIEM	Medium	
	10.	Increase public funding for scientific research and work in the area of ocean activities.	MIEM	Very High	
	11.	Establish and regulate the National Plan for the Management of Fishery Resources as a guidance document in the management. Ensure timely update and means for its implementation.	MIEM	Very High	
Improved extractive capacity of operators. Fishing effort adjusted to the accessibility of available and exploitable resource.	12.	Develop and implement an incentive program for fleet renovation and modernization.	MIEM/MFP	Very High	
	13.	Introduce modern catch technologies, more selective and more productive (bottom and surface-set longlines, stationary nets to catch bait).	MIEM/SERM	Very High	
	14.	Improve knowledge about the investment's profitability and competitiveness in the units of catch.	INDP/DGP	High	
	15.	Develop demonstrative and awareness campaigns for operators to adhere to new catch technologies for exploitation of new fisheries.	INDP/DGP	Continuous	
	16.	Develop technical, economic and financial feasibility studies on fishing opportunities provided under the agreements.	INDP	High	
	17.	Encourage partnerships (joint ventures) to take advantage of fishing opportunities in the sub-region.	MIEM/SERM/MIREX	Very High	
	18.	Implement campaigns of exploratory fisheries with new technologies directed essentially to capture shrimp and deep-sea species (cephalopods and demersal).	DGP	High	

6. FISHERIES AND THE MARITIME ECONOMY

Main Strategic Outcomes	Ref.	Specific Interventions/Actions/Recommendations	Agency/ Responsibility	Priority Level	Comments/Observations
Optimized exploitation of the potential of the value chain in the distribution and marketing of domestic seafood products.	19.	Encourage the practice of cooperative system in production as a way to reduce production costs and improve safety at sea.	DGP	Continuous	
	20.	Improve practices of handling, conservation and fish transportation on board. Encourage the custom of hygiene practices in handling fish on board.	DGP/IGQ	Very High	
	21.	Promote the conservation practice on board the artisanal boats in order to facilitate the operators of the sector the access to the most profitable niche markets.	DGP	Very High	
	22.	Promote technical and economic viability studies of the business of catching bait in the sub-region to supply bait for tuna fishing.	INDP/DGP	Very High	
	23.	Make possible the process of installing a fishing market in the 1st fish sale in the main ports and consumption centers.	MIEM/MAI	Very High	
	24.	Improve conditions of cold storage and ice supply in the main landing ports of the country.	SERM	Very High	
	25.	Conduct a study on the needs of cold and ice in the different islands and regions of the country. Study the feasibility of centralized structures or alternatively mobile and multifunction.	MIEM/MTIE/MDR	Very High	
	26.	Improve the system of fish inter-islands distribution, transportation and marketing.	MIEM/MTIE/MDR	Very High	
	27.	Strengthen training and capacity building of fish sellers in food hygiene and safety.	DGP/IGQ	Very High	

6. FISHERIES AND THE MARITIME ECONOMY

Main Strategic Outcomes	Ref.	Specific Interventions/Actions/Recommendations	Agency/ Responsibility	Priority Level	Comments/Observations
	28.	Try innovative actions in fish processing (ready-made) towards a greater increase in value.	DGP/Câmaras de Comércio	High	
	29.	Study the need of anchorage, wharves/docks improvements for fish landing.	DGP	Medium	
	30.	Facilitate to South operators the access to opportunities for the export of seafood products.	MIEM/MTIE/MDR	High	
	31.	Improve the supporting infrastructure in the port of Praia. Equate the construction of a new fishing pier equipped with adequate support infrastructure.	MIEM/ENAPOR	High	
	32.	Support operators in finding solutions to access the large hotels market in the touristic islands.	MIEM/MTIE	Very High	
Maximize exploiting potential of the opportunities for export of seafood products.	33.	Introduce in the official statistics a component on the evolution of the major import markets of seafood products and ensure their dissemination to the export agents.	INDP	High	
	34.	Encourage the practice of clusters for export in order to increase the agents' competitiveness.	DGP/INDP	High	
	35.	Promote studies on the exports profitability and the prospects of alternative and worthwhile markets for the export of different seafood products;	SERM/INDP	Very High	
	36.	To study the technical and economic feasibility of replication of the processing and marketing system adopted by Frescomar (import of raw materials for local transformation/processing and intended for the export market).	MTIE/ADEI/INDP/CI UNICV-DECM	Very High	

6. FISHERIES AND THE MARITIME ECONOMY

Main Strategic Outcomes	Ref.	Specific Interventions/Actions/Recommendations	Agency/ Responsibility	Priority Level	Comments/Observations
	37.	Create conditions for the access to the export market of fish fillets and other ready-made seafood products.	MIEM/MTIE	Very High	
	38.	Facilitate the operationalization of the prawn-farming project.	MIEM/SERM	Very High	
	39.	Strengthen technical, planning and management skills of export agents.	ADEI/Câmaras de Comércio/IEFP	High	
	40.	Facilitate the creation and implementation of specific funding and insurance mechanisms adjusted to the peculiarities of the fishing activity.	SERM/ADEI/MFP	High	
	41.	Improve the capacity for inspection, monitoring and certification of fishery products.	MIEM/IGQ	High	
	42.	Study the possibility of buying fish in the region for transformation, processing and re-export within the existing market opportunities.	INDP/DGP	Very High	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
1.	Propose and verify compliance of the various levels of government and society in general such that Cape Verde becomes the first country fully dedicated to develop through Creative and Collaborative Economics. For example, Co-Laboratory Verde.	Depart from the economic logic of the market of the XX century to the logic of social welfare and care for the common good of the XXI century. National priority when formulating policies, generate prosperity and allocate resources.	State institutions	Very high	<ul style="list-style-type: none"> This action matrix is cross-sectional nature, and contemplates territorial and structuring actions that activate and serve all sectors. Its goal, rather than leveraging the culture and the creative economy, is to leverage the country through them, and generate wealth from the market intangibles associated with all types of product and process. The Matrix becomes more effective in the context of Cape Verde as a global experiment to mobilize attention and partnerships. Cape Verde, the first creative and collaborative country in the world. A Co-Lab Verde, Creative and Collaborative Economics.
2.		Find all benchmark countries which may be a reference to the case of Cape Verde, like Iceland, Bhutan, Uruguay, Bali Island and others.	Government, in partnership with universities, civil society	High	
3.	Identify the interfaces of each Ministry or government agency with the Creative Economy and the possible Co-Lab	Consultation with international partners such as research institutes, NGOs, foundations and multilateral agencies that may be partners in a global experiment survey, implementation and monitoring sustainable practices associated with creativity in the Co-Laboratory Verde	State, civil society, social entrepreneurs, innovation networks	Very high	<ul style="list-style-type: none"> The state here has the role to convene, connect, and facilitate processes that will always be made by the joint action of public sector, private sector, academia,
4.		Survey partners and instrumentation in the topic.	QIR-CV (EIF-CV), MTIE, UCRE, MC	Very high	
5.	Formulation of policies, partnerships, advocacy. Optimize resources.	Conduct business fairs with partners to develop projects and programs. Each one verifies existing resources that can be shared and optimized	GPM. MC orients, defines roles	Medium	
6.		Create an agency, or adapt an existing one, which has the role to convene and coordinate actions among the various ministerial portfolios, private sector, academia, creative entrepreneurs, for example, a Development Agency through the Creative Economy. Must have independent technical and management authority	Government, in consultation with civil society groups	High	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
					<p>creative entrepreneurs and NGOs</p> <ul style="list-style-type: none"> ○ The Governance of these processes would be ideally under the authority of an organ, such as a National Development Agency, which gathers all the Ministries and the Ministry of Culture which has a decisive and guiding role. Most of the actions proposed here would be orchestrated by it. ○ Most of the projects presented included the creative cluster of the Ministry of Culture and / or Simulation section of this document. ○ The Matrix shares and follows the same criteria that guided the opportunities presented in the main document <p>The Priority levels have been organized in temporal</p>

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
					sequence. Very High indicates where to start. Low means it is the last in the sequence.
7.		Create Program with Universities and Institutions of Technical Education for students (through internships and convergence of their research and coursework) may be the operating arm and intellectual of all other proposed processes.	MC, MED	Very high	
8.		Create Program with Civil Society to devote time and expertise to the cause of national / global experiment. Partnership with entrepreneurs results in Network Business Tutors working in their areas of expertise (Communication, Administration, Law, Design, etc.).	GPM, MC, media	Very high	
9.		Create program for the Diaspora to participate in this national cause / global experiment.	MIREX and other related organs	High	
10.	Communication campaigns and promotion of the Creative Economy as estratégia development. Engagement and awareness among all sectors and Cape Verdean Diaspora. Similarly to the process of Reforestation, the population can now leverage the country through the Co-Laboratory.	Inform and engage media and other means of mass communication.	Government, media	High	
11.		Instrumentalization of leadership, informing them about why the theme is strategic and how to act accordingly. It is recommended that information kit be accompanied by training	UCRE , MED, partnership with UNITAR.	Medium	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
		online.			
12.		Campanhas em torno da causa, mobilizando consertoação e ação coletiva. Materiais de comunicação usando todas as mídias possíveis - Redes Sociais, Radios Comunitárias, Mídia Eletronica, impressos.	Government to mobilize population	Medium	
13.	Develop new metrics compatible with a focus on the Common Good, Sustainability and Creative Economy, to measure and evaluate the country's wealth, establish goals, identify resources, recognizing results.	Facilitate processes with non-monetary resources, through mapping and flow of resources that exist not only in the financial dimension, but in the other dimensions of society: cultural, social and environmental (briefly called 4D)	MC	Very high	
14.		Setting objectives, targets and results always considering the equitable flow between the four dimensions of sustainability: financial, social, environmental and cultural.	UCRE and others	Very high	
15.		Adopt new indicators of wealth of the nation, such as GNH (Gross National Happiness)	Government	high	
16.	Mobilize various sectors of society CV around recognition and appreciation of their attributes.	Campaign topic discussion since school, gym, business associations, government. Use collaborative processes in the network.	MC UCRE design model, disseminated to others	Very high	
17.	Definition of attributes that can differentiate and describe Cape Verdeans goods and services.	Multisectoral task force summarizes the results and returns to the community.	MC, QIR-CV, UCRE, partnership with civil society	High	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
18.	Intangibles and culture and leveraging the country's brand and attributes.	Each territory and business area will generate its own value from the brand and attributes of Cv, adding its own uniqueness.	National campaign	High	
19.	Guarantee that the value and attributes of the Cape Verde brand are evident. The products and services of the creative economy, acquire value through "storytelling," stories that highlight their differences, origin, production values eco-sustainable, etc..	Develop a "basic kit" of promotional materials and graphics for Cape Verdean products for the creative entrepreneurs to complete them with the "story telling" / narrative describing their attributes. Labels, packaging, brochures, etc.. to be used by exhibitors at fairs, markets, shows, etc..	MC, QIR-CV, partner with universities, business organizations, volunteers	Medium	
20.	Ensuring continuity in the management of programs and possibility of shared management government / civil society.	Creation of legal statutes for the creation of mixed organizations (government / civil society) that can manage the programs and projects created. Examples (see "Simulation") OS - Social Organisation for management of public facilities.	MC , QIR-CV, UCRE.	High	
21.	Larger funds for the Creative Economy. Larger commitment of large companies with the country's development.	Innovative fiscal laws, ensuring that the redirection of values relating to federal and local taxes do not create distortions for both sponsoring companies, or businesses we want to promote	Legislativo após pesquisa MC	Medium	
22.	Guarantee and valorize cultural diversity, regular markets and simultaneously generate funds for the Creative Economy.	Verificar a possibilidade de criação de Taxas de Diversidade Cultural a incidir sobre o turismo e importação/ exibição de produtos internacionais no mercado de CV. Exemplo: Taxa incide sobre Blockbusters ou seriados ocupando TV ou salas de cinema.	MC, DGT/MTIE. Ref: carbon credits	Low	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
23.	Create a legal framework that is sustainable and innovative , and consistent with new policies that are also sustainable and innovative.	Encourage organization through cooperatives and collectives.	Government	High	
24.		Less bureaucratic models oversight and accountability, for example, inspired by the Anglo-Saxon model of verification through results and not by proof of expenditure.	Government	Medium	
25.		Create new forms of legal formalization, as individual entrepreneurs, social enterprises, collaborative collectives.	Government	Medium	
26.	Create ICT structures that are more democratic and accessible, low cost and greater autonomy. Prioritize the use of open source technology.	Create partnerships with networks, foundations and institutes linked to new technology and cyberculture wishing to be partners of CV in the implementation of new models.	NOSI, UCRE, MC, MED, MESCI, with international partners.	Very high	
27.		Encourage the use of low-cost technologies and alternatives for energy access and internet.	Government, with independent networks	Very high	
28.		Partnerships with universities and young people to train more young people in the use of ICTs.	Agencies related to science and technology, youth	High	
29.		Leverage existing social technologies (see "Simulation") to recycle computer equipment.	Agencies related to science and technology, youth	High	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
30.		Encourage the creation of micro-businesses from ICTs such as internet cafes or sale of cellular minutes.	Agencies related to economy, business	Low	
31.	Computerization of processes of communication and data management between public organs	Build infrastructure and train technical staff of local and municipal governments in the use of ICTs. UNITAR has already developed online courses.	Agencies related to science and technology, partner UNITAR	High	
32.		Use partnerships with universities and young people for this training of technical staff	Universities, Agencies related to science and technology	Medium	
33.	Develop or enhance creative enterprises through project formulation, strategic planning, communications marketing.	Create Office for Support to Entrepreneurship through creative partnerships with Academia and the private sector, network of Business Tutors and college interns to coach in their areas of expertise (Communication, Administration, Law, Design, etc.).	MC, Juventude, Academia , Associa"coes comerciais e similares	High	
34.	Creative neighborhoods, where schools act as a pole of Creative Economy, activating local potentialities; integrating community, creating calendars, producing knowledge.	Creation of joint programs between government areas resulting in School Centers for the Creative Economy, articulating school, creative, Academy and local community (see more in "Simulation"	Agencies related to science and technology, youth entrepreneurship	High	
35.		Create Producers Collaboratives (see simulation) that operate in major cultural events and associated School Centers of the Creative Economy.	MC	Very high	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
36.	Attracting and retaining professionals in key areas such as Communication, Design, Branding, Business in the constitution of the supply chain / ecosystem	Stimulate the Economy and Culture of Sharing: share offices, equipment, supplies (co-working).	Communications campaign; Fiscal incentives	medium	
37.	Economy. Working now with a collaborative approach and optimization of resources and processes through the use of ICT and networks	Integrate the National Network of Meeting Rooms, Offices to Support Creative Entrepreneurs, School Centers for the Creative Economy, ensuring synergy and creative incorporation of the ecosystem.	MC	High	
38.		Prioritize the training of professionals, companies and institutions operating mediating and adding value to products and services. These originate from areas other than the arts, such as advertising, architecture, journalism, business administration.	Government, private sector, universities	Medium	
39.	Improvement and qualification of creative entrepreneurs and management structure	Create partnerships for training young and creative entrepreneurs. Prioritize training online to earn scale. For example UNESCO and UNITAR.	Partnership with UNESCO, UNITAR	High	
40.		Train young agents for the Creative Economy, for example, through Producers Collaborative, as proposed in "Simulation".	UNITAR, MC, MJEDRH	Very high	
41.		Direct partnerships with academia, business volunteers and volunteers from the diaspora (through remote teaching) to improve professional entrepreneurs.	Government, private sector, universities	High	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
42.	Strengthening and expansion of the National Network of Meeting Rooms of Ministry of Culture (MC), setting circuit training spaces, exhibition and marketing of the Creative Economy	Configure National Network Meeting Rooms as multifunctional spaces for training activities, production and exhibition. It is essential that each of them is also a hub of ICTs or Telecentre and integrated Office to Support creative entrepreneur.	MC	Very high	
43.		Survey and articulation of existing unused spaces such as public facilities, auditoriums of private spaces in the Academy schools, which can be converted into homes or centers Culture Creative Economy, integrating them into the National Network of Meeting Rooms.	MC and national partners	Medium	
44.		Equip and expand functions spaces (clubs, associations etc) that local communities already use for their meetings, integrating the National Network of Meeting Rooms.	MC	Medium	
45.		Foster the process of participatory management of these spaces, thus relieving the government and simultaneously empowering creative entrepreneurs. Foster also the occupation of empty spaces through participatory management.	MC, MJEDRH, partners. Empower youth as co-managers	High	
46.	Enlarge networks and circuits for marketing and exhibition.	Valorize and improve public fairs and markets, providing basic communication kits, explaining the product and its attributes.	Agencies linked to trade, tourism, culture + local authorities	Medium	
47.	Online marketing and Export of Cape Verdean products.	Adopt e-commerce as a priority marketing mode for Cape Verdean products.	GPM + NOSI	High	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
48.		Transform big events, like the AME (Atlantic Music Expo) into events that leverage the set of sectors of the Creative Economy (fashion, food, publishing, audiovisual, Tics, edutainment) and are showcase for innovative processes developed in Cape Verde, Co-Lab Verde.	MC	Very high	
49.	Diversify the sources of financing and adapt them to the characteristics of the Creative Economy.	Strengthen and expand the Bank of Culture of the MC.	MC	High	
50.		Adoption of direct mechanisms for funding and support, such as KIWA Crowdfunding, Crowdsourcing and the like (see "Simulation").	Civil society	Very high	
51.		Foster microcredit as a way to finance individual micro entrepreneurs.	Local cooperatives	High	
52.		Adoption of complementary currencies and exchanges (hours of work, space, equipment) as the mechanism to facilitate projects (see "Simulation").	Entrepreneurs' collectives; local managers.	Very high	
53.		Create local databases with mapping of resources available 4D (see 1.5.2.), To facilitate the achievement of atvidades using non-monetary resources.	Civil society	High	
54.	Target investors for the niche businesses identified	Facilitated procedures if the Co-Laboratory is implemented that brings together all of these activities.	International relations	Medium	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
55.	Sort and balance the possibilities of the flow of events and tourists. Organize the possibility of generating new products from the Calendar	Create local calendars by adding all kinds of events from popular culture, artísticos, congresses, fairs and organize them in a national calendar. To visualize, organize and guide priorities	MC, civil society, NOSI, universities, create “wiki” system to receive data	Very high	
56.		Identify the experiences of local cuisine, arts, crafts, community life, which can be improved by converting it into creative endeavors.	MTIE, local authorities	Very high	
57.	Production related to tourism	Organize these entrepreneurial ventures, creating cultural tourism circuits.	MTIE, local authorities	High	
58.		Storytelling / Branding. Increase the awareness of the importance of creative entrepreneurs, emphasize and reveal their attributes and history. Possibility of having students from schools (through the Centers School of Creative Economy see 1.3.) As aids in this process.	Integrated action – linked to brand and attributes of CV	High	
59.	Capitalize on the big events and festivals and similar materials to develop registration and dissemination of participating creative entrepreneurs.	Primarily use collaborative processes that also empower the young, such as Producers Collaboratives (see simulation).	MC, MTIE, MJEDRH + specialists	Very high	

7: CULTURA E A ECONOMIA CRIATIVA

Ref.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners Agencies Responsible	Priority Level	Comments/Observations
60.	Develop new tools and metrics to measure and evaluate resources, results and values of the Creative Economy.	Systematize the experiences of using resources, targets and results in the four dimensions of sustainability: cultural, social and environmental (briefly called 4D), so they can be replicated	Creative entrepreneurs, universities, MC	Very high	
61.	Establish partnerships for collection, analysis and dissemination of data.	Capitalize on the big events and festivals as an opportunity to register and mapping of creative entrepreneurs	MC, civil society	Very high	
62.		Based on the creative neighborhood, partnering with schools (see Simulation Centers and School of Creative Economy) for students to map their surroundings, stories and memory and digitize the results	MC, MTIE, MJEDRH + specialists	Medium	
63.	Knowledge management, systematizing and sharing experiences.	Adoption of innovative ways of practice-based learning (see Simulation), which considers the whole practice space, (events, fairs, exhibitions) is also a place of learning and all information should be systematized them produced and made available online.	MC, MTIE, MJEDRH + specialists	Very high	

8. TOURISM

Nº.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners/ Agencies Responsible	Priority Level	Comments/Observations
8.1	Tourism standing and position improved in government; tourism sector given greater government priority; improved sector coordination increased inward investment into the sector	Review and strengthen the current national tourism strategy	MTIE	Highest Priority	ToR to be developed within four months <i>Justification:</i> To strengthen institutional and marketing shortcomings <i>Risks:</i> Contract awarded to research party with insufficient expertise
8.2	Greater government understanding of the sector – and connectivity to other sectors; tourism standing and position improved in government; tourism sector given greater government priority; improved sector coordination	Improve market intelligence – including data collection, basic research and statistical methods to more accurately illustrate and compare market and economic data and enable tourism to be better positioned and aligned with industries such as fishing, agriculture and other service sectors.	MTIE, MAI	Very High	ToR to be developed within six months <i>Justification:</i> To address both a lack of, and weaknesses in current reporting; more accurately illustrate and compare key economic data with other sectors; provide market intelligence to inform policy decisions and strategic directions <i>Risks:</i> Contract awarded to

8. TOURISM

Nº.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners/ Agencies Responsible	Priority Level	Comments/Observations
	increased inward investment into the sector				research party with insufficient expertise
8.3	Replicable models that build private sector capacity; improved enabling environment for tourism-related MSMEs; expanded B2B linkages between in-bound & out-bound operators	Strengthen tour operations capacity, build a foundation for the creation of private sector associations and promote B2B linkages.	MTIE	High	<p><i>Justification:</i> To address weaknesses with product development and packaging; to promote local awareness of how to develop experiential tour products</p> <p><i>Risks:</i> Poorly developed ToR for initial consultancy; contract awarded to party with insufficient expertise</p>
8.4	Improved coordination and planning across the tourism sector; more integrated tourism economy with stronger economic linkages to other sectors and poor households	Enhance cross sector coordination – roll out UNCTAD’s Sustainable Tourism component of their Train for Trade programme to key government actors and ministries	MTIE	High	<p><i>Justification:</i> To promote a broader and deeper understanding of the sector, improve cooperation between line agencies and facilitate a more enabling environment.</p> <p><i>Risks:</i> Low government commitment to programme results in poor attendance and taken up of training and dialogue programmes</p>

8. TOURISM

Nº.	Main Strategic Outcomes	Interventions/Actions/Recommendations	National Partners/ Agencies Responsible	Priority Level	Comments/Observations
8.5	Simplified user friendly visa processing system; increase in visitor arrivals; improved data collection	Develop and on-line visa system – linked to the new on-line tour operator, or a revised Tourism Cape Verde website	MIREX, MTIE	High	<p><i>Justification:</i> To facilitate easier more efficient visa processing & provide a platform that imparts a greater knowledge of Cape Verde to its visitors</p> <p><i>Risks:</i> Contract awarded to party with insufficient expertise</p>
8.6	Improved working and living conditions	Review the employment law	MJEDRH	High	<p><i>Justification:</i> Poor current employment conditions & lack of job security</p> <p><i>Risks:</i> Contract awarded to party with insufficient expertise</p>
8.7	An informed and motivated workforce; greater diversification of the tourism economy	Include tourism as a subject in the secondary curriculum.	MED	High	<p><i>Justification:</i> To ensure future workforce have solid understanding of the nature and form of the tourism industry</p> <p><i>Risks:</i> Contract awarded to party with insufficient expertise</p>

Cape Verde Diagnostic Trade Integration Study Update – 2013

Cape Verde Trade Development and Competitiveness Action Plan

Introduction: Cape Verde Diagnostic Trade Integration Study Update – 2013

■ CHAPTER: INTRODUCTION

I. Introduction

Four years after the validation of the country's first Diagnostic Trade Integration Study, titled *Cape Verde's Insertion into the Global Economy*, Cape Verde finds itself in a drastically altered external environment. Cape Verde is in a worsened external environment than it was four years ago, which were also years of crisis as global food and energy prices skyrocketed. Just as the country was validating its first trade study in late 2008, and celebrating its graduation from the list of Least Developed Countries, the onset of the deepest global recession in recent memory triggered an even worse external situation as the country's principal source of markets, investments, remittances and aid, the Eurozone, unraveled economically and politically. As the Eurozone crisis spread, it was Cape Verde's misfortune that the crisis contaminated precisely its biggest Eurozone partners and donors, such as Portugal, Spain and Italy. For such a highly dependent and exposed economy like that of Cape Verde, the deteriorating external sector has had a substantial impact on its macroeconomic performance. At the time of the validation workshop and graduation, no one could have foreseen or predicted the severity of the global crisis that followed. Despite traversing these years of adversity and external shocks, and suffering palpable setbacks, Cape Verde's economy had proven surprisingly resilient, especially its principal sector, tourism. To its great credit, the country's economic fundamentals are solid, and have been carefully and prudently managed over the years. For this reason alone, the country has thus far weathered the global and Eurozone crisis. Yet the near and medium term future remains uncertain. The country's margin for maneuver has narrowed, its options limited, and hard choices lie ahead.

Thus, there is no better time than now to analyze Cape Verde's position in the global economy, and to examine the many challenges and opportunities it faces. The first diagnostic trade study outlined an ambitious agenda and set of policy strategies to enhance Cape Verde's participation in the global economy. Written prior to the global crisis, the study did not, and could not, anticipate the scope and depth of the subsequent global and Eurozone crises. A few short months before the validation of the first DTIS Cape Verde joined the World Trade Organization (WTO). It has spent these four years adjusting to this status and implementing its commitments. At the same time, the country seeks greater economic integration with the European Union. For these and many other reasons, it is both timely and urgent to review the road traveled since 2008. It is an opportune moment to reassess the country's options, to rethink strategies, and to chart a new way forward that is practical, implementable, and that builds on the country's competitive advantages and current successes.

Concepts like competitiveness, internationalization and innovation have become fashionable in public debates and political discourse in Cape Verde. And there is a genuine concern and striving by many leaders and institutions in the public and private sectors to attain these goals. Indeed, several Cape

Verdean enterprises are showing the way, and achieving success in domestic and foreign markets. The reality is that Cape Verde must do more than talk. Cape Verde now *has to be* competitive. In today's inter-connected global economy, Cape Verde is not competitive. It ranks 122 out of 144 countries in the *Global Competitiveness Report*, actually losing ground since the previous report, and falling behind countries like the Gambia, Senegal, Benin, and Ghana.¹ Even its most successful, dynamic, outward-oriented and biggest sector, tourism, is not competitive in the global economy. Greater integration into the world economy is both necessary for growth but it is also unavoidable for Cape Verde. It has no other choice. But greater integration also means new challenges, and imposes heavy pressure on the country's internal capacity to compete externally. The time for action is now. Hard work lies ahead. Constructing national competitiveness in the global economy today is difficult, continual but also long term. The determinants of competitiveness are numerous and complex. Strategies and strengths that produced past success may no longer be relevant. Having graduated and achieved success during its first phase of its development, it will no longer have the cushion of easy external support to buttress its lack of competitive capacity in the global economy. As this Report makes clear, the real challenges facing Cape Verde today is not the immediate difficulty of the global and European economic crisis. The real challenge is transformation – the transition to the next level of development. Three broad factors, therefore, compel Cape Verde to build up its internal economic, institutional and human capacities to compete in the global economy: (i) the requirements of the country's new phase of development and its Agenda for Transformation, specifically the transition to upper middle income category; (b) accession to the WTO and the implications for its external sector and impact on businesses and economic sectors; (c) the on-going process of an economic partnership agreement with the European Union (EU) and possible economic partnership between the EU and West Africa.

The purpose of this Report is to contribute to the national dialogue and policy debate on the best options and strategies for the country to move forward in the area of trade development. Its purpose is not simply to illuminate public dialogue on how best to navigate the present global crisis, but to inform policy on effective strategies to support the country's transition from a lower middle income country (LMIC) to an upper middle income country (UMIC). In other words, the challenge facing Cape Verde today as this Report is being drafted and validated, is not limited to the immediate challenge of superseding the present global economic recession and mitigating the risks it presents to a small, open, and highly externally dependent economy. The real challenge is much broader and longer term. It requires major upgrade in the institutional, human and productive capacity of the country, rather than tinkering at the margins or routine policy adjustments. Cape Verde *is* in the midst of a transition phase. It stands at a strategic crossroads, as one recent study emphasizes. It is now, in this moment, that it must proactively and purposefully decide which alternative road it will choose – that of stagnation or that of transformation – knowing full well that as a dependent and vulnerable country its margin of choice is severely limited.² If Cape Verde does not actively decide and choose, the choice will be made for it, by default, because the world economy will not wait and other countries searching for space and niche segments in the world economy will not wait. The present crisis presents an opportunity. The country has a clear vision. But it has been unable to operationalize it. It is a transition that many countries have attempted, but few have succeeded. The critical success factors and decisive ingredients that propelled the Cape Verde's successful graduation from Least Developed Country (LDC) country status may no longer be relevant or available.

¹ World Economic Forum, *The Global Competitiveness Report 2012-2013* (Geneva: WEF, 2012).

² African Development Bank (AfDB), *Cape Verde: The Road Ahead* (Tunis: AfDB, 2012).

I.1 Scope and Purpose of the Report

The present Report provides a critical examination of the constraints and opportunities facing Cape Verde's trade, with an exclusive focus on production and institutional factors. That is, the focus is on the internal barriers to trade development. The Report's policy recommendations will be recorded in an Action Matrix, annexed to the Report. As advised by the EIF, country ownership shall determine the nature and scope of any updating of the DTIS. Country ownership determines the sectors and areas to be updated as well as the overall approach, taking into consideration input from all relevant stakeholders. Consistent with national priorities, as outlined in the key strategic development plans and documents, the present Report addresses both transversal and sectoral issues in the country's trade. Rather than offer a general and comprehensive report that addresses every issue and every sector of the economy, this present Report opts deliberately to focus in-depth on only a select few priority issues and sectors. The Report is organized around seven (7) main studies focusing on these transversal and sectoral issues. One innovation of this Report is the incorporation of case studies on select exporting enterprises and experiences that have achieved some success. The objective of the case studies – more accurately, “case stories” – is to analyze and disseminate knowledge on the key lessons and critical factors that determined successful business and export performance. The main chapters of the Report are:

- Trade Policy and Institutions
- Business and Investment Climate
- Small and Medium Enterprises (SMEs) for Export
- Agriculture and Agribusiness
- Fisheries and the Maritime Economy
- Culture and the Creative Economy
- Tourism

Trade capacity is key to growth and competitiveness in the world economy today. As a trade dependent economy, the country's ability to produce, move, and access goods and services across its borders (and inside its borders) is the single most critical factor determining national and firm-level competitiveness. Cape Verde's successful transition up the development ladder will necessitate building up its capacity to produce and export quality goods and services to the world market. The aim of this Report is to identify the principal institutional and production constraints to trade capacity, to identify areas of opportunities, and make recommendations on a set of policy priorities to be implemented. Titled *The Cape Verde Diagnostic Trade Integration Study Update*, this Report is a policy document. Specifically, it is a policy document that focuses on the external sector of Cape Verde's economy, namely the trade sector. The Report, which is made possible by the generous support of the Enhanced Integrated Framework (EIF), examines the major issues that affect Cape Verde's trade capacity and participation in the multilateral trade system. This trade integration study provides the analytical foundations for the policy recommendations and actionable trade related technical assistance and capacity-building interventions necessary; the Report is the analytical basis for the projects, measures and interventions to be carried out by the country and supported by the country's donors. The aim and scope of the Report is to diagnose the major issues, constraints and opportunities facing Cape Verde's trade, and to make policy recommendations on measures and strategies to improve the country's trade capacity. The Report should address only a limited number of issues, and identify a set of policy priorities. As with the previous 2008 study, a diagnostic trade integration study analyzes the major institutional and supply-side issues and constraints to trade, and makes recommendations on policy reforms and actions necessary.

This Report is a follow-on document to the 2008 Cape Verde Trade Diagnostic Study. It is intended to update the original study; to review, revise, adjust and improve the findings, conclusions and recommendations of the 2008 study. Cape Verde in 2013 is a different country from the time and circumstances of the preparation of the 2008 study. New development priorities have emerged, as inscribed in the new Growth and Poverty Reduction Strategy Paper (GPRSP III) and reaffirmed by a new political mandate in national elections. Much has changed. New opportunities have emerged or are being consolidated, such as in the fisheries sector. There is a renewed focus on building up the maritime services economy, with a framework strategy and an operational task force in place. Few months prior to the validation of the 2008 study, Cape Verde joined the World Trade Organization (WTO), and in the previous year began negotiating a Special Partnership Agreement with the European Union. New challenges have emerged. The economic situation at home, while not ruinous, has worsened, and some macroeconomic trends are cause for concern. Fiscal space has evaporated, while the national debt has grown. Two major sources of external financing for the economy, FDI and external assistance, have likewise evaporated. Moreover, progress since 2008 has been weak or insufficient in many areas, from youth employment, quality of education, basic public utilities such as water and sanitation, rural poverty, and the tourism sector remains poorly linked to the rest of the economy. As anticipated in the 2008 study, the DTIS must be viewed as a *living* document. Its purpose is to be a useful document, a strategic roadmap that informs policy making. As such, the DTIS must be continually revisited and updated according to changing conditions and national development priorities. For Cape Verde, 4 years after the original DTIS, the Update will serve to refine the prioritization process, realign policy reforms and resource mobilization with new national priorities, changing conditions, and lessons learned since 2008. Today is the proper and opportune moment to revisit the 2008 study, and to reexamine the challenges and opportunities that confront the country as they relate to its competitive capacity in the multilateral trading system.

The scope and focus of this DTIS Update is aligned with the most current national development priorities of Cape Verde. The two grand strategic development goals of the country are, one, economic diversification, especially in terms of transforming key traditional sectors as well as building up new economic sectors and, two, enhance the country's economic competitiveness while becoming more deeply integrated into the world economy. The two goals are interdependent and mutually reinforcing. In other words, trade is very much at the heart of the country's strategy as it aspires to make the transition into the next phase of development. The Report, therefore, is synchronized with the strategic goals and priorities of the country's new GPRSP-III (2012-2016), which itself is oriented by the Program of the Government (2011-2016) adopted after the 2011 national elections. Trade is a major strategic focus of the new GPRSP. Indeed, the timing for the Update is impeccable, starting just as the new GPRSP is going into final drafting and approval. The GPRSP-III prioritizes the primary sector (agriculture, fisheries) and tourism, and puts great emphasis on fostering value added business activity in these sectors and enhancing overall national competitiveness. The GPRSP is a framework document. The DTIS Update and its Action Matrix can be used to inform policy making and options in formulating operational plans for the trade and other sectors identified in the GPRSP as top priorities.

Cape Verde is a country on the move; a country in transition. Cape Verde has a vision. It also has a strategic framework to realize this vision, and achieve a successful transition to upper middle income country. The framework strategy is called the Agenda for Transformation, or the Economic Transformation Strategy (ETS), as it is referred to in the 2008 DTIS. The Agenda for Transformation is discussed in the next chapter. This Agenda is ambitious and outward-oriented, one that seeks to promote high speed, inclusive growth, reduce poverty, and diversify the economic base by tightly and

deeply integrating Cape Verde into the world economy as a hub for high quality international services. The Agenda thus outlines the main development goals and strategic options for the country moving ahead. Cape Verde's agenda for transformation, growth, and poverty reduction are currently delineated and elaborated in the Program of Government for the VIII legislature (2011—2016) and the GPRSP III (2012—2016).³ These strategic documents premise Cape Verde's future growth and development on greater integration and competitive participation in the global economy. This DTIS Update Report is guided by, and is synchronized with, the development goals and strategic objectives and priorities outlined in these documents.

As outlined in the GPRSP III, Cape Verde's transformation strategy aims to capitalize on the country's geostrategic location to become an international hub, or platform, for high value added services that it can sell to the world economy. In other words, the III GPRSP (and development strategy generally since 2001) should be looked at as a competitiveness strategy – with the aim of developing or consolidating several economic sectors as internationally competitive industries. Cape Verde is ideally located, nearly equidistance from three of the world's biggest markets, the European Union (EU), and the North and South American markets. Insularity, micro size and costly domestic and international transportation have historically been handicaps to growth and development. The Agenda seeks to rethink and reframe these historically unfavorable endowments, and the growth of the global knowledge economy further improves the country's chance of success if it can transform itself into a competitive services economy. The idea is to build a competitive and highly diversified economy through the development of key economic clusters. The core sectors, or clusters, capitalize on endowments Cape Verde has in abundant supply (ocean, sky, culture) or seek to exploit growth opportunities opened up by the global knowledge economy (technology-intensive services). The sectors are in different stages of evolution and progress, and doubts have been raised by some inside and outside Cape Verde as to the viability of individual clusters. The specific clusters identified and prioritized are:

- Information Technology: transforming Cape Verde into a Cyber-Island, developing and offering services in the ICT sector, such as technology parks, business processing offshoring, and exporting products and services such the indigenously created electronic governance platform;
- Finance: making Cape Verde a center for financial and investment services;
- Creative economy: building an export-oriented creative industry based around commercializing Cape Verdean culture, arts, music and other cultural forms;
- Agri-business: promoting agri-business activities and enterprises, with a special focus on promoting linkages with the tourism value chain;
- Tourism: promoting high value added tourism, and diversifying the product offerings;
- Maritime economy: building a maritime economy around fisheries, transshipment, and marine services;
- Air Transportation Services: making Cape Verde a regional hub for air cargo and passengers, duty free shopping, and services for airlines;

This Report focuses on several of the priority sectors identified in the GPRSP III. All the sectors will require their own sector-based operational strategies and agenda for action. All the sectors have direct implication for the country's trade in goods and services, and not just for objectives related to employment and poverty reduction. Poverty reduction is a central focus of the GPRSP's priority mix,

³ As of this writing in January 2013, the new GPRSP (or DECRP in its Portuguese acronym) awaits final adoption by the Council of Ministers.

and informs this Reports focus on sectors such as agriculture, fisheries and creative economy that have significant impact on poverty. As discussed below, the country used clear criteria for picking these sectors for priority attention. In general, as stated in the III GPRSP, these are sectors in which Cape Verde is believed to have some comparative advantage or vocation.

This Report concurs with the III GPRSP that the sectors and themes identified for analysis merit priority focus. This priority is based on the country's current development goals as well as on expectations of the economic opportunities present in these sectors, especially in terms of production and export growth. As emphasized in the III GPRSP, the overriding criterion used to identify these sectors and areas as top priorities relates to the projected impacts that investments in these areas will have on: (a) economic growth; (b) employment; (c) poverty reduction. Irrespective of whether there is universal consensus on these three national development goals as the guiding criteria for policy and investment decisions, the fact remains that these are the three criteria embraced by a democratically elected government, confirmed by elected representatives, and validated through extensive national stakeholder consultations and thorough public venting. This Report accepts and embraces the validity and sagacity of these goals. The role and value of trade, and trade integration, must ultimately be about, and find their meaning in, these three development goals.

In Cape Verde's strategic development planning, the economic sectors analyzed in this Report (tourism, culture, fisheries, agriculture) will receive priority focus and investment over the next five years.⁴ As projected through an empirical analysis and economic simulation, the projected impact of these investments on economic growth will be modest, but expected to be greatest in the areas of employment, entrepreneurial activity, and poverty reduction. This Report adopts an explicit approach to identify growth opportunities for production, business creation, export-oriented business growth, job creation, and improvement in household incomes. We believe that, both sound economic reasoning as well as current trends and experience in the sectors, reveal opportunities for growth in production and exports, especially in terms of growing the quantity and quality of certain niche products, enhancing linkages across sectors and strengthening links across small and medium enterprises (SMEs), and developing non-traditional products and services that exploit the country's cultural resources and technological globalization. However, it is important to recognize that this Report does not argue nor does it pretend that governments – or consultancy reports –are in the best position to identify growth sectors and business opportunities better than natural market forces. At the end of the day, it is the market that will pick and choose the winners, the market that will determine the growth sectors and the most promising business ventures. At the same time, public policy can and will shape and influence in important ways, positively or negatively, the market and economic activity, at the macro and firm levels. Public policy will shape the outcomes in these sectors. The objective of studies such as this one is to identify the specific constraints that must be overcome, identify some of the specific opportunities opened up, and determine the set of priority policies, measures and interventions necessary to maximize the development outcomes.

The Report is organized into eight substantive chapters, not including the Introduction or Executive Summary. Chapter 1 examines the country's macroeconomic environment. Chapter 2 (Trade Policy and Institutions) and Chapter 3 (Business and Investment Climate) address critical transversal issues that

⁴ The III GPRSP defines priority ranking among the sectors, dividing the sectors into three groups based largely on current conditions and the country's capacity in each sector, the international context, and potential for the private sector to engage. The three groups are: Group I (tourism, agriculture, economy of the sea); Group II (culture and creative industries, ICT), and Group III (financial services, air services).

impact both the growth performance of the domestic economy as well its external sector. At the end of the day, it is Cape Verde's citizens and business enterprises that will be competing in the global economy. Chapter 4 examines the issue of preparing Cape Verde's small and medium enterprises (SMEs) for export. Business and private sector development must necessarily be a critical component of an effective trade integration strategy, specifically building up the supply and quality capacity of existing and potential exporters. Beyond growth and exports, job creation and poverty alleviation depend greatly of the ability of the country to include micro, small and medium enterprises in value chains such as tourism, agriculture, creative industries, and fisheries. Chapter 5 (Culture and Creative Industries), Chapter 6 (Agriculture and Agribusiness), Chapter 7 (Fisheries), and Chapter 8 (Tourism) examine the individual economic sectors designated by the government as priority investment sectors. All the chapters focus on the *internal* barriers to trade capacity development, focusing specifically on productive capacity and policy and institutional framework.

I.2 Trade Integration Study: General Objectives and Rationale

As with all the 48 countries like Cape Verde that participate in the Enhanced Integrated Framework (EIF), the purpose of their DTIS is to provide a comprehensive and expert analysis that addresses: (i) The domestic constraints facing the country's integration into the world trade system, addressing sectoral, institutional and cross-cutting issues; (ii) The opportunities to increase the country's participation and benefits in the global trade system; and (iii) Areas and strategies to mainstream trade policy into national development policy and planning, such as aligning the DTIS with the new Growth and Poverty Reduction Strategy Paper (GPRSP). The main development goals of the EIF process are to support countries to promote sustainable growth and poverty reduction through trade integration. In addition, in both analysis and recommendations, the DTIS should consider the gender dimension and impact of trade and trade policies.

While it is a document to inform citizens and public debates, this Report is directed primarily at policymakers, decision leaders in both the public and private sectors, entrepreneurs, policy analysts and researchers. As a policy document, its purpose is to contribute to the much larger national dialogue and policy analysis on measures and strategies necessary to promote the country's transition to upper middle income status, with an economy that, while continuing to be small, open and externally vulnerable, is nevertheless capable of finding competitive niches in the global economy. The Report's focus is on trade, primarily on the productive and institutional factors that affect the country's trade capacity and on the policy strategies that can improve the country's beneficial integration into the multilateral trading system.

As a policy document focused on trade, the Report will address other aspects of Cape Verde's economy and political economy only insofar as they bear directly on trade. This Report deliberately jumps directly into the subject matter. It does not dwell upon, nor repeats, well established and known facts about Cape Verde or its economy. As one official aptly put it, the country does not need yet another report to tell it that it has 10 islands. Indeed, even the analytical narrative on the trade sector is kept to a minimum in this Report. The Report builds on the 2008 study, which provided a generous analytical narrative and background information. Moreover, there are several recent studies on Cape Verde's economy and political economy that can be referenced.⁵ In both the public and private sectors, people

⁵ See for example, Government of Cape Verde, Ministry of Finance and Planning, *Cape Verde: Constraints to Growth, Transformation and Poverty Alleviation* (Praia: Ministry of Finance, July 2010); African Development Bank

in Cape Verde often observe that we have plenty of diagnoses and studies of the country's problems and challenges. What is needed now are solutions. This Report is solutions-oriented. The "diagnostic" aspects of the Report are kept to a minimum so as not to obstruct the principal messages and remedies proffered by each chapter, but also to avoid duplication. In the last few years, several in-depth research studies and sector assessments have been carried out in Cape Verde, providing thorough, empirical analyses of different sectors and structural questions. The World Bank has supported major studies in the tourism value chain and in the transportation sector. The African Development Bank, as noted above, closely examined the country's development process for lessons learned and challenges ahead. The Cape Verde government itself initiated an empirically-focused analysis on the *Constraints to Growth, Economic Transformation and Poverty Reduction* as part of the second compact for the Millennium Challenge Account and the third growth and poverty reduction strategy. Numerous surveys, such as the Doing Business Report, the Enterprise Survey, the Country Policy and Institutional Assessment, the Africa Capacity Indicators, the World Economic Forum Growth Competitiveness Index, among many others, provide useful and informative analyses. There is no need to repeat their findings and conclusions here.

II. Overview of the Key Issues and Challenges

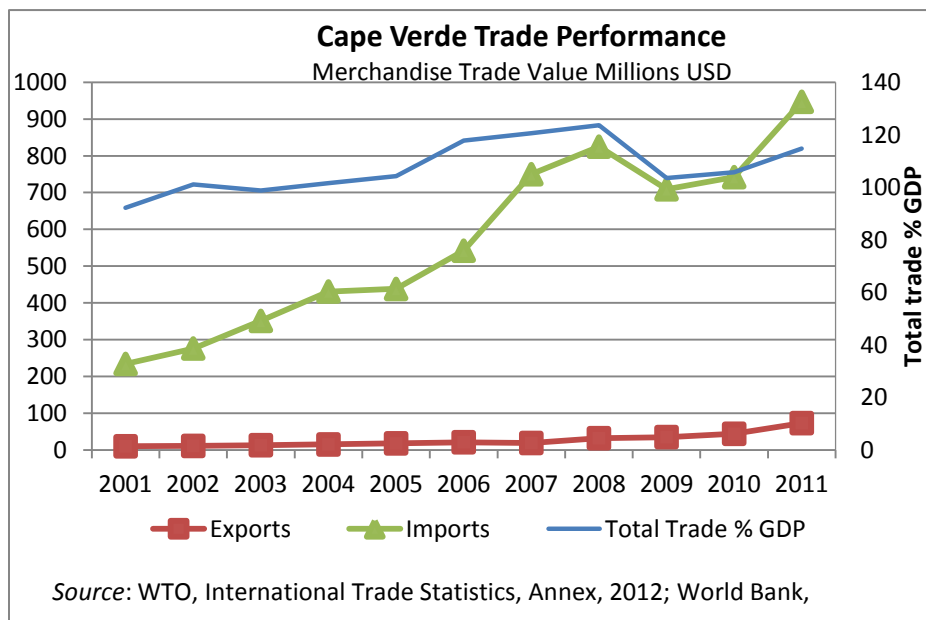
Cape Verde is an open economy. Trade is a key to growth. Considering the country's dependence on trade, a key pillar of national development planning must be a proactive, aggressive, and realistic trade strategy. Businesses and consumers alike rely on trade, especially imports. Without trade, business activity from retail, to manufacturing, to construction, come to a standstill. Trade is the primary means by which the country acquires the technology, foreign investments, capital and even consumer goods. Indeed, Cape Verde is a net food importer, and national food security is guaranteed only by the country's ability to access international markets. All sectors, including traditional ones like fisheries and agriculture, are trade dependent in that necessary inputs like equipment, technologies and other inputs, are all imported. Even Cape Verde's exporters are dependent on necessary inputs that must be imported, from the raw materials, to energy, technologies, packaging and so on. Indeed, it is impossible to imagine a product or service that Cape Verde can export without having first to import some degree of the necessary inputs. This is a serious handicap to entrepreneurial activity and the costs of business.

(AfDB), *Cape Verde: A Success Story* (Tunis, AfDB, 2012) and *Cape Verde: The Road Ahead* (Tunis: AfDB, 2012). See also: Office of the Prime Minister, Center for Policy Strategy/Centro de Políticas Estratégicas (CPE), Policy Note, *Diálogos Estratégicos – Competitividade e Transformação de Cabo Verde* (Praia: CPE, 2012), and CPE and United Nations Industrial Development Organization (UNIDO), *Relatório sobre Competitividade Industrial de Cabo Verde* (Praia: CPE, 10 February 2012);

Cape Verde has a high degree of openness. This is a critical point to bear in mind as the country evaluates strategies for moving forward. Openness is the only option. This is not unusual for small states. The difference is how these states devise creative strategies to capitalize on the advantages openness brings while mitigating the risks that come with openness. Trade is a huge part of its economy. In fact, trade, imports plus exports, comprise 115 percent of GDP. As a micro state with limited production, industrial and export base, with near total dependence on imports, its external balance is structurally in deficit. Trade (narrowly defined as imports and exports) is not the only big factor contributing to the country's high degree of openness. Cape Verde's economy has historically been reliant on remittances, official development assistance and, more recently, on foreign direct investments. Today, of course, tourism is the biggest and most dynamic sector, and the most open part of the economy. In other words, when we take together imports, exports, FDI, workers' remittances, tourism, and even overseas development assistance, we recognize the inordinate role of the external sector in Cape Verde's development. This also means that Cape Verde has a high degree of trade integration today. The challenge is to restructure and improve this high integration in a way that minimizes its risks while powering growth and reducing poverty.

Cape Verde thus already has a high degree of trade integration and openness, but it is an integration and openness that currently reflects dependency rather than competitiveness.

Figure 1 Cape Verde's Trade Performance



has actively and willingly on its own pursued greater integration into the world economy at least since 2001. The sweeping trade liberalization and foreign investment reforms of the 1990s heralded a new and irreversible era in the country's development. Cape Verde is an easy case for international support, through programs such as the EIF and the multi-donor Trust Fund, because such support builds on success and existing momentum. Cape Verde's Agenda for Transformation is outward-oriented, and aims to transform Cape Verde into an international platform for high quality services. Even its investments in primary sectors like agriculture and fisheries have the objective of transforming them as business oriented, export-producing sectors. Second, Cape Verde has joined the WTO and is seeking further integration with the EU. Finally, the country has been actively building international partnerships as an integral part of its development strategy of transformation. These are critical and forward-looking

steps. In summary, Cape Verde recognizes that trade integration and expansion is critical to growth during this next of phase of its development in terms of both growth and poverty reduction. Yet these integration actions now must be complemented by a more proactive approach to trade and investment policy.

As a trade-dependent micro state, with a high degree of openness, Cape Verde's external sector is often at the mercy of the vagaries and tendencies of the world economy. As a small, open, vulnerable economy, Cape Verde's development process since independence can be best described as *managing vulnerability*. Cape Verde's development success, it must be emphasized, was policy-driven, not based

Cape Verde thus already has a high degree of trade integration and openness, but it is an integration and openness that currently reflects dependency rather than competitiveness.

on natural resources exploitation or abundance low skilled cheap labor. Success was based on pragmatic and predictable policy and good governance. Since 1975, Cape Verde has ably managed its vulnerability and external dependence – with a little help from its friends and Diaspora, of course. Indeed, this help and

contribution from its Diaspora was forthcoming precisely because the country managed and utilized effectively this help. Through the prudent management of its vulnerability, the country achieved credibility, which became its most important international currency. With its graduation, and the gradual decline of this external assistance, much greater pressures will be exerted on the country's ability to manage its vulnerability and mitigate the risks that come with openness.

This high degree of openness, and altered external conditions since graduation, necessitate a proactive and assertive national economic statecraft, or economic diplomacy, at the heart of which is a proactive export and investment promotion strategy. A successful transition to upper middle income status requires a focused, integrated and activist economic diplomacy, as demonstrated by successful transition cases such as Mauritius and Singapore. Such an activist and focused economic diplomacy is even more critical for a micro state like Cape Verde with such a narrow production and export base. In other words, this Report focuses on *internal* barriers to trade and export growth. External barriers in Cape Verde's current or potential export markets, while not the focus of the Report, are many and are equally important factors determining the country's trade potential. Producing more and better exportable products and services is not sufficient. While external barriers such as tariffs, technical and other non-tariff barriers are beyond the scope of this Report, the chapters in the Report emphasize the critical importance of national branding, targeted investment and product promotions, trade negotiations capacity, and an activist commercial diplomacy to open up new export markets or deepen existing ones.

Cape Verde cannot look at trade in traditional ways. Its trade policies and strategies cannot be the same as that of bigger and better endowed countries. It cannot be bound by the same recipes and formulas, nor be limited to the generic rules and policy levers. Trade development has to be engineered, smartly and pragmatically. Cape Verde is a micro state with multiple, overlapping structural debilities. A micro state has unique needs and limitations from an economic standpoint. The challenges they face in trade development and integration extend beyond the normal domestic and international barriers countries face. Among the principal economic consequences of this is the dampening of entrepreneurial activity even though potential exists for a profitable venture. Aside from the lack of scale, lack of a domestic

market because geographic fragmentation, or scale and productivity limitations of the land, there are many other market imperfections and failures that Cape Verdean firms and entrepreneurs face. Returns on investments are more difficult to realize given the micro scale and small dimension to the market, especially the kinds of large scale projects the country needs in the area of national logistics chain. Thus, private sectors are unlikely to supply these goods. Financing costs and access further raises the barriers, as do the high input costs and other factors discussed in this Report. These are inhospitable factors aside from whatever policy and institutional failures they may also face. These factors translate into high costs at the beginning of a venture or start-up. In the absence of more favorable entrepreneurial conditions, the effect is that potential investors and entrepreneurs will desist from an otherwise profitable venture because of the high initial costs to start. In summary, these structural characteristics put a heavy burden on policy and public institutions.

As such, the role of the state and of public policy must be looked at differently, including in the area of trade promotion and business support. The burden on the country is to continually search for creative policy solutions and innovative public-private collaborations. Lacking scale and resources, moreover, Cape Verde cannot compete in the multilateral trading system on the basis of volume, that is, quantity. Its geostrategic location gives it modest comparative advantage in air and maritime services, but here too it will have to compete on the basis of quality, efficiency, clean administration and macro stability in order to win space from bigger, more mature and high quality competitors in the Canaries, Azores or West Africa region. Cape Verde has to be a niche competitor. What does this mean, what does it entail, and how can Cape Verde be an effective niche competitor? To be a niche competitor does not mean simply to develop, produce and export an interesting new product. Cape Verde must build capacity at three different levels in order to be an effective competitor in the global economy.

II.1 National Competitiveness Assessment and Transition to Upper Middle Income Status

In terms of trade capacity, business environment, private sector strength, and human resources, Cape Verde is not ready for globalization – to compete in the global market on the basis of efficiency, quality, and innovation. This Report is not a study on national competitiveness. Its focus is on one critical component of

national competitiveness, trade capacity. Appropriately, there is much debate and genuine concern in Cape Verde with the country’s ability to compete in the world economy. As this Report makes clear, arduous and complex work lies ahead for the country to build up its trade capacity, and it is far from being able to realize its strategic objective laid out in the Agenda for Transformation to become an international hub of high quality global services. Being ranked 122 out of 144 countries in competitiveness is not a healthy sign for any economy, especially since the country’s position has been

	Basic Requirements	Efficiency Enhancers	Innovation Factors	Global Score (and Rank)
Cape Verde	4.1	3.2	3	3.5 (122)
Mauritius	4.8	4.1	3.6	4.4 (54)
Senegal	3.7	3.7	3.6	3.7 (117)
The Gambia	4	3.5	3.7	3.8 (98)
Singapore	6.3	5.6	5.3	5.7 (2)

Source: World Economic Forum, Growth Competitiveness Report, 2012-2013

deteriorating, not improving.⁶ The country's many deficits and gaps in its competitive capacity, in terms of both its trade capacity and overall global capacity to compete, are discussed in this and in many other reports. These capacity weaknesses in the area of trade are discussed throughout this Report.

Nonetheless, as Cape Verde moves forward to tackle the many difficult and intricate issues on the road ahead, it is worth noting that Cape Verde already possesses some of the key foundational ingredients of competitiveness, even if these too have some deficiencies that must be improved. Perhaps the most important foundational ingredient of competitiveness that Cape Verde already possesses is good governance and political stability. Despite its negative overall comparative rank in global competitiveness, it does receive high scores on these institutional indicators. Obviously, this is a necessary but not sufficient factor, but it is the *sine qua non* and enabling factor for all else that follows. Second, its sound and credible macroeconomic management has defined its development trajectory since 1975, and it is expected that this prudent management (and broader political consensus on the development model) is now institutionalized and unlikely to suffer major reversal in the future. Similarly, the country has a strong record on investing in human capital, another critical component of the macroeconomic environment, although everyone recognizes the urgent need for a revolutionary upgrade in this area. Good governance and good macroeconomic management are critical sources of competitive advantage for Cape Verde. The importance of good governance and the macroeconomic level to national competitiveness is well understood in Cape Verde. Cape Verdean firms and investors have faced the challenges and frustrations of high input costs, occasional power blackouts, inefficient bureaucracies, and burdensome customs procedures, but they operate in a stable and predictable political and macroeconomic environment where they do not have to worry about *coup d'état*, hyperinflation, institutionalized corruption, civil strife and armed anti-system groups, or state collapse. Past and current political trends in the Sahelian and West African sub-region serves as a useful reminder of

how bad politics and destabilizing political context can undermine not just economic growth but human development.

Figure 2 Number of Merchandise Export Products, 2010



As the works of Michael Porter and many others have shown, national competitiveness comprises several layers of capabilities and elements, from the global, to the national, to the firm, all the way to the individual entrepreneur and citizen. At the broadest level is the global context, consisting of everything from the rules and obligations of the international trading system, to market access and market entry factors, to each country's ability to position and brand itself and aggressively exploit opportunities and trends. For some of the global level factors, Cape Verde has no margin for maneuver or control, but in other areas, such as national branding and exploitation of niche markets, its actions and strategies can be determining. The macroeconomic level of competitiveness

⁶ World Economic Forum (WEF), *The Global Competitiveness Report, 2012-2013* (Geneva: WEF, 2012).

is critical, and Cape Verde had made good progress in this area through decades of structural and institutional reforms. Able, credible and stable macroeconomic management, rooted in key pillars of a credible monetary policy, sound fiscal policy for a low inflation growth model, have been determining for Cape Verde's successful growth performance. A lot of fine-tuning work remains to be done and, as discussed later, attention must be paid to emerging macroeconomic risks produced by the current global crisis.

The macroeconomic level is crucial but not sufficient. At the end of the day, it will be Cape Verdean firms, entrepreneurs and individual citizens who are actually competing in the national and global markets. Only businesses can create wealth and generate the high levels of productivity necessary to support increases in living standards. As such, critically important to national competitiveness is the microeconomic level, as discussed in the chapter on business and investment climate. In today's globalized world, countries are not competing on the types of industries they have or the products they produce but on how efficiently they produce them. As such, in a real way, countries are competing on the basis of their microeconomic environment, on the degree to which they provide a productivity-enhancing and favorable environment for their businesses and entrepreneurs to operate. The microeconomic level comprises factors such as the doing business climate (institutional and regulatory environment, fiscal policy, quality of infrastructure, etc.) to the organizational capacity, labor force skills endowment, and strategies of firms and entrepreneurs. As this and many other reports have noted, Cape Verde has made much progress at the macro level, but a great deal of work remains to be done at the micro level and its multiple dimensions. As illustrated in many international indicators, Cape Verde is still not competitive in the microeconomic level. The cost of doing business in Cape Verde is still high, including doing cross-border trading. This high cost reflects the country's many structural handicaps, as mentioned before, but it also means that institutional and policy failings have even greater negative impact on entrepreneurial and economic activities. The state, of course, cannot and should not do it all. Firms, entrepreneurs, individual citizens must do their part, invest in and build up their own skills and capacities. The internal capacity and strategies of firms are an equally important part of the microeconomic environment. As is widely recognized, however, the private sector in Cape Verde has its own internal weaknesses. As such, the role of policy and public institutions remains critical at this level, especially in the context of a country and economy with the structural characteristics of Cape Verde. Firms, entrepreneurs, and citizens must have an enabling and supportive environment. Moreover, the state and private sector must rethink their relationship, and search for creative partnerships and solutions to resolve the many market failures and constraints that stand in the way of private sector-led growth.

In terms of the global level, a critical competitiveness factor in the age of globalization that countries have adopted has been an economic diplomacy and national branding strategy. A recurring theme during the field work, consultations and stakeholder interviews to prepare this Report was the issue of national branding and external promotion of the country. Cape Verde today is a known destination for tourists and FDI, and the country has done an impressive job to gain preferential market access. Yet there is a complete absence of an official virtual presence of the country in the internet, and a national branding strategy does not exist. The country has an ambitious economic diversification strategy under its Agenda for Transformation that is capital intensive and requires significant levels of foreign direct investments, but there is yet no targeted FDI strategy aligned with the Agenda's sectoral objectives. To be an international hub for transportation and transshipment, for example, will require an active diplomatic-commercial effort to position Cape Verde in one of the global supply and logistics chains or global production and assembly chains.

Whether it is national branding or promoting Cape Verde's niche products in the global market, there is an urgent need to devise an effective economic and commercial diplomacy strategy. Lacking scale, and in urgent need to diversify its economy and sectors like tourism, it may not be an attractive destination for global foreign investments. Even in niche segments, such as eco-tourism and eco-lodges, or ethnic, cultural or organic products, it will not be able to compete against more mature or larger scale low or middle income competitors. Cape Verde's production and export base is too narrow and characterized by high factors costs. Just as it cannot compete in the world market on the basis of volume nor build its trade strategy on supplying the top products demanded by the world market, Cape Verde needs a strategy fit to its scale and realities. Yet, even in niche segments it will have to be proactive in carving out its own niche and create new demand rather than passively wait for demand or compete in existing niche segments. It is widely accepted that Cape Verde has export potential in niche products like wine, goat cheese, and coffee, for example, but Cape Verde will not be the only exporter of these specialty items in the world market, including segments such as organic or ethnic products. In the volcanic wine segment, for example, Cape Verde will have to compete with Italy, New Zealand, Madeiras, Hawaii, and the Canaries, while its coffee would have to find fight against specialty and organic coffee from huge competitors like Indonesia, Papua New Guinea, Ethiopia, and even Uganda or Rwanda. What does all this mean?

Cape Verde will have to brand itself, to market and sell "Cape Verde," not products made in Cape Verde. This idea receives strong emphasis in the chapters on Agribusiness, Tourism as well as the one Culture and Creative Economy. Cape Verde will have to compete in niche segments, selling not individual products per se but the distinctiveness of the country, its culture, its geography its people. Thus, the burden is on the country to promote and sell itself and its products and services. Indeed, considering the country's many limitations and structural handicaps, national "branding" assumes an even bigger role as a critical success factor moving forward to open export markets as well as to attract the right kind of foreign investments that complement and bolster the country's transformation agenda. The moment is an opportunity that should not be missed. Cape Verde already benefits from some international visibility as a result of its music, its tourism, and even its recent success in international football competitions. In addition, the country has built up an impressive reserve of international credibility. It must now capitalize on these opportunities.

Two important points regarding this commercial diplomacy must be mentioned. First, this activist economic diplomacy is not to be relegated to a specific agency or ministry. It begins with, and its chief promoters are, at the top, with presidents and prime ministers and ambassadors. The country's diplomatic service, for example, will have to undergo an institutional and organizational culture restructuring that focuses more of economic statecraft than high diplomacy. In today's globalized world of intense economic competition and rapid capital flows, the putative functions of presidents and prime ministers have changed away from ceremony to commerce. A large delegation of business leaders usually accompanies the president of the United States or premier of China on any official state visit overseas, as is the standard practice of the heads of state of all the industrialized countries. The second point, equally important, is that the economic diplomacy must be an integrated, multifaceted strategy, and not simply limited to national marketing and business fairs. Essential to this economic diplomacy is strong institutional capacity to defend, negotiate and promote the country's commercial interests, including a coherent trade policy and international negotiations capacity. It must be an integrated approach, viewed as just one reinforcing component in the broader national effort to promote business development, create an enabling business climate, improve efficiencies in the market and in public administration, fostering SME development, and the gamut of domestic supports for export production and exporting firms. For example, a nation's economic diplomacy includes the high level component of

economic diplomacy involving national branding efforts in the global market or business-oriented official state visits by the country's leaders, but it must also include very practical measures to support national enterprises, especially SMEs, to capitalize on opportunities, such as grants, interest-free loans, partial funding support and other fiscal incentives for market intelligence studies, exploratory business trips, attendance in international business fairs, and so on. To avoid favoritism, mismanagement and moral hazards, all domestic supports for business development and export promotion can be based on competitive, transparent and performance-based criteria, with a competitive and transparent process of proposal submission, peer review, performance agreements, etc. Some of the support and performance-based incentives can be retroactive or *post hoc*, as tax write-offs or reductions. Throughout the world, in all the successful economies, governments have devised creative and WTO-compliant policy levers and measures to develop their private enterprises, enhance their competitiveness and promote the export of their national products in the global market.

Successful Cape Verdean firms seeking to expand or open up new foreign markets, such as the case today with Inpharma, Prime Consulting, Empreitel Figueiredo, Ilha Verde, Loide Solutions, PD Consult, SCI-Spencer, Monteiro e Filhos, or Vinho Chã, should not be doing so alone and unsupported by a broader, activist national economic diplomacy. These firms must and will bear all the risks, but they should not bear all the costs of opening up new markets. This is especially true for PMEs, who need practical support to mitigate the high costs involved in finding new markets and customers, placing their products in distribution chains, and bringing visibility to their products. These enterprises are cited as examples of the many Cape Verdean firms that are achieving a measure of success in the domestic and foreign markets, and are doing so out of their own creativity, persistence, organizational capacity, high quality, hard work and forward thinking. The point here is not to suggest that the government help only these enterprises listed as examples, or to adopt a policy to pick the winners. The role of policy, and the nation's economic diplomacy, is to promote the entire country, not necessarily individual firms; it is to promote its strong sectors or new sector it wants to develop by opening new markets, advance the economic interests of the country and its enterprises through effective trade negotiations, to mobilize external resources and investments. For Cape Verde, the "product" is Cape Verde. This is the brand. Considering its small scale, in the global market Cape Verde has to be a niche competitor. This implies that its individual products and services in the global market will have visibility and differentiation only through the national branding.

An effective economic diplomacy infrastructure will require several key components at the institutional and human resources levels. For Cape Verde, and considering its starting conditions, three critical ingredients for an effective economic diplomacy will be: (i) institutional coordination among the key agencies, such as CI, ADEI, MIREX, MFP, MTIE, and even the offices of the prime minister and president. These agencies and leaders must be on the same page, share the same vision, and pursue the same consistent set of objectives; (ii) build up institutional capacity, including the technical and human resources capacity for investor targeting, market intelligence, investor lifecycle services including after-care, and enhanced administrative efficiency such as "single window" capabilities; (iii) build up trade negotiations and international contracting and financial engineering skills; (iv) build up system wide capabilities, both in terms of technical capacity but also new policy instruments, related to domestic supports for business development and export promotion.

Cape Verde's investment and trade promotion strategy, like its overall economic diplomacy that guides it, must be clear-eyed. It must be pragmatic as it must also be proactive, a daily hands-on, continual effort that takes the initiative to open up new markets and target specific investors as well as to carry out work on the home front to build capacity and facilitate trading and business creation. An important

point to bear in mind is that, in terms of its economic diplomacy, Cape Verde is not starting from zero. It has an able and prudent diplomacy. Indeed, since 1975, this diplomacy has been a critical factor in the country's development success, both in terms of steering the country away from becoming entangled in international disputes but also in terms of mobilizing donor support, finding new development partners, negotiating a successful transition strategy that provided the country a buffer period, and seeking new preferential market access arrangements such as the special partnership with the European Union. The country and diplomatic service must now build on and move beyond these accomplishments.

Cape Verde needs an effective trade strategy. This effective strategy can only come from the country, through a deliberate process of study, reflection, strategic dialogue involving consultation and wide input from the various stakeholders in the public and private sectors. It cannot come from, or be dictated by, international agencies and donors. As noted and worth repeating, the country's Agenda for Transformation has chartered a course for its transition to a globally competitive upper middle income that heavily emphasizes trade and further integration into the multilateral trading system.

A successful transition to upper middle income status necessarily requires the country be competitively positioned in the global economy. A competitive, dynamic and broad-based export sector is key. As recognized in the III Growth and Poverty Reduction Strategy Paper (PRSP), fostering the growth of a dynamic export sector is essential to country's goals of achieving high growth and poverty reduction. Yet to build this competitive and dynamic export sector, Cape Verde must first overcome several broad challenges directly related to its trade sector:

- *Building productive capacity:* Severe constraints to expanding and improving productive capacity and diversification of the economy. Cape Verde is in a privileged position relative to many other developing countries and Small Island Developing States (SIDS), enjoying preferential access to the world's two biggest markets, the European Union and the United States. But in order to turn market access into market entry, the country must build up its productive capacity, to diversity and expand its basket of exportable goods and services, especially in terms of developing niche products as well as a range of services that exploit its strategic location but also ones that exploit information and communications technologies;
- *Export promotion and trade-related capacity building:* Create and strengthen domestic support institutions, including an explicit export promotion policy strategy, that facilitates and builds up the capacity of current and potential Cape Verdean exporters to overcome existing supply-side and institutional constraints as well as the market entry challenges they face. Urgent and concrete steps are necessary to build up the supply capacity of Cape Verdean producers and exporters, whether in terms of production costs and capacity, commercialization, quality and standards, or export facilitation, especially targeting products, sectors and demand markets that Cape Verde has competitive advantage, such as high-end niche products that exploit the 'national brand' as products originating from a unique place on earth; natural and organic markets; the Diaspora market; and ethnic or variety products. In this regard, it is recognized that the challenge is even greater because implementing and sustaining a domestic support framework – for sectors, SMEs, or exports – will be exceedingly difficult in a time of economic slowdown and the loss of fiscal space, in addition to restrictions imposed by the multilateral trade regime;
- *Quality and certification standards:* Construct an effective national quality certification and quality management system. If there is no quality, there is no trade. A roundtable of experts convened during the preparation of this Report cited quality and certification as one of the

top constraints facing Cape Verde's export potential.⁷ Deficiencies in quality, standards, and certification were reoccurring themes during the interviews and field research of this Report. Cape Verde lags behind in implementing a national quality system, both in terms of quality management (ISO 9000 family of standards) and environment (ISO 14000 standards). Deficiencies in quality and standards permeate throughout the economy and involve all economy sectors, products, and services. The country has made some progress, and key institutional pieces are in place, such as a few economic regulatory agencies. A national quality system has been designed on paper, including an accrediting and regulatory body, but the system is not implemented. In constructing a national quality system, however, Cape Verde must create a system that is autonomous and suitable for its realities and needs – while also meeting the basic international sanitary and safety standards. Cape Verde will be a niche exporter, and the primary differentiation of its products will be the “Made in Cape Verde,” that is the unique characteristics of the country. A quality system that copies foreign models may not be suitable considering peculiarities of the country in terms of both production structure and the intrinsic qualities of its products. The system must ensure basic safety and sanitary standards at the production and post-harvest collection and treatment, through close monitoring, training, and certification. But importantly, the system must preserve and valorize the intrinsic qualities of national products. Cape Verde has proven it can meet rigorous international quality standards, and it has sufficient national expertise and knowledge to construct an indigenous national quality system. The country's excellent track record and performance in its air transportation industry clearly shows the country is capable of creating and managing an effective, world-class safety management system. Several Cape Verdean enterprises, such as Technil Indústria, Inpharma, Loide Solutions, and Freitas Catering, have international certifications. There are a number of isolated product and industry specific quality management and certification initiatives, such as *grogue* and goat cheese, and the fisheries export segment has been able to safety the high standards necessary to enter the European Union market. Certification involves high transactions costs for firms, and is beyond the reach of small and micro enterprises. Aside from moving more quickly to implement the institutional and regulatory framework of the national quality system, government can promote the establishment of common certification laboratories, especially in the producing islands, that can serve different firms, industries and sectors;

- *Trade infrastructure and bringing products to market:* Build up and extend a national logistics system, covering the entire chain from production, to warehousing, cold storage, inter-island transportation and final distribution.⁸

⁷ Roundtable discussion on Cape Verde's exports, organized by the National Implementation Unit-EIF, Conference Room, the United Nations House, 27 September 2012.

⁸ The Mauritius Freeport Development (MFD - <http://www.mfd.mu/> and <http://www.efreeport.com/>) is an ambitious and innovative model given Cape Verde's goal to become an international hub for services and transshipment.

Aside from these obstacles and constraints, there are numerous others that Cape Verde must confront and resolve, as pointed out by several recent reports.⁹ These constraints affect directly the operational costs of businesses, and dampen entrepreneurial activity. The major ones include transportation, the quality of infrastructure, the cost of communications, the cost and reliability of public utilities, among others. A globally competitive economy that aspires to upper middle income status must be able to get the basics right, such as water, electricity, and sanitation. That is, all investments to improve the quality, reliability and cost of water and energy alone will have a big impact on the competitiveness of Cape Verdean firms. These are the basics that all economies must attain if they wish to be minimally competitive. Repeatedly during the interviews and field research for the Report, a consistent complaint from businesses in every sector was the cost and reliability of water and electricity. Inpharma, the big pharmaceuticals producer and exporter, estimates that roughly 10 percent of its sales revenues are taken away by the cost of water and electricity.¹⁰

As noted previously, the critical constraints and bottlenecks impeding growth and development in Cape Verde are well known. Since the II GPRSP, the critical constraints identified include: lack of economic diversification and exceedingly narrow productive base; high cost and poor quality of basic services (water, energy, communications, transportation); quality and relevance of human resources and need of an educated labor force with specialized skills; rigid and anti-productivity labor code; difficult access to financing and uncompetitive commercial banking sector; economic regulation framework incomplete and incipient; administrative burdens on the doing business and investment climate.

At present, Cape Verde is not competitive in trade. As seen in Table 2, it ranks favorably compared to its West African neighbors, but it is not certain that these are the most appropriate benchmarks. The structural features of the country, the many market failures, weaknesses in the business climate, policy and institutional shortcomings, human resources limitations, and high input costs, to name a few, all add to reduce the competitiveness of the country and its firms. Despite some progress over the years, trading continues to be difficult and costly in Cape Verde. This is the reality. Policy and the reform agenda aspire to change this reality. In the meantime, Cape Verde is not competitive in trading across borders. The gap is substantial between where it is today in terms of trade facilitation and where it wants to go as a country, as envisioned in the Agenda and in the III GPRSP.

Table 2 Trading Across Borders - Comparative Indicators, 2012

Country	Rank	Cost to Export	Time (Days)
Cape Verde	63	1200	19
Belize	102	1355	19
Benin	130	1079	29
Cameroon	157	1379	23
Cote d'Ivoire	163	1999	25
The Gambia	87	1180	23
Ghana	99	815	19
Guinea-Bissau	116	1448	23
Maldives	138	1550	21
Morocco	47	577	11
Mauritius	15	660	10
Sao Tome & Principe	89	690	26
Senegal	67	1098	11
Seychelles	33	876	16
East Timor	83	750	25
Singapore	1	456	5

Source: World Bank, Doing Business Report 2013. Data based on estimates of the cost (USD) and days to ship a 20' container.

⁹ See for example, Government of Cape Verde, Ministry of Finance and Planning, *Cape Verde: Constraints to Growth, Transformation and Poverty Alleviation* (Praia: Ministry of Finance, July 2010); and CPE/UNIDO, *Relatório sobre Competitividade Industrial de Cabo Verde*.

¹⁰ Author's interviews with company officials, 27 September 2012.

Cape Verde faces multiple and steep challenges in building up its supply-side and institutional capacity for international trade. The list of challenges and obstacles to overcome are daunting as they are well known and widely discussed in public debates. The chapters below examine many of these challenges in specific sectors and industries. It is impossible to address every single important obstacle in every sector or industry. The chapters below highlight only a few of the most important, and their discussion should not be construed as comprehensive. Many of these challenges arise out of Cape Verde's physical peculiarities and natural endowments, as stated earlier. Cape Verde's micro size – its lack of scale – is a serious economic problem in terms of production costs. Even for the production of niche products, the cost structure may not support a viable venture, especially considering the small or fragmented scale of production, high transportation costs, and reliance of imported inputs. It is not just the country that is small. Its producers and exporters are also small. Market failures are both many and severe in economies with Cape Verde's characteristics – micro size, geographic discontinuity, internal market fragmentation, insularity. The country's geographic fragmentation makes impossible a unified domestic market, in addition to multiplying the costs involved in getting products, public services, utilities and infrastructure, and public administration to all the islands and their scattered communities. As some of the chapters below argue, globalization and new information technologies offer novel opportunities for Cape Verdean firms, entrepreneurs and service providers to bypass and transcend these obstacles engendered by the country's geographic and insular characteristics. In the meantime, these historical handicaps remain, hampering domestic as well as international commerce.

The difficulties the country faces in building up its internal and external trade capacity are not all the result of geography, but also institutional weaknesses as well as the organizational debilities of Cape Verdean firms themselves. Even if we remove the binding constraints of geography and natural endowments, Cape Verdean firms, especially its micro, small and medium enterprises (MSMEs), are not competitive. The factors for this are many – from management deficiencies to the high operational costs induced by their import dependence, the high costs and unreliability of water and energy, labor market distortions, lack of a customer-focused mentality, poor articulation with their supply chains, small production scale, to list just a few. Private sector development is a priority area requiring more attention, especially in the area of fostering Born Global SMEs as the chapter below argues.

II.2 Building on Success

The challenge of developing trade capacity and expanding the country's export base is complex and long term. This challenge is difficult even for bigger, mature and better endowed countries that have an industrial and manufacturing base.¹¹ Achieving this goal will require action on many fronts. Aside from the policy and institutional gaps, Cape Verde's many structural handicaps stand in the way. Nonetheless, every day in Cape Verde there is news of a successful enterprise, new export venture or initiative. The significance of these cases of success is precisely that they have managed to overcome many of these policy and market failures through perseverance, managerial ingenuity, innovations, and business fundamentals. Some of these cases of success are highlighted in the Case Studies annexed to this Report. Some of these successful initiatives are small, community-based ventures focusing on production, commercialization, quality and certification, and business innovations. Other cases, such as the massive Ilha Verde/Silos Marangatu venture by Cape Verdean nationals, are brilliant efforts to rethink both production and exports in the context and scale of Cape Verde. The Ilha Verde project, for

¹¹ On Cape Verde's narrow and uncompetitive industrial base, see CPE/UNIDO report, *Relatório sobre Competitividade Industrial de Cabo Verde* (Praia: CPE, 10 February 2012).

example, bypasses the structural handicaps imposed by Cape Verde's micro scale, arid climate and lack of arable land by using farmland in Paraguay to produce grains at scales unknown in Cape Verde, and using the most modern methods and equipment. Even more, the project exploits Cape Verde's convenient geostrategic location as a platform to re-export to the West African and Lusophone markets. There are many other examples of ventures and products in Cape Verde that are achieving some measure of success in export markets, perhaps not all at the scale of Inpharma, FRESCOMAR or Ilha Verde. Yet, given Cape Verde's dimensions, even one small successful venture in a local community will have a big impact on household incomes, employment and community well-being.¹²

At the end of the day, it is the efforts, skills, and entrepreneurial drive and ingenuity of the business owners and entrepreneurs in the private sector that will ultimately determine success or failure. It is not the government. The government can help, in direct and indirect ways. As this Report emphasizes, building on these successes will require a proactive, purposeful and practical approach to policy making, including an economic diplomacy that works on behalf of the private sector. The government's macroeconomic policies, its microeconomic reforms, and investments in human and physical capital are critical factors that affect successes and failures at the firm level. Sectoral policies are critical. The reality is that, giving Cape Verde's international obligations, including its WTO commitments and its emerging partnership with the EU, the country has a reduced margin for maneuver in terms of domestic supports, incentives schemes, and specific subsidies, especially ones targeting production for export. These production and export promoting supports, of course, are widely and deftly employed by the advanced industrial countries. Cape Verde, however, is a dependent micro state, lacking any bargaining power, and thus may not have the option of relying on such practices others regard as trade distorting or anti-competitive against imports. Cape Verde will have to be creative and skillful in using the levers at its disposal. Yet, precisely because Cape Verde is a micro state with multiple structural handicaps, it must push the envelope of existing practices and rules in the multilateral trading system, including asserting its right for special and differential treatment.

III. Situation Analysis

In the months during which this Report has been prepared, Cape Verde has been traversing a challenging domestic and international situation. While there are some positive, perhaps surprising signs, such as continued robust growth in tourism and merchandise exports, the main macroeconomic indicators are troubling. Uncertainty prevails over the short and medium term outlook. For the first time in the past two decades, there are concerns over macroeconomic stability as a result of the increased risks associated with the global and European economic crisis.

Since 2008, Cape Verde has been confronting a difficult external environment which, as expected, has dampened growth performance and put pressure on macroeconomic management. At the time of writing this report in late 2012, the external environment continues to be inhospitable to growth. As expected, during this period of global crisis, the country's economic growth slowed but remained respectable. The growth rate dropped significantly in 2009, to 3.6%, contracting by nearly half from the previous year and far from its peak performance in 2006 of 10.1%. Growth resumed in 2010. Growth

¹² For more discussions and examples of successful Cape Verdean firms, including export success, see cover story "Negócios Made in Cabo Verde," *Iniciativa – Empresas e Negócios de Cabo Verde*, No. 44 (September-October 2012).

rates dropped from 5.6 percent to 5.1 percent in 2011, well above that of the leading economies. This slower but positive growth was in part due the counter-cyclical responses by the government and the continued robust growth of tourism, fisheries exports and remittances. As discussed in the next chapter, exports, remittances and tourism have been the bright lights in an otherwise depressed situation, and inflation has not been a factor while the real effective exchange rate has been stable. However, the Central Bank (BCV) is projecting slower growth for 2012 and 2013, while the IMF forecasts 4.3 and 4.4 real GDP growth rates respectively. Central Bank data reveal negative trends in key sectors of the economy, reflecting the overall contraction of domestic demand during 2011 and 2012. Durable goods import numbers were in the negative for most of 2011 except for August through October. The construction sector has been hardest hit. In fact, business confidence levels in the sector have been consistently in the negative every semester, every year since 2009. After posting modest increases in the importation of construction materials and cement in 2010, import numbers for most of 2011 were flat or negative.

Expectedly, external development assistance has dropped precipitously as a result of the crisis, a substantial blow to the economy and the country's ability for fiscal maneuver to mitigate against domestic contraction. External assistance from all sources amounted to \$9,067 billion ECV in 2010. This figured dropped significantly to \$5,658 billion ECV in 2011, a steep 60 percent decline.¹³ Into the third trimester of 2012, this aid was barely over half of the previous year's total. Such declines are substantial for a country that still relies on foreign development aid as an importance source of external financing for the economy and for budget support. As noted, the decline is unsurprising, and expected given that the country's principal donors, such as Spain and Portugal, faced severe economic crisis at home and other EU partners cut back as well. As discussed in the next chapter, foreign direct investments likewise declined substantially since peaking in 2008. In contrast, and surprising given the circumstances, remittances have been performing well during these crisis years. The total for 2010 was unchanged since 2008, tallying slightly above \$10 billion ECV. However, remittances increased by nearly 30 percent in 2011, totaling some \$13.4 billion ECV. Remittances growth appears to continue into 2012, which already totaled the 2010 mark by the third trimester.¹⁴

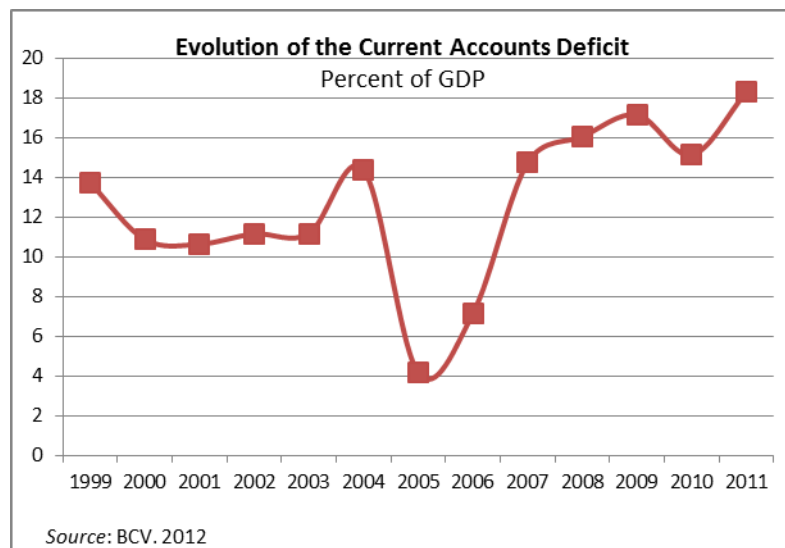
In the face of slower growth and deteriorating external environment, and the resulting pressures on national accounts, the government has attempted to steer the economy between stimulating domestic demand and maintaining macroeconomic stability, especially preserving monetary and exchange rate stability. A growing concern too has been the growing national debt. Thus, aside from monetary and exchange rate stability, the challenge to macroeconomic management has also been to balance among growth, the public investments necessary to boost growth, and maintaining debt sustainability. Counter-cyclical policies include a major public investment program in 2010-2011, focusing primarily on major economic infrastructure. This counter-cyclical, expansionist policy began in 2009. Despite the noticeable decline in overall official development assistance, especially after 2010, Cape Verde's development partners have been supportive during these difficult years. Quick action by these partners have helped Cape Verde minimize the macroeconomic risks, including individual donor support, policy instrument support from the International Monetary Fund (IMF) and supplementary budget support from the African Development Bank. For its part, the government renewed its focus on improving revenues and collection efficiency, including the introduction of new revenues reform legislations in 2012 to streamline the tax code, including the fiscal incentives regime, and customs duties.

¹³ Banco de Cabo Verde, *Boletim de Estatísticas*, 3rd Trimester, 2012.

¹⁴ All data and calculations from Banco de Cabo Verde, *Boletim de Estatísticas*, 3rd Trimester, 2012.

The last year since has been a period of belt tightening given the very limited fiscal space and rising debt levels. Indeed, spending was pulled back, leading to a decline in the budget deficit, while the government increased tax revenues. The government has been clear and steadfast in prioritizing monetary and exchange rate policy, curbing spending and domestic credit in order to maintain a low-inflation policy and preserving foreign reserves to maintain more than three months of imports. In late 2011, the central bank used its tight supervision of the banking system to increase minimum reserves requirements and increase interest rates. The priority has been to condition all monetary and financial policy to the requirements of supporting the exchange rate regime.¹⁵ Nevertheless, the pressures have been real. The country's external accounts have been deteriorating. The current accounts deficit increased sharply from 14 to 17 percent of GDP in 2011. Despite the growth of tourism, increasing fisheries exports and stable levels of remittances, imports increased while foreign investments fell sharply as did official development assistance. Foreign reserves fell from 4.2 months of imports in 2010 to 3.2 months in 2011.¹⁶

Figure 3 Evolution of the Current Accounts Deficit, %GDP



Despite the festering global and Eurozone crises, Cape Verde's economy thus far has proven quite resilient. The near term outlook, however, is full of risks, primarily because the Eurozone crisis remains uncontained and, worse, it has damaged Cape Verde's principal European partners, Spain and Portugal. It is worth recalling Cape Verde's high degree of dependency on the Eurozone – the source of over 90 percent of its tourists, remittances, exports and imports, foreign investments, and bilateral assistance. Further deterioration in Spain, Portugal, along with continued weakness in Cape Verde's other key European markets, will necessarily mean sharp declines in external demand, decreased foreign direct investments, further declines in official transfers, and reductions in remittances.

¹⁵ Banco de Cabo Verde (BCV), 2013.

¹⁶ Banco de Cabo Verde (BCV), *Monetary Policy Report*, May 2012, 4.

III.1 A Country on the Move

Everyone in Cape Verde, from the government, to the private sector, to ordinary citizens, recognize that, despite its impressive performance in the post-independence decades, a great deal of work lies ahead. From job creation, to customs procedures, to transportation services, to sanitation and other public utilities, major gaps and flaws remain, engendering legitimate frustrations. Success has been incomplete, and not all of the population has shared equally its fruits. Nonetheless, in absolute and comparative terms, Cape Verde has made substantial progress in the past three decades. Using the benchmarks of any of the widely used regional and international comparative indicators, Cape Verde's social, political and economic performance has been impressive.

This report looks ahead, and analyzes the major challenges and opportunities facing the country in building up its internal productive and institutional capacity to compete effectively in the global trade system. It is neither relevant nor necessary in this report to narrate Cape Verde's successful performance in the post-independence period, the subject of several recent documents.¹⁷ It is the present and near future challenges that much preoccupy policy and leaders in both the public and private sectors. Key components of the old growth model that produced the development success during the first phase of development have been exhausted. The transition challenge is to find a new durable foundation for growth and poverty alleviation, and building the country's trade capacity will have to be a major component.

From the standpoint of this Report, a fundamental observation about Cape Verde is a useful starting point. Namely, Cape Verde is a flexible, adaptable, and reform-oriented country, with a political leadership, a political system, and a society accustomed to and accepting of reforms, including radical

Cape Verde is a flexible, adaptable, and reform-oriented country, with a political leadership, a political system, and a society accustomed to and accepting of reforms, including radical breaks. In effect, Cape Verde has been a country in the midst of continual reforms for three decades now.

breaks. In effect, Cape Verde has been a country in the midst of continual reforms for three decades now. Since the structural reforms of the early 1990s, the country has not stopped. In the larger historical context of its development trajectory, the country has proven to be adaptable and flexible in adjusting to changed conditions and to adopt radically different

courses of action as situation demands. Its society and political system, from the very beginning of its post-independence journey, was tolerant and predisposed to reform. Unlike so many other countries whose politics or leadership is hostile and resistant of reforms, Cape Verde enthusiastically embraces reforms. Indeed, it has usually taken the initiative. Pragmatism, not ideological purity or personal agenda, has guided decisions. The country did not hesitate to initiate a serious market-oriented reform process in the late 1980s, even under the one-party system, as the economy began to stall. Excepting Botswana, it was the first country in sub-Saharan Africa to embrace the transition to multiparty democracy. Its structural reforms of the 1990s were sweeping. The transfer of political power in 2001 did not disrupt these bold reforms. In fact, reforms were accelerated and complimented with second

¹⁷ See for example, the African Development Bank (AfDB), Regional Department West II (ORWB), *Cape Verde: A Success Story* (Tunis: AfDB, December 2012).

and third generation reforms aimed at improving economic competition and regulation, modernizing public administration, improving the business and investment climate, and even a new phase of structural reforms to diversify and transform the productive bases of the economy.

The Agenda for Transformation heralds a new structural change in the economy, as the information society reforms seek to change fundamentally the society and the relationship between citizens and the state. To be sure, not all reforms succeeded, or were implemented fully, or were accompanied by complementary measures, only tepid steps were taken in some, and much work lies ahead. The country has been good at macro level reforms, but has yet to seriously tackle the necessary micro level reforms. No one disputes this. The key point here is that Cape Verde is a country, and has a political system, amenable to reforms. Indeed, it is reasonable to say that Cape Verde may be experiencing reform overload, and some question whether such an ambitious reform agenda has outstripped the country's capacity to carry it out effectively. This favorable, reform-friendly political context is a huge advantage, and portends well for Cape Verde as it attempts its transition to upper middle income.

Reforms in the business and investment climate have been producing results. Even while acknowledging the serious challenges remaining and the incomplete or slow nature of these reform initiatives, the fact remains that Cape Verde today is an increasingly attractive and credible place where foreigners and emigrants are investing. It is much easier to do business in Cape Verde today than it was at any other time in the past. As discussed in the next chapter, its international recognition in 2010 and 2011 as one of the top reformers in the world in improving the doing business climate was based on real, measurable progress.

As noted above, the country's Agenda for Transformation aims to reposition Cape Verde in the global economy. The Agenda is outward oriented. It promotes the structural transformation of the Cape Verdean economy as a global services platform. As alluded to above, the Agenda itself is an exemplary illustration of Cape Verde's pragmatism and adaptability. First, the Agenda originates out of a recognition that the country has limited development options, and the way forward to the next phase of development must be to exploit the few advantages it has, such its geostrategic location, climate and vast oceans. Second, the Agenda also originates from the recognition, validated by graduation, that the country will gradually lose two of its most important support pillars of its development, external aid and remittances. The Agenda offers a vision and long term policy framework, and has guided the articulation of the last two GPRSP. The Agenda has been accompanied by the other large scale and long term reform agenda, the state modernization reforms, whose development objective is improved economic competitiveness with a central focus on improving the efficiency of public administration and macroeconomic management. In summary, Cape Verde is attempting to accomplish what only very few African countries have done – to transform its economy from a narrow, mainly monoculture base and to build a 21st Century knowledge society.

The Agenda is centered on the basic premise that the economy must be transformed by turning Cape Verde into an international platform for high value added services. The old growth model is no longer viable. To build a globally competitive economy, promote high speed growth, and reduce poverty, the Agenda identifies seven strategic economic "clusters" – tourism, agriculture, economy of the sea, air transportation services, financial services, information and communications technology (ICT), and creative industries. Tourism was already emerging as a success, and investments began pouring into transforming the agricultural sector. The idea is to build economic activities around these clusters and for Cape Verde to become an international platform for high value added services. Each cluster

combines a series of services where there are potentials for developing competitive advantages by Cape Verde. Progress has been uneven across these clusters.

As evident, the Agenda is trade-intensive. If successfully implemented, it will mark a new era in Cape Verde's integration into the world economy. The Agenda is also capital intensive, requiring substantial investments and quality improvement in the nation's economic infrastructure. The Agenda is also skills intensive, exerting strong demand on specialized skills and 21st Century creative talent. The Agenda provides the map for the future. It is the guide to policy making and development management. Even if overly ambitious and not uniformly operational, the transformation agenda has nonetheless provided a useful policy framework. As the guiding strategic framework, it facilitates policy continuity, consistency and coordination.

III.2 Small State, Big Ambitions: Transition to Upper Middle Income Status

Cape Verde today has an ambitious reform agenda. Cape Verde has been a consistent and aggressive reformer for more than three decades, and has managed to sustain a political and institutional context that is conducive to reforms. This bodes well for the near term future. Cape Verde is a country today in a dual transition, both of which are full of risks and challenges. The first transition involves its December 2007 graduation (effective in January 2008) from the list of Least Developed Countries (LDCs). Cape Verde is now classified as a lower middle income country (LMIC), although it has a per capita income in the upper range of the LMIC group. In December 2007 Cape Verde became only the second country (after Botswana) to graduate from the LDC list, and is only one of three countries in the last four decades to graduate.¹⁸ This is a remarkable achievement, especially considering the country's unfavorable initial conditions and the fact that the list of LDC countries has nearly doubled since its creation in 1971 but only very few countries have graduated.

The second transition – less visible and not fully appreciated or understood – is the tacit transition to the upper middle income category. That is to say, for a number of reasons, Cape Verde cannot remain in the LMIC category. Remaining a LMIC is not an option. It is a road to relative impoverishment as the rest of the world goes by. Moreover, Cape Verde remains structurally vulnerable, as recognized in the graduation decision. Cape Verde remains a vulnerable country. It is worth recalling that its graduation was based primarily on two of the three criteria used by the United Nations, its per capita income and its human development. Its economic vulnerability index (EVI), while improved over time, remains a focus of concern and close monitoring. Its current EVI in 2012 is ranked 48th highest out of the 60 LDC and low income countries measured, and 77th highest out of the much larger group of 130 developing countries.¹⁹ As such, unless it strengthens and diversifies its economy, it will be vulnerable to external shocks that result in stagnation and loss of the gains made. For a micro state with such a high degree of dependence and openness, it must move up the development ladder and transform its economy even in order to sustain its present socioeconomic gains. Having graduated, it will not be eligible for many opportunities and exemptions afforded to LDCs, and which were critical factors behind its graduation success. Such external assistance is still an important part of GDP. More importantly, Cape Verde will

¹⁸ The graduated countries are Botswana (1971), Cape Verde (2007), and the Maldives (2011). Two additional countries have been nominated for graduation, Equatorial Guinea and Samoa, but there is yet no formal action by the United Nations General Assembly.

¹⁹ United Nations, Committee for Development Policy (CDP), *Monitoring the Progress of Graduated Countries: Cape Verde* (New York: 16-17 January 2011), 2.

now have to rely more and more on its own efforts, on its internal capacity to generate growth and compete externally. Since graduation, the country has been trying to reconcile graduation with the loss of external grants and concessional loans.

Cape Verde was graduated from the LDC list in December 2007, following the 2004 United Nations General Assembly decision. Through its astute diplomacy, Cape Verde managed to structure a smooth transition from LDC category to minimize the disruption in external assistance. It was able to structure a 3-year transition period, and to secure the commitment of its development partners, organized as the Transition Support Group (Groupe d'Appui à la Transition, GAT), in order that development support would not be interrupted by graduation. The transition period was subsequently extended to five years, until 2013. For example, it secured support from European Union to benefit from the General System of Preferences (GSP) Everything-But-Arms initiative, and it secured its participation in the Enhanced Integrated Framework process in 2007. In addition, in late 2011, the EU agreed to extend Cape Verde the GSP+ status, giving it preferential market access to EU markets for countries that commit to implement 27 international conventions on human rights, labor rights, good governance and environmental protection. As discussed in a separate chapter below, Cape Verde has also been invited to negotiate an Economic Partnership Agreement (EPA) between the EU and West Africa. Cape Verde joined the EIF the year before graduation, but its participation suspended because of its graduation. Cape Verde was reinstated in the EIF process in July 2010, and was granted a three-year transition phase, subsequently extended an additional two years.

To be sure, a number of development partners interpreted Cape Verde's graduation – and its development needs – differently. Austria and the Netherlands, for example, ended their operations, and Germany phased out support, while the UN's World Food Program likewise ended its support.

Cape Verde is classified as a lower middle income country, but it is also classified as a “blend” country by the World Bank, making it eligible for concessional financing through its International Development Assistance (IDA) window. Thus, Cape Verde is eligible for both the International Bank for Reconstruction and Development (IBRD), which lends to middle income countries, and IDA resources, which are interest-free credits and grants to poor countries. For its part, the African Development Bank (AfDB), another important multilateral development partner since 1975, has reclassified Cape Verde from a Category A country to a Category B country, giving access to both concessionary and non-concessionary resources. As with the World Bank, the AfDB's reclassification of Cape Verde allows it to access a blend of resources and, importantly, to remain eligible for concessionary resources from its African Development Fund (ADF). It is expected, however, that Cape Verde will be classified as only Category C by 2015, and thus lose access to the concessional resources window. Finally, Cape Verde negotiated its accession to the WTO prior to its graduation, and continues to benefit from the package of special and differential treatment accorded to LDC members.²⁰

²⁰ Cape Verde's accession was cleared by the WTO's General Council in mid-December 2007 after concluding negotiations early in the month.

III.3 Risks and Challenges on the Road Ahead

Several recent studies on the Cape Verdean economy provide a thorough and incisive analysis of the risks and challenges facing Cape Verde in the medium and long term futures.²¹ The focus here, therefore, is on a small number of key points that directly bear on the scope and objectives of this Report. As is widely recognized and unsurprising for small, open and dependent economies, the biggest risk relates to the global and Eurozone economic crisis. Economic conditions in Cape Verde's main trade partners, especially labor market conditions in the main host economies for its emigrants, are unlikely to improve markedly in the next year or two. As of this writing, however, the overall expectation is for gradual improvement in the near term. The worst of the Eurozone crisis may be over. Yet as the external environment gradually improves, Cape Verde will still face a number of risks over which it has some measure of control.

The first important set of risks is the worsening macroeconomic conjuncture. It is important to reemphasize that these macroeconomic risks arise from the negative external conditions – not from bad policy or mismanagement. Indeed, Cape Verde's biggest weapon going forward is the expected continuity of prudent macroeconomic management and good governance. Nevertheless, worsening external situation or bad policy and investment choices could increase these macroeconomic risks, possibly undermining Cape Verde's monetary and exchange rate stability. Weak external conditions have put pressures on reserves and worsened the current accounts. As discussed in the next chapter, three specific macroeconomic risks: the deteriorating fiscal balance and loss of counter-cyclical cushion; the growing external debt, including private debt; and growing exposure of the credit market, especially exposure to the construction and real estate sectors. As noted, these macroeconomic risks are closely linked to the health of the global and Eurozone economies. Nevertheless, it is worth underlining the reality that, for a country like Cape Verde with such a high degree of openness, macroeconomic shocks are a constant possibility. The country goes into the near term future without any cushion to weather such shocks through countercyclical measures because of the weakened fiscal and debt position since 2009.

A second risk worth noting is the growing specialization of the economy in the tourism sector, and the potential risks that such concentration usually brings. As the chapter on tourism makes clear, as do many other studies on the sector, Cape Verde's tourism industry is characterized by multiple types of concentration, from source markets, to geographic concentration, to tour operators. Over dependence on one sector is unwise for any economy. The country recognizes these risks, and has outlined a strategy of diversification for the sector and the larger economy.

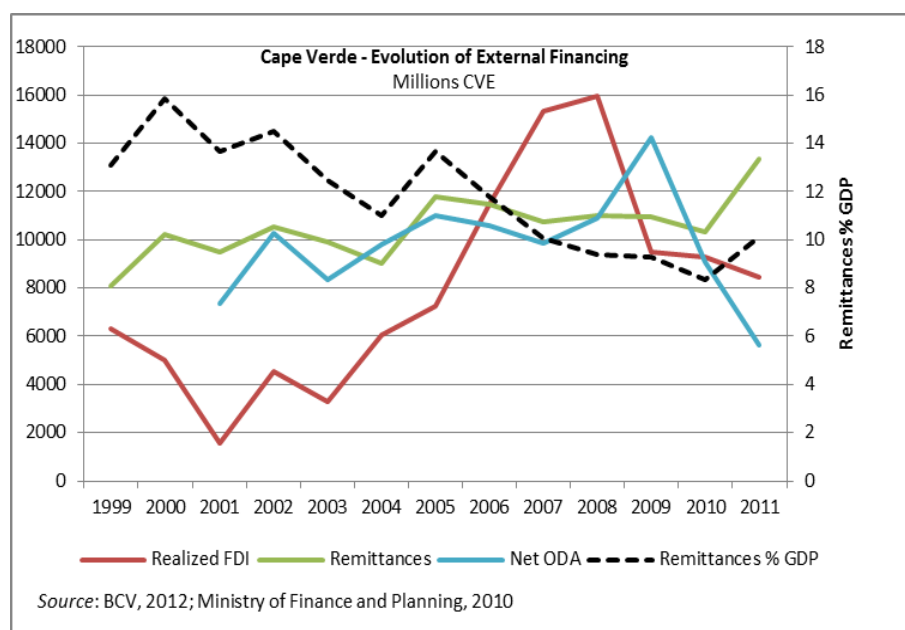
Finally, there are the long term risks, or challenges, that may be called transition challenges. These transition challenges are alluded to throughout this Report. The transition challenges are many. The transition from low income to upper middle and high income is difficult for all countries. Many countries have attempted the transition from low income to high income, but few have been successful. High growth is harder to achieve and sustain during the middle income phase. The key to successful transition to upper middle and high income is structural upgrading of the economy and society to permit successful competition up the value chain. Between 1960 and 2008, of the 101 middle income countries that existed in 1960 only 13 countries were able to break into the high income category, with the great

²¹ See for example the III GPRSP. See also: Ministry of Finance and Planning, *The Constraints to Growth, Transformation and Poverty Alleviation*; AfDB, *Cape Verde: The Road Ahead*.

majority falling into what economists have called the “middle income trap.”²² Similarly, only a few of the countries that achieved lower middle income status were able to graduate to upper middle income status.

Cape Verde goes into its next phase of development starting with several structural handicaps (micro scale, insularity, lack of unified internal market), in addition to several infrastructure bottlenecks, that dampen its competitiveness. As this and many other studies have stressed, Cape Verde will lose many of the critical ingredients that propelled high growth rates during the first (low income) phase of development, namely development assistance and declining remittances. The important new source of external financing – FDI – has its own risks and unpredictability since nearly all of it tied to the tourism sector discussed above. Indeed, external financing for the economy will be more expensive in this next phase as it loses access to concessional financing. The general difficulty middle income countries have is that once they graduate to middle income they no longer compete against low income countries (based on low factor costs like low wages), but now compete against other more established middle income countries as well as high

Figure 4 Cape Verde - Evolution of External Financing



income countries in high value chain exports of products and knowledge-intensive services. Yet these newly graduated lower middle income countries do not possess the upgraded institutional capacity, factor endowment or productive base necessary to compete up the value chain against the established middle income countries or the knowledge-intensive industries of high income countries. Unlike other low income countries that relied heavily on low wage abundant labor for manufacturing exports in order to escape low income status, Cape Verde never had abundant low wage labor. Yet going into the future productivity will be critical, but the specialized, high skill labor necessary is currently undersupplied. In addition, the transition to upper middle income requires an economy based more on innovation, not the easy adoption of imported technology that characterizes the first phase.

²² For a discussion of the middle income trap, see a recently published research by the World Bank, *China 2030: Building a Modern, Harmonious, and Creative High-Income Society* (Washington, DC: World Bank, February 2012). See also a research note by the Organization for Economic Cooperation and Development (OECD), “The Middle Income Trap: Comparing East Asian and Latin American Experiences,” *Policy Insights* No. 96 (May 2012). The OECD estimates that in the past decade (during the 2000s), 28 countries entered the middle income zone (with per capita GDP between USD \$1,005 and \$12,075), but only 12 were able to achieve per incomes above USD \$12,075. See also Anna Jankowska, Arne Nagengast, and José Ramón Perea, *The Product Space and the Middle Income Trap: Comparing Asian and Latin American Experiences*, OECD Development Centre Working Paper, No. 311 (Paris: OECD, 2012).

All of this points to the urgent need for a qualitative jump in human capital as the *sine qua non* alongside the need to put in place the right institutional and productive base. In the 21st Century global economy, a country's knowledge infrastructure is critical to sustainable growth and competitiveness. The knowledge infrastructure comprises many elements, similar to the concept of national innovation systems – the ecosystem of institutions and actors directly and indirectly responsible for the production knowledge and business-related applications. In its basic composition, the knowledge infrastructure includes the institutions and actors responsible for education, training and research and development. As so many studies have stressed, there is an urgent need to upgrade the quality of Cape Verde's human capital as an essential prerequisite for realizing the Agenda for Transformation and become a globally competitive trader. There is much public discourse and official declarations in Cape Verde on the importance of the knowledge economy and the desire to create an information society. For the dream to become reality, however, much more is required than quantitative measures or disjointed and isolated interventions. A fundamental retooling and restructuring will be required. The internationally trading sectors and clusters will thus demand a knowledge infrastructure capable of meeting world-class standards.

IV. Partners at Work: Cape Verde and the Enhanced Integrated Framework

As noted in other documents, Cape Verde's development success is the result of its own hard work, vision, and pragmatic approach. Nonetheless, Cape Verde could not have done it alone. The support and generosity of the international community were critical. This support continues to be critical during this transition period. Cape Verde has been participating in the Enhanced Integrated Framework (EIF), and benefitted from Tier I support. Today, Cape Verde is one of 48 countries that participate in the EIF, granting them special access to a common pool of financial resources to assist these countries improve their capacity to integrate more fully into the multilateral trade system. Cape Verde was accepted into the EIF in 2007. After a brief pause in its participation as a result of its graduation from the LDC list in 2008, Cape Verde was reinstated in the EIF in July 2010 for a three year term as a special case.²³ The EIF is a multi-donor program, and the main channel through which least developed countries access Aid for Trade assistance. The EIF is a country-driven initiative intended to assist countries to integrate trade into their national development planning. Its objective is to provide technical assistance to Least Developed Countries (LDCs) to identify and address supply-side constraints to their trade, thereby increasing their participation in the global trade system and promoting their economic growth. The participating donor partners in the EIF include the United Nations Conference on Trade and Development (UNCTAD), the World Trade Organization (WTO), the World Bank, the International Trade Center (ITC), the International Monetary Fund (IMF), the United Nations Industrial Development Organization (UNIDO), and the United Nations Development Program (UNDP). The EIF is supported by a multi-donor trust fund, with contributions from 23 donors.

As the main implementing entity (MIE), the Government of Cape Verde is strongly committed to the Enhanced Integrated Framework (EIF) and the DTIS Update. The EIF process emphasizes country

²³ Cape Verde is one of three recently graduated countries (Samoa and Maldives) allowed to participate in the Enhanced Integrated Framework as special cases. Note that Somoa's graduation is not yet formalized by the United Nations General Assembly as a result of the devastating tsunami of 2011.

ownership and leadership. This approach is consistent with mindset and practice of Cape Verde, which has typically displayed initiative and ownership in its relations with all donors. The approach is likewise consistent with the Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action, which have encouraged developing countries to assume more responsibility and leadership in managing and coordinating development assistance and consistent with their own national development priorities.

An important achievement under the EIF support for Cape Verde was the establishment of the National Implementation Unit (NIU). Currently housed in the Ministry of Tourism, Industry and Energy (MTIE), the NIU is the most important component of a national implementation arrangement for the EIF in Cape Verde. The role of the NIU is to mobilize, manage, coordinate and monitor all trade-related technical assistance and Aid for Trade programs, facilitate and support trade mainstreaming initiatives, and to assist in formulating projects in support of the trade-related objectives of the trade diagnostic studies and national development plans. Coordinating and managing any form of development assistance, especially when it involves multiple donors and varying programs and objectives, is a demanding task for any government. Coordinating and managing trade-related assistance is enormously challenging for countries like Cape Verde. Much more support will be necessary for national implementation arrangements, such as the NIU, to build up their technical and organizational capacity.

The EIF provides support for countries to prepare a diagnostic trade integration study. Tier I funding from the EIF made possible the Cape Verde's first diagnostic trade integration study, concluded and validated at the end of 2008 in a national validation workshop attended by various stakeholders, government agencies, the EIF Secretariat, and donor partners. Cape Verde's 2008 DTIS addressed both cross-cutting and sector and industry specific constraints and opportunities. Comprehensive in scope and breath of coverage, Cape Verde's 2008 Diagnostic Trade Integration Study – "Cape Verde's Insertion in the Global Economy" – consisted of 12 chapters and 57 items identified in the Action Matrix. The 2008 DTIS was prepared by an international team of specialists.

A critical output and part of the DTIS for Cape Verde was the Action Matrix. The Action Matrix is akin to an action plan that outlines the policy measures, investments, technical assistance needs, and priority reforms necessary to enhance the country's trade participation and benefits. The Action Matrix identifies and lists these measures and reforms according their level of priority as assessed and determined through the diagnostic study. One priority action identified in the DTIS Action Matrix was the creation of a National Implementation Unit (NIU), supported by Tier I funding and created in 2012, whose purpose is to assist in the coordination, implementation, and monitoring of the EIF in the country.

IV.1 Overview of Progress Made Since 2008

The individual chapters contain sector-specific assessments of the progress made since the 2008 DTIS in the implementation of the recommendations of the Action Matrix. As such, the focus in this section will be on general issues and points not covered in the individual reports. In assessing progress made in implementing the Action Matrix, no one single conclusion is possible. To be sure, some measurable progress and headway were made in some areas.

An important area of progress, which was emphasized and reaffirmed by the 2008 DTIS, was donor coordination and improved alignment between donor support and national development goals. These recommendations were consistent with the Paris Declaration and other international initiatives,

including the very important “Delivering as One” reforms of the United Nations system. Moreover, Cape Verde was already a pioneer in this area, having already taken the initiative to create its own Transition Assistance Group (GAT) and the Budget Support Group. The effect of the DTIS recommendation was to reaffirm and endorse these initiatives. In fact, a week after the national validation workshop, the Cape Verde government assembled a meeting of its GAT partners, and presented the findings and recommendations of the DTIS, distributed in a visually-rich booklet detailing the objectives of the DTIS and the recommendations of the Action Matrix. Recommendations in the areas of implementing WTO obligations and developing a national quality system, although general in nature, did meet with slow but steady progress. Training was undertaken for officials in trade policy and regulations as well as sanitary and phytosanitary (SPS) compliance. The legal basis for the national quality system was approved in March 2010. As this Report emphasizes, a national quality system is not fully implemented in Cape Verde, but some key pieces of it are already in place. Another broad recommendation focused on developing a business processing offshoring sector. Aside from the feasibility study (Recommendation 9.2), the most important steps have included the construction of a national “data center” and the start of constructing a national technology park. Broadly, important progress has been made in specifying the contents of the Agenda for Transformation (Rec. 3.1), and improving the process of policy coordination and strategy formulation by creating cluster-specific task forces. The III GPRSP represents a major step forward in improving trade integration in national development planning (Rec. 3.2), including a system of monitoring and evaluation.

Other specific progress made on the recommendations of the 2008 DTIS Action Matrix include:

- The creation of a specialized unit for the Economic Community of West African States (ECOWAS), as part of the overall effort to define a national trade strategy (Rec. 4.1);
- An impact study on the Economic Partnership Agreement with the European Union (EPA) was conducted, although not validated (Rec. 4.1);
- Collection of tourism related statistical information (Rec. 7.1) has made some visible progress, including a preliminary tourist expenditure survey in 2011, and improved annual sector surveys are published. A tourism observatory is being published, although it is modest in quality and impact. A tourism strategic plan was approved in 2010. The country does not yet have a national satellite account system, but here too progress is being made with Spanish cooperation support;
- With World Bank support, a major transportation sector study (Rec. 6.6) was undertaken in 2011;
- A trade strategy paper is now being prepared (Rec. 4.2), and a preliminary sensitive products list was prepared, with UNCTAD support, and has been used as a generic reference (4.3);
- A new Maritime Code (Rec. 8.2) was approved in 2010;
- Capacity building training programs benefitted numerous managers and technical staff in public administration, especially in the areas of customs administration, trade, economic regulation, SPS and TRIPs, and quality systems;
- Vocational training (Rec. 6.2) has been the focus of heavy investment since 2008, including the creation of a national network of an 18-months post-secondary vocational training programs under the national public University of Cape Verde. These training courses have been very popular. A major progress was achieved in 2010 with the inauguration of the new Luxembourg-supported School of Hospitality and Tourism (ECVHT), a modern structure with a robust curriculum that is quickly gaining acclaim from the private sector for the quality of its training;
- In January 2013 a major revision of the fiscal incentives code (Rec. 6.7) was approved. The recommendation stated the need to ensure support for priority sectors, such as trade and foreign investment. In 2011, the new Center for International Business (CIN) was created, a reformulation of the old idea of export free zones;

- With support from the United States under its Millennium Challenge Account (MCA), approved in 2011, Cape Verde will create a modern, integrated land and property registration system, including a national *cadastre*, which will have a major impact on sectors such real estate development and agriculture (Rec. 6.8);
- In the area of culture and creative industries (Rec. 10.1), the sector has been experiencing a new institutional dynamic and policy innovations since 2011, including strategic planning and operational plans for specific programs and initiatives;
- A national institute for intellectual property (Rec. 10.2) was established, and has been operational since 2009.

Little or no progress was achieved in other areas. The 2008 DTIS put a lot of emphasis, correctly, on institutional capacity building, especially for the lead ministry in the area of trade. Little real progress was achieved in this area, as critical units responsible for the most important economic sectors (such as tourism, energy, trade) remained poorly staffed and under-resourced to provide the institutional and regulatory framework necessary for these sectors to operate efficiently. One important exception, however, was the business development agency, ADEI, which did receive capacity building attention, as did the CPE, even though both institutions require much more capacity building investment today. The 2008 DTIS also put high importance on improving institutional and policy coordination, but this area remains a big Achilles' Heel for Cape Verde.

There are many reasons for these deficits in progress. One critical factor to bear in mind is the unhappy coincidence of the Action Matrix and the onset of the global crisis. Another important factor determining the scope of progress made since the 2008 DTIS was the interruption in Cape Verde's continuous participation in the EIF as a result of its graduation from the LDC list. The interruption may have caused loss of focus and momentum evident in the months after the validation workshop. However, it should be noted that, despite the graduation-related suspension, Cape Verde started implementing some of the recommendations put forth in the study. Another reason for slow or no progress was common to all EIF countries during their first phase of participation, namely, the absence of a clear and dedicated national institutional structure to follow through and operationalize the recommendations of the DTIS, and then supervise and coordinate their implementation and impact evaluation. Another important reason for the difficulty in assessing whether or not progress has been made since 2008 relates to the nature of the 2008 DTIS and many of its recommendations contained in its Action Matrix. The recommendations were often general and open-ended, providing no specific targets, guidelines, or operational measures. For example, there were several recommendations such as "strengthen the chambers of commerce" or "provide support to customs administration." But what does this mean? The strategic objective of such recommendations are valid and urgent, but developing countries more often need an operational plan on the specific measures and best practices to achieve these strategic goals. More importantly, building institutional capacity was a visible and consistent theme in the DTIS, but building institutional capacity is hard, time-consuming and expensive. It is a long term process that, while it has measurable indicators along the process, can still be difficult to gauge progress in both quantitative and qualitative dimensions, especially for public sector institutions. This generic aspect of the Action Matrix also presented some difficulties even for development partners to act on, such as incorporating the Action Matrix into their annual planning or to target programs to the Action Matrix.

The 2008 DTIS was a comprehensive and wide-ranging study. It was the first such report to offer an exhaustive examination of Cape Verde's trade integration capacity and trade mainstreaming practices. While it contained many useful analyses and recommendations, the 2008 study was general in scope

and many of its recommendations were either generic or imprecise. Without clear and measurable goals or targets, assessing progress is difficult. In fairness, it was not the intent or responsibility of the DTIS to offer a quantifiable or operational action plan. A DTIS points the way. It is the first step in a much longer process of thinking, empirical study, impact assessment and policy evaluation, strategic planning, and operational plans of actions. One document cannot do all this. The DTIS is not a sectoral strategic or operational plan, and the Action Matrix is not a logical framework with quantifiable outcomes, outputs, targets and activities. More critically, the DTIS does not incorporate or anticipate any kind of integrated monitoring and evaluation (M&E) process.

IV.2 Rationale and Objectives of the 2013 Cape Verde DTIS Update

This present Report, the 2013 *Cape Verde Diagnostic Trade Integration Study Update*, builds on and extends the 2008 study. The Update is purposefully less academic in orientation, and is guided much more by a plan of action focus. As an action plan with practical, implementable actions, the Update limits its scope. It adopts an approach that focuses on a select number of priority sectors, their value chains, specific product chains, business and growth opportunities along these chains, and, at the same time, identify the specific institutional and supply side constraints that must be remedied to unlock these opportunities and export potential.

Diagnostic trade integration studies such as this Report are structured around five key elements, or focus areas:

- A review and assessment of the country's macroeconomic management and environment, including an examination of its trade, business and investment climate;
- A review of the country's trade and economic performance;
- Analysis of the institutional and policy constraints, focusing specifically on domestic and international policy constraints that exporters face in trading across borders; an important focus is also on the country's trade policy, trade relations and trade negotiations;
- In-depth analysis of the principal supply-side constraints (and opportunities) in a limited number of economic sectors, sectors where an expansion of production and exports can have a significant impact on employment, poverty reduction and gender equality;
- Identification of a limited set of policy priorities, specifying the actionable interventions and policy reforms necessary to mitigate the constraints and unlock the potential for production growth and trade development.

The update is timely and opportune, particularly because it will coincide with the adoption and implementation of the GPRSP-III. The new GPRSP, which identifies the primary sector and tourism for growth and transformation, is strongly oriented toward enhancing the country's trade and competitiveness. As such, the nature and scope of the Update must be rethought and realigned. What is needed is not a generic informational updating of the original chapters and contents of the 2008 DTIS or yet another consulting report retelling the same general analysis and the same academic recommendations. Rather, what is needed is a practical and focused policy action document that offers feasible remedies that can be implemented immediately and produce results in the short term. What is needed is a practical but strategic document that identifies real implementable measures and concrete steps that unlock sector - and product - specific constraints and spur growth opportunities.

For Cape Verde, the DTIS Update will be a strategic document for the trade sector. The document must be able to, on one hand, conduct a deeper, sector-specific, and gender-sensitive analysis of the constraints to trade and, on the other hand, offer pragmatic remedies and trade policy reforms. The Update will: (a) Provide in-depth analysis of the issues and constraints to trade competitiveness across a select number of sectors and areas consistent with the priorities established by the GPRSP-III and synchronized with on-going or planned initiatives; (b) Examine and identify specific opportunities to foster business activity in the priority sectors, improve trade-related institutional capacity, and strengthen competitiveness, with special emphasis on opportunities that can be exploited and executed in the short term (3-5 years), consistent with the implementation timeframe of Tier 2 funding and the GPRSP; (c) Propose a set of coherent policy reforms and projects to address supply-side constraints, foster business opportunities, improve the doing business and investment climate, and strengthen trade-related institutional capacity, both in the short and long terms.

By adopting a new approach, the Update will improve upon the original DTIS in two important respects. First, by adopting an action plan orientation, the guiding framework of the analysis and recommendations in the Update will be competitiveness and opportunities for entrepreneurial activity along sectoral and product value chains, along with the necessary policy reforms and interventions. We believe there are several “quick-win” opportunities as a result of major investments and changes since 2008 in key sectors such as tourism, fisheries and maritime services, agribusiness, and creative industries – sectors where growth opportunities are most likely to benefit women and female-headed households. There are opportunities to ease trade administration, to foster business development along key value chains, boost productivity and quality of key niche products, and create jobs. Value chain analyses and projects on the ground reveal opportunities for business activities and niche products for export or local sourcing in tourism, fisheries, and agribusiness. Second, with strong leadership and coordination, the actual process of preparing and elaborating the Update will be integrative and interactive. The Update has been oriented by and synchronized with the priorities and development goals of the new GPRSP.

The DTIS is a living document, revised and adjusted according to changing conditions and new sets of priorities as the country moves along its development path and confronts new challenges and opportunities. Cape Verde has undergone many changes since 2008. Soon after the first DTIS was validated, the country was graduated from the list of LDCs. Tourism continues its spectacular rise as the dominant sector but with limited forward linkages and sourcing in the domestic economy. Important steps were launched to implement key components of the Agenda for Transformation to diversify the economy, particularly in terms of developing the “sea cluster” involving maritime services and fisheries. Major public investment programs have been launched since 2009, with special focus on key economic infrastructure such as transportation. Agriculture has been a top priority sector. Since 2005, major investments, especially in water resources mobilization and production expansion, have been undertaken. More is in the pipelines. Several newly built cold storage and agro-product transformation installations have been built on various islands.

Strong National Buy-In and Ownership of the DTIS Update: As is widely recognized, Cape Verde has been among the top reformers in the world for more than a decade. Following the momentous structural reforms and liberalization of the 1990s, Cape Verde pushed faster and further to embrace wide ranging reforms to modernize the state, improve the efficiency and effectiveness of public administration, build up key economic infrastructure, promote private sector development, diversify the economy, and increase the country’s integration into the global economy while building up internal capacity to

compete in that global economy. Cape Verde was an enthusiastic participant in the EIF process, successfully completed accession into the World Trade Organization (WTO), and volunteered to become a pilot country for the “Delivering as One/One Programme” reform of the United Nations system. Major reform initiatives since 2001 have focused on modernizing public finances and public services, building an impressive, indigenous electronic governance platform that has become a model in Africa. Another area of extensive and ongoing reforms has been improving the business and investment climate. In 2011 and 2012 Cape Verde was classified in the *Doing Business Report* among the top reformers in the world. In summary, there is strong political will to reform and a strong commitment to implement reforms that unblock supply-side and institutional constraints in order to diversify the economy’s productive base, to improve the country’s competitiveness, build up trade capacity, and to broaden the country’s participation in the world economy, especially as an investment safe haven but also an international hub for high quality services and niche products.

IV.3 A Note on the Cape Verde DTIS Update Process

In an unprecedented fashion, the 2013 *Cape Verde Diagnostic Trade Integration Study Update* has been mainstreamed into the national development planning process, namely the III Growth and Poverty Reduction Strategy Paper (2012-2016). The 2013 DTIS had the good fortune of being conceived and elaborated simultaneously with the preparation of the III GPRSP, and was based on a close and continuous dialogue with the GPRSP process.

This DTIS Update Report has been conceived and elaborated through an intensive and extensive national consultative process. In the year prior to assembling the Update Team, with the leadership of the NIU, the views and proposals were solicited from stakeholders from the various sectors, from public and private sectors and civil society. Indeed, several stakeholders took the initiative to prepare and submit project proposals. The EIF National Steering Committee was an indispensable forum for input and ideas sharing with the private sector. The Steering Committee met regularly since 2009. As a policy document to be aligned with the principal strategic development plans of the country, the NIU consulted through an on-going dialogue the key ministries, directorates and agencies, such as the Directorate General for Planning (DGP) of the Ministry of Finance and Planning (MFP), the Center for Policy Strategy (CPE), the Foreign Ministry (MIREX), Directorate General for Trade and Industry (DGCI) and its parent ministry responsible for trade, the Ministry of Tourism, Industry and Energy (MTIE). The dialogue and information sharing were especially close with the National Directorate for Planning (DNP), which was responsible for drafting the new GPRSP. The thinking, planning, and conceptualization involved in the entire process, beginning with determining the main issues and priorities to be address, involved close communication, coordination and ideas sharing among the following ministries: MTIE, MFP, MIREX, the Ministry of Culture (MC), and the Ministry of Rural Development (MDR). Regular meetings and information sharing were sustained between the NIU and the following key agencies: the Directorate General for Fisheries, the Coordinating Unit for State Reform (UCRE), and the Agency for Business Development and Innovation (ADEI).

An important first step in the preparation of the Update was the drafting and circulation of the Concept Note. The Concept Note became another critical channel and forum for consultation and ideas sharing. Formal reviews of the Concept Note, circulated to the key ministries and select representatives in the donor community, began in July 2012. Following the review and approval of the Concept Note, the Project Task Team was formally established under the NIU, and the process of recruiting the

international team of experts was launched. After some delay in identifying and contracting some of the experts, the DTIS Update Team was finally assembled by the beginning of September.

The DTIS Update Report benefitted enormously from the parallel process of drafting the new GPRSP III. Aside from the open and continual dialogue between the NIU and the DNP, the preparation of the Report, from the Concept Note to the final drafting of the document, was aided and informed by the open discussions, public presentations, and stakeholder consultations of the GPRSP process. More still, the drafting of the Concept Note and this Report was enriched by the group discussions, meeting notes, and final reports of the thematic working groups organized as part of the GPRSP drafting process. The Update Team was privileged to have access to these files. In summary, the DTIS Update is closely aligned with the national development priorities as outlined in the new GPRSP.

The drafting of the Report, prepared by a national and international team of experts, has also been inclusive and carried out through extensive consultations and field work. The majority of the Team's composition consists of national experts with lengthy policy and practitioner experience in their respective fields. The entire Team undertook a 12-day in-country mission in September 2012, interviewing an extensive list of individuals, officials, businesses, associations and institutions, as listed in the Annex. An additional in-country mission was undertaken in November 2012, involving mainly by the expert on culture and creative economy, with the participation of local Team members. A national roundtable of experts and business leaders was convened by the Team to discuss Cape Verde's trade potential. Hosted by the United Nations-Cape Verde, it was a dynamic, lively, high impact gathering that proved unusually informative and productive. In addition to the participation of Team members in several conferences, exhibitions and sector fairs and gatherings, the Team also thematic and sectoral workshops. The NIU co-organized with the Ministry of Rural Development a workshop on agribusiness, again carefully assembling business leaders, policy experts and entrepreneurs who are on the ground and living the constraints and opportunities.

Implementation is key. As alluded to above, the preparation and validation of this Report, *The Cape Verde Diagnostic Trade Integration Study Update*, is only the beginning of a much longer and more difficult process. It is critical that the process not end with validation of the document. The Report is the beginning, not the end. The critical work that lies ahead is translating diagnosis into implementation. Several variables will affect the rate and success level of implementing the key recommendations of this Report but also the implementation of the actual projects and reforms that arise from these recommendations. The alacrity, predictability and scale of donor response is always critical, especially in these crisis years of uncertain and scarce donor financing. Donor coordination is always an issue, and with this donor alignment with country priorities. Country-level factors are equally, if not more, critical, such as institutional (human and technical) capacity, effective national strategy for trade and competitiveness, clear leadership on trade and competitiveness, policy coordination, and even project preparation capacity. Through the Trust Fund and its ability to act as a catalyst for all donors, the EIF can play a significant role in ensuring Cape Verde's capacity to implement and follow through on the supply side and institutional reforms and actions identified in this Report as priorities.

For Cape Verde, the EIF's direct support through its funding windows, as well as EIF's catalyst role in mobilizing all donor support for trade related technical assistance and Aid for Trade initiatives, can be targeted in three areas of need:

- *Multi-year, on-going support to build capacity:* including private sector capacities, strengthening the organizational capacity of core trade related institutions, policy and regulatory reforms, inter-ministerial coordination, supply-side capacity related to production

as well as logistics and commercialization; EIF strategic role to assist the country mobilize donor support for the large scale needs identified in the DTIS, such as infrastructure and in productive sectors such as agriculture and fisheries; support export capacity of existing and potential good and services;

- *Support institutional framework for the formulation, coordination and implementation of trade related technical assistance:* including trade policy and strategy formulation and evaluation, set up or strengthen structures for coordination and follow up for all trade related technical assistance; human resources capacity building training programs, including project preparation and project management; jointly with the government, promote increased donor coordination on all Aid for Trade through bilateral and multilateral channels;
- *Trade mainstreaming support:* including the creation of strong in-country leadership on trade; strengthen trade policy coordination; capacity building for trade negotiations.

IV.3.1 Methodology and Limitations of the Report

This Report is a team report. It is based on desk research, data and information gathering from primary and secondary resources, field research, stakeholder consultations and interviews, and in-country missions by Team members. The Report is not based on any specific scientific methodology, that is, a specific mode of scientific inquiry. Individual experts who contributed the chapter reports were not guided by a single approach, even though the final Report is qualitative in nature. However, the Team was guided by a common research design and writing guidelines. The Concept Note and the Writing Guidelines served to structure the main research questions, issues and topics to be addressed. A virtual group “sharepoint” was established to facilitate document sharing, and to serve as a repository for the key strategic development documents of the government. A priority was placed on gathering and accessing primary sources for data and information. All Team members participated in a week-long in-country mission to conduct field research and interviews.

While the Report is elaborated by an international Team of experts with vast experience in the subject areas and in Cape Verde, there are two important limitations to the study that must be acknowledged. First, for reasons of budget and other logistics, field work and the in-country missions by the entire Team were limited. The week-long in country missions are recognized as limiting, especially for the international members of the Team. This limitation, of course, did not apply to the Cape Verdean nationals who were Team members. The second limitation that impacted every Team member relates to the general challenges that all research faces in Cape Verde – availability, relevance and reliability of data. National level data is often unavailable, incomplete or inconsistent. This is a serious limitation in sectors like agriculture and tourism. Finding and accessing micro level (firms, institutions) were also challenging, either because the data requested was not available or because of non-response.

■ CHAPTER 1: POLICY CONTEXT AND MACROECONOMIC ENVIRONMENT

1.1 Introduction

As this Report is being drafted, Cape Verde finds itself in an inhospitable external environment. The deep recession in Europe and in the global economy has increased macroeconomic risks for the country. Growth, while continuing to be positive, has slowed and the near term outlook is for slower growth. Despite the unfavorable external environment since 2008, Cape Verde's economy has been resilient. Growth has been slow but positive. The economy has posted a satisfactory average growth rate of 5 percent during 2008-2012.²⁴ There are a number of specific reasons for this positive performance in the midst of crisis, as discussed below, including the counter-cyclical expansionary policies, fiscal measures that reduced the tax burden on households and businesses, other fiscal measures to support incomes for more vulnerable populations as well as stimulate domestic demand, the continued growth of tourism, and remittances. However, the underlying reason is the fact that Cape Verde has been able to get the economic and political fundamentals right over the years. Prudent economic management, with the highest priority placed on macroeconomic stability, has been the critical factor. This factor merits emphasis because, despite the unfavorable current and near term outlook, this sound macroeconomic management gives Cape Verde an important advantage as it confronts the crisis and attempts its transition to the next level of development. Not all countries are as fortunate. Together with its good governance tradition, these two critical factors give Cape Verde a solid foundation to build on.

Cape Verde will enter this new phase in its development in a weakened position. The prospects for high growth in the near term are dim. As noted in the previous chapter, the growth projections for the next two years hover in the low 4 percent, a figure likely to be revised downward depending on the rate and scope of the Eurozone recovery and the country's ability to contain its worsened macroeconomic position. At the time of the validation of this Report, newly released figures, based on revised national accounts methodology, reveal a more pessimistic growth performance and outlook, with growth rates under 2 percent since 2010 and expected to be under one and a half percent in 2013.

The purpose of this chapter is to examine some of the most salient contemporary issues and trends in Cape Verde's macroeconomic and political economy environment and, as such, to set the larger policy and macroeconomic context for the chapters that follow in the rest of this Report. The chapter examines the major issues (fiscal and monetary policy, balance of payments, trade and investment, recent macroeconomic performance and trends, etc.), but discussion of some of these matters is limited since they are addressed in other chapters. The primary focus of the chapter remains of the longer term transition challenges and building national competitiveness.

1.2 Economic Performance

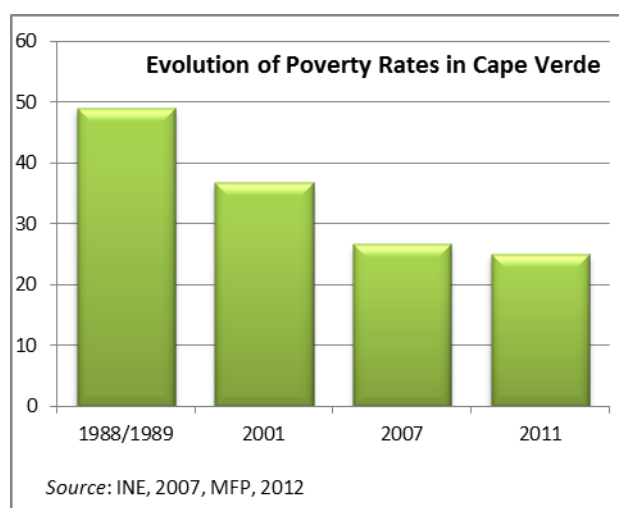
Cape Verde is a development success story. Its impressive performance since 1975 has been well documented and dissected in many other documents, and need not be repeated here. Upon examining its development performance in the past three plus decades, a number of salient points stand out. First,

²⁴ Author's calculations based on statistics and projections from the BCV and IMF.

Cape Verde's successful performance was multidimensional and holistic. It is an economic as well as a political success story. Not only did its growth performance earn it middle income status in a shorter period of time than any other non-oil exporting country in Africa, but it achieved political success as well. It is a vibrant, multiparty democracy, endowed with credible institutions and comparatively good governance. Second, growth success and good governance have translated into improved human development. Growth has been fairly inclusive, by and large, despite recent trends to the contrary. Third, the country has enjoyed a durable social peace and stability, free of strife, disruptions, fissures and anti-systemic forces that plagued so many post-independence countries. Finally, mainly as a result of its economic and political performance, the country has managed to garner a measure of international credibility. This is not inconsequential for an externally dependent micro state.

Cape Verde's broad-based successful performance since 1975 place it consistently among the top performers in Africa and the LDCs. During the 1991-2010 period, Cape Verde averaged 6% GDP growth rate annually, which was far higher than the Sub-Saharan Africa regional average of 3.5 percent, and

Figure 5 Evolution of Poverty Rates in Cape Verde



even surpassed the 4.5 percent average of Mauritius, the model of successful economic performance and transformation in the region.²⁵ Growth rates peaked as high as 11.9% and 10.1% in 2005 and 2006 respectively. Although little noticed, this strong growth performance dates back to the centrally-planned economy of the 1980s, with average GDP growth for 1982-1990 of 5.2 percent.²⁶ At independence, the country's leadership made an early commitment to investing in human capital. As a result, Cape Verde has the 11th highest Human Development Index (HDI) in all of Africa in 2011, including North Africa, and the 7th highest in the Sub-Saharan region. Under the revised calculations of the HDI, Cape Verde's HDI of 0.57 is much higher than the regional average of 0.46 for Sub-Saharan Africa and 0.44 for the Least

Developed Countries (LDCs).²⁷

The country has one of the lowest poverty rates in the region. In all, Cape Verde has already met several of the Millennium Development Goals, and is on course to meet or surpass the others. Poverty remains an issue, especially in rural areas, but poverty rates declined 10 points between 2001 and 2007, when the last national survey showed the rate at 27 percent. Currently, the poverty rate is estimated to be about 25 percent in 2011.²⁸ This is a much slower rate of decline, but still positive news given the global economic crisis since 2008. As discussed elsewhere, the country has made good progress in human capital, especially in the area of education. However, quality remains a critical issue in the education sector, which is under pressure to produce the specialized and advanced skills the economy is demanding.

²⁵ World Bank, World Development Indicators (WDI), 2012. The figure for Mauritius covers 1992 to 2010.

²⁶ World Bank, World Development Indicators (WDI), 2012. It should be noted that there a lack of reliable data for this early period.

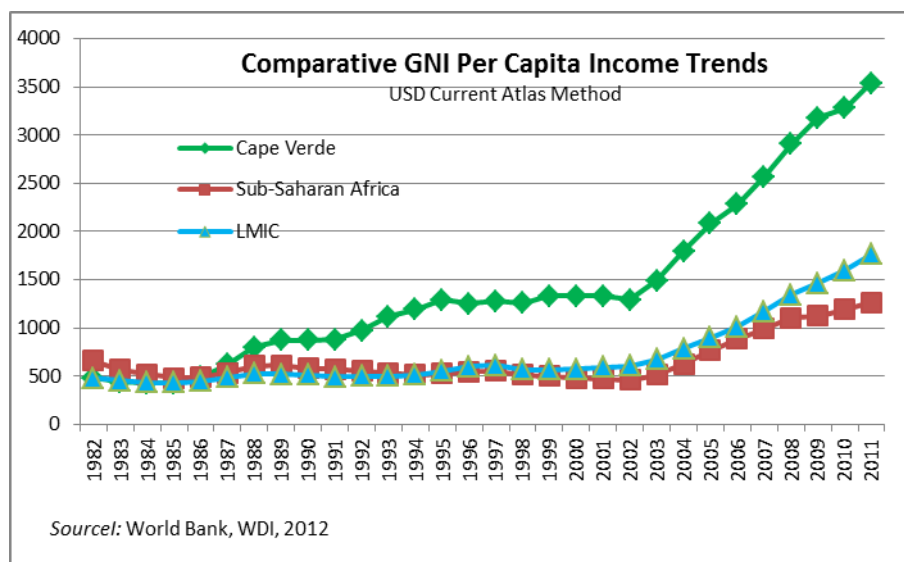
²⁷ United Nations Development Program (UNDP), Human Development Report, Statistical Annex, 2012.

²⁸ Ministry of Finance and Planning, III GPRSP, 2012, p. 10.

Cape Verde has a relatively high GNI per capita income of \$3,540 USD for the Africa region in 2011 and the average for the Lower Middle Income Country (LMIC) group.²⁹ It is one of the three small island economies in Sub-Saharan Africa that have outperformed their much bigger and resource-rich countries on the mainland. Its current GDP per capita income was nearly triple the \$1,274 for Sub-Saharan Africa in 2010. It is among the top ten in the region and the third highest behind the Seychelles and Mauritius when we discount the mineral-rich countries of Equatorial Guinea, Gabon, Botswana, South Africa, Angola, and Namibia.³⁰ Whereas GDP per capita growth in the West Africa region had been stagnant for the majority of the continent during much of the past three decades, Cape Verde's per capita GDP grew consistently between 1980 and 2008. From 2000 to 2008, its per capita GDP grew by over 150 percent.

What are the factors behind this success? What role, if any, will these same factors play in the country's transition to upper middle income status? How will these factors help shape Cape Verde's successful implementation of a national trade strategy, including the recommendations of the Action Matrix? These critical success factors have been discussed elsewhere.³¹ There are four broad factors: getting the politics right; prudent

Figure 6 Comparative GNI Per Capita Income Trends



macroeconomic management; remittances; and international development support. Of the four factors, the most critical has been the political, including pragmatic leadership, credible institutions, relatively clean and good governance, political stability, and a broad political consensus around the development strategy. Pragmatism and good governance made possible the sound macroeconomic management that has characterized development performance since the early years. By the late 1990s, this strong macroeconomic management and good governance were deepened and widened through a vigorous state modernization reform process. Initially focused on computerizing and improving the public financial and budgeting process, the state modernization reforms resulted in the very successful electronic government platform in Cape Verde today. The two most important products and governing tools of this reform effort are the integrated public financial management system introduced in 2002 for central and municipal governments, the integrated system for budget and financial management (SIGOF). The other prize accomplishment was the one-stop-shop platform that allows the public sector

²⁹ The World Bank, WDI, 2013, in current USD. The World Bank estimates \$3,980 for GNI per capita calculated on the basis of PPP in current international dollars in 2011, and \$3,798 in current USD. The central bank (BCV) estimated GDP per capita in 2010 to be \$2,098 in 2010.

³⁰ World Bank, *World Development Indicators (WDI)*, 2011.

³¹ African Development Bank (AfDB), *Cape Verde: A Success Story* (Tunis, AfDB, 2012) and *Cape Verde: The Road Ahead* (Tunis: AfDB, 2012).

to deliver quickly and efficiently the most common public services requested by citizens. This indigenously created electronic governance system has revolutionized the relationship between the state and citizen. The *Casa do Cidadão* (House of the Citizen) and its virtual counterpart, www.Portondinosilha.cv, have greatly reduced the time, cost, and administrative burdens that citizens and businesses traditionally faced.

Much work remains to be done in terms of the country's institutional and regulatory framework, as the chapters below make clear. Thus, it is not sufficient to claim good governance indicators. Urgent work remains to be done – such as institutional capacity for formulate and implement policy, efficiency and responsiveness to the needs of citizens and businesses, improved transparency and efficiency in ports and customs procedures, policy coordination, economic regulation and quality management. However, good governance, credible and stable institutions, and sound macroeconomic management will be critical factors of success as Cape Verde moves forward and makes the transition into its next phase of development. On the other hand, the country may not be able to rely on remittances and development assistance in the same way as did in the past. The generosity of the international community and its vast Diaspora population were crucial to the country's success story. Indeed, they have been critical pillars of support during these crisis years. However, the long term trend has been marked by their respective declining participation in the economy. The country's success came at a price – diminishing donor support. In addition, demographic changes in the country's Diaspora communities, in addition to less favorable immigration policies in the host countries, will result in dwindling remittances as well.

As emphasized in many studies on Cape Verde's development experience, there have been two other critical factors that have fueled growth and development. The first is the country's consistent investment in human capital, as discussed in the next section. There are clear moral and political reasons for this. But it was also good economic policy – ensuring an educated, healthy, and active supply of human resources for the economy. The second critical factor powering the country's growth has been the heavy investment in infrastructure. Indeed, heavy capital investment has been the most salient feature of development planning and resource allocation over the last 30 years. A growth decomposition exercise will certainly show that capital investment, especially in physical infrastructure, has been the largest contributor to Cape Verde's growth. Compared to other African countries, Cape Verde has one of the highest levels of spending on infrastructure even though quality persists as a major issue.³² The country's current and near term development planning call for more heavy investment in economic infrastructure. Such investment, in human and physical capital, is the most effective kind of intervention a government can make to build up the economy and promote growth. These investments are potent because they benefit everyone, every citizen and every business, thus creating the propitious climate necessary to unleash entrepreneurial activity and creativity. In other words, the overall economic benefit and growth payoff will be higher if the government targets investments in fixing the water and energy infrastructure rather than trying to subsidize these costs for all firms or only ones that export.

1.2.1 Millennium Development Goals and Human Development

Cape Verde is a human development success story. Perhaps for this reason alone it merits the attention and support of the international community. Since independence, there has been a genuine and firm commitment to building up the country's human capital. To be sure, the country has some remaining

³² Cecilia M. Briceño-Garmendia and Daniel Alberto-Benitez, *Cape Verde's Infrastructure: A Continental Perspective* (Washington DC: The World Bank, Policy Research Working Paper No. 5687, June 2011).

challenges to conquer in the sphere of human development, as discussed below. The country cannot rest on its past achievements and quantitative indicators, especially as it makes its transition and as competition in the global economy becomes based more and more on the country's capacity to mobilize the full creative energies and knowledge skills of its citizens. Yet, from a comparative perspective, it has achieved a great deal of progress and in a relatively short period of time. The fact remains that Cape Verde, small and with no exploitable natural resources, has outperformed much bigger and better endowed developing countries. This achievement must be recognized. And this success should be rewarded and promoted. The country has already achieved half of the Millennium Development goals, and has been on pace to meet or surpass the rest by 2015.³³ Data is unavailable to assess the impact of the current global crisis on the country's MDG progress.

The country's growth and development success has translated into strong human development. As noted above, the country's success has been multifaceted. Across nearly all of the widely used international comparative indicators of economic, social and political performance, Cape Verde has typically ranked in the top tier among African and developing countries.

Like so many African countries, Cape Verde has a relatively young population, 54 percent of which is under 25 years old, and a third of the population is under 15 years of age. Such demographics represent great opportunities and advantages – more energy, brain and muscle power to motor the economy. It also represents great challenges, economic, social and political. It does mean that the economy must be able to generate many more jobs and entrepreneurial opportunities, more education, health care, etc. Work remains ahead, but the trajectory has been of improving wellbeing and opportunities. At the end of the day, development and social progress are based on the energies, skills and creativity of ordinary men and women in society, and forms the basis of human freedom in Cape Verde. It is a relatively healthy and educated population. Cape Verde typically devoted sizeable resources, roughly 10 percent of GDP on health care from the 1980s to 2000s. Cape Verde has one of Africa's highest literacy rate, estimated to be 88 percent of the population ages 15 and above.³⁴ The literacy rate among the under-25 years old population is nearly 97 percent. Cape Verde has one of the highest school enrolment figures in the world, including female enrolment. The literacy rate has been increasing consistently, and evenly across gender. The male literacy rate is nearly 89 percent, compared to 77 percent for women.³⁵ The disparity has been diminishing, and rapidly so in favor of women who saw a jump of 15 percent between 2000 and 2010. The country's investment in higher education in the last decade, with the opening of the country's first universities, has benefitted primarily women who dominate enrollment. Female enrollment in all levels of post-secondary education in Cape Verde accounts for almost 57 percent of total enrollment; the gender gap in favor of women is even greater at the undergraduate (four-year bachelors degree) level, where female students comprise 60 percent of enrollment.³⁶ This is very positive for gender advancement as high paying jobs in the new economy demand a more educated and higher skilled workforce. Social spending has been consistent among the largest categories in annual budgets. The country's national development plan, such as the Poverty Reduction Strategy Paper (PRSP) and other strategic documents, emphasize social cohesion and human capital investment as key pillars

³³ United Nations Development Program (UNDP), MDGMonitor, Country Profiles-Cape Verde, 2011. According to the MDG Monitor, Cape Verde has already fulfilled Goals 2 (universal primary education), 3 (promote gender equality and women empowerment), 4 (reduce child mortality), and 5 (improve maternal health).

³⁴ UNDP, 2009. The 2010 Census by the National Statistics Institute (INE) estimates the literacy rate at 82.8 percent.

³⁵ National Statistics Institute (INE), Census, 2010.

³⁶ Ministry of Higher Education, Science and Innovation (MESCI), *Anuário Estatístico 2010-2011*.

among the five priority pillar areas. As noted in other publications, Cape Verde has a fairly good social protection system, including old age pensions, workers' compensation, sickness and maternity benefits, and universal health care. Cape Verde has one of the highest school enrolment figures in the world, including female enrolment. Its schooling life expectancy is among the highest on the continent. It is a relatively healthy and educated population.

Cape Verde has made progress on gender equality and social inclusion. These priorities have not been simply been rhetorical. Much work lies ahead, especially in terms of combating rising socioeconomic disparity and opening up more opportunities for women, especially in the business management and the political system. Gender equality challenges faced by Cape Verde are, lamentably, common to even many industrialized countries such as the United States. An important step forward was the passage in 2010 of the landmark domestic violence legislation. At the highest levels of government authority and decision making, women have been heavily represented since 2001, with nearly half of cabinet level posts occupied by women. Female representation in parliament lags, and the main political parties have been slow to recruit, train, and mentor female candidates. In terms of social inclusion, discrimination and social exclusion are unknown in Cape Verde. However, the major concern of many today is the growing income inequality.

Poverty remains a big challenge, especially rural poverty. Importantly, as the 2007 national poverty survey revealed, women are more impacted by poverty than men. A national poverty rate of 25 percent translates in absolute terms into over 100,000 people in poverty. Regional disparities are big, with some islands and municipalities experiencing high levels of poverty. Likewise, there is a growing underclass in the major urban areas. Notwithstanding the challenges ahead, the country has one of the lowest poverty rates in the sub-region. According to last reliable national survey in 2007, the poverty rate was 26.7 percent. Yet Cape Verde has a long way to go in the fight against poverty. First, rural poverty remains high. Poverty is concentrated in rural areas, though there is an increasing growth of urban underclass and slums. The reduction in poverty has been more profound in the urban areas where it reduced by almost half between 2001 and 2007, from 25 percent to 13.2 percent. The reduction in poverty over the same period in the rural areas was from 51 percent to 44 percent. Second, there is wide regional disparity. Poverty rates on some islands, likewise in some municipalities, are far above the national average. Currently, the poverty rate is estimated to be about 25 percent in 2011.³⁷

In terms of income inequality, reliable survey data is lacking. Neither the World Bank's *World Development Indicators* (WDI) nor the United Nations Development Program (UNDP) makes any estimates. In its Human Development Report of 2011, the UNDP estimated a GINI coefficient of 50.4 for 2001-2011 period.³⁸ The trend in income inequality worsened during the 1990s into the 2000s, with an estimated 53.0 in 2002.³⁹ The III GPRSP reports an improvement in the GINI index for 2010, estimated at 48. Notwithstanding the improvement, income inequality remains high in Cape Verde, and is a major preoccupation of the government. Regional disparities are serious, intra-island and inter-island. In summary, the country has still a long road ahead in the fight against poverty, inequality and social exclusion. Its ambition is to become a modern, competitive knowledge economy and information society. Yet an estimated 46 percent of the population still does not have direct access to clean water in their homes from the public grid. Some municipalities are distressingly lagging behind in terms of

³⁷ Ministry of Finance and Planning, III GPRSP, 2012, p. 10.

³⁸ UNDP, *Human Development Report 2011*, Statistical Annex.

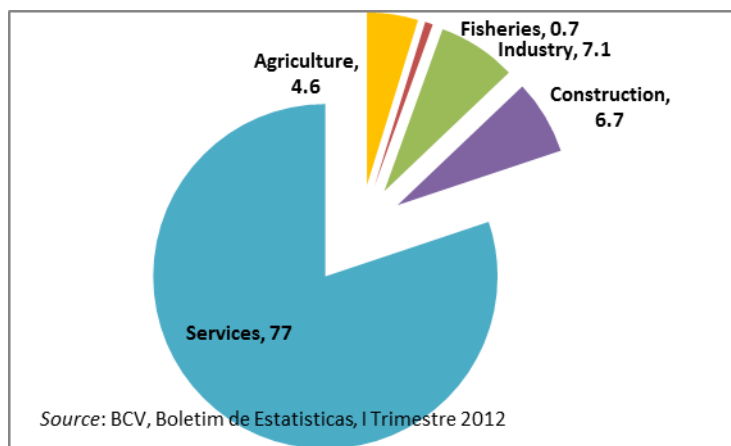
³⁹ United Nations, *Quadro de Assistência das Nações Unidas para o Desenvolvimento da República de Cabo Verde* (United Nations Development Assistance Framework, UNDAF), 2012-2016, p. 9.

employment, educational and entrepreneurial opportunities. To achieve its transition goals, the country must overcome these practical challenges in order to unleash the full creative and entrepreneurial potential of its citizens. The good news is that the country has been genuinely committed to redress these issues, and has placed them among the top development priorities.

1.2.2 A Services Economy

Cape Verde is a services economy. It is becoming increasingly a services economy that is specializing in a booming but narrow segment of services. This micro-sized services-based economy registered a little over \$1.6 billion in current USD in 2010. The services sector account for approximately 80% of GDP in the last few years, growing steadily since the early 1990s when it accounted for 55 percent.⁴⁰ The tertiary sector is also the largest employer. (Unsurprisingly, employment growth in the tertiary sector has been flatlined since 2009). The primary sector is small, although a

Figure 7 Structure of GDP, 2011 (Supply side, %GDP)



large proportion of the population still relies on it for the livelihood. Based on available data, the primary sector (agriculture, fisheries, livestock, forestry) has been in long term decline in terms of its participation in GDP, dropping from 11.5 percent in 1991 to 7.1 percent in 2007.⁴¹ Part of the Sahel climate system, prone to droughts, and scant arable land, agriculture has never been a contributor to GDP but it remains essential to poverty reduction and household incomes for nearly a third of the population. The country has to import nearly 90 percent of its food needs. The fisheries sector has been an enigma, considering the both the vast maritime space and the sea-faring history of the people. The recent impressive growth of fisheries exports, however, may portend a transformation for the sector. Lacking scale and resources, industry is negligible. There is some recent growth in light industry, especially in beverages, construction and construction materials, and carpentry. Construction in particular has witnessed strong growth in the past two decades. Nonetheless, the secondary sector still comprises only a quarter of GDP. Services dominate. It is mainly through its booming services industries, along with banking and finance, that Cape Verde has become increasingly integrated into the global economy since the mid-1990s.

The big story behind Cape Verde's economic performance, and the big growth of services, has been tourism. Tourism has been the most dynamic sector since the economic opening of the 1990s. Tourism generated nearly \$400 million USD for the economy in 2010, and central bank data shows projected tourism travel receipts amounting to €253 million in 2011.⁴² The economy's biggest sector was also the biggest beneficiary of the economic liberalization of the 1990s, especially incentives policies to attract

⁴⁰ Banco de Cabo Verde (BCV), *Boletim de Estatísticas* (I Trimestre, 2011).

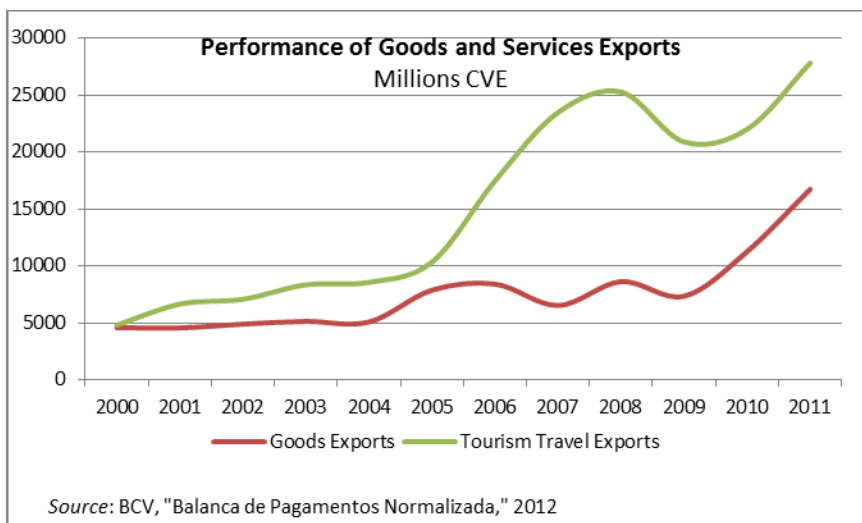
⁴¹ Author's calculations based on Banco de Cabo Verde data, current prices.

⁴² World Bank, WDI, 2013.

FDI. It included fiscal exemptions for five years on dividends and profits, full repatriation, a single tax rate of ten percent after the first five years, full 100 percent exemption on property taxes for the first five years and 50 percent thereafter and, finally, duty-free imports of capital goods. The package also included land concessions. The generous incentives package was extremely successful and pivotal to creating a tourism industry. Such incentives packages are not unusual for countries wishing to develop a new economic sector. The debate today in Cape Verde has focused on the fiscal sustainability of the exemptions for tourism and any other industry as the country loses fiscal space.⁴³

Despite its rapid growth and success, the tourism sector in Cape Verde has significant weaknesses. It has significant competitiveness challenges. As discussed in the tourism Chapter below, the tourism sector consists of a single product, the all-inclusive sun-and-sea package, dominated by a handful of international operators. Nearly all tourist arrivals are from Europe. Despite the Eurozone crisis, the European demand market for Cape Verde's tourism continues to be robust, notably from the United Kingdom. The industry has proven resilient. It has weathered several global shocks since September 11, 2001.

Figure 8 Performance of Goods and Services Exports



The industry is relatively young and modest in size compared to more mature tourism destinations, but it is the most important sector, especially when we consider related sectors and industries impacted by it, such as construction and foreign direct investments. It has been the single most important sector in the structural transformation of the Cape Verdean economy since the early 1990s. It has tangibly altered Cape Verde's position and role in the world economy, especially in terms of the primary mechanisms and channels through which the economy is integrated into the global economy. This is especially significant when we consider that the sector is the single biggest destination for almost all foreign direct investments. In terms of the global consumer market, it is through tourism (and music) that Cape Verde has made a name for itself. The tourism industry in Cape Verde, however, has little forward linkages with rest of the economy, including the near-absence of local sourcing. This is one of the biggest challenges facing the country.

Estimating the true structural role and economic impact of the tourism sector in Cape Verde's economy is difficult. Nevertheless, tourism is visibly important to the economy. It represents over 60 percent of

⁴³ An important aspect of this debate is whether the incentives for tourism generate a net financial payoff for the economy, with some research suggesting the tax revenues contribution of the industry is much higher than the cost of the incentives package.

the tertiary sector, and averaging 19 percent of GDP between 2006 and 2011.⁴⁴ Cape Verde is now classified as one of the “highly tourism-based economies” in the world, and has had the fastest sector growth rate among them.⁴⁵ Tourism’s structural role in the economy does appear to be significant. The World Travel and Tourism Council (WTTC) estimates the industry’s total contribution to be about 43 percent of GDP in 2011, ranking the country in 11th place among 181 countries.⁴⁶ While this figure may be exaggerated, the industry does have a gravitational pull on several important industries, as noted above.

However, the true economic size and income effect of the tourism sector in Cape Verde is not known. It should be noted that care must be taken when assessing any data on tourism in Cape Verde, especially regarding its true size and impact. In the case of Cape Verde, it is difficult to pinpoint accurately tourism’s direct and indirect contribution to the economy due to the lack of a robust national accounting system, including a tourism satellite account, as well as differing methodologies adopted by existing sources.⁴⁷ As the tourism chapter below argues, assessing the true economic impact of tourism requires that we measure income, not arrivals. The arrivals numbers do look impressive. The result has been a growing share of “tourism travel” receipts in GDP, as noted above. However, as several industry observers in Cape Verde emphasize, no one knows how much of these tourism travel receipts actually stays inside Cape Verde considering the scope of foreign ownership of the all-inclusive industry and the role of the major package tour operators. Similarly, robust data on the sector’s financial contribution, in terms of tax receipts, is lacking. The sector’s fiscal exemptions are substantial. Nonetheless, it is clear the sector also contributes directly to tax revenues, whether through employee payroll or through consumption (VAT).

As the tourism chapter makes clear, and numerous other studies have emphasized, notwithstanding its remarkable rise and success, the tourism sector in Cape Verde is thus far a story of missed opportunity. Primarily, the missed opportunity is that the sector has evolved with very little or thin linkages to the rest of the economy. Indeed, as many national experts have said, Cape Verde is still not able to do “internal trade” from the rest of the economy to its tourism sector. Thus tourism’s multiplier effect in the economy is small. Whether it is the lack of local sourcing for agricultural and fisheries products, or the failure thus far to capitalize of the sector’s visibility to diversify into other product offerings, successfully resolving these missed opportunities in the economy’s biggest sector will likely have biggest impact on the country’s future prospects for development as well as poverty alleviation.

⁴⁴ Author’s calculations based on Banco de Cabo Verde (BCV) figures. Tourism travel services averaged 18.7% of GDP during 2006-2011. Data from the World Bank, *World Development Indicators 2012*, shows tourism receipts peaking at 24% of GDP in 2010. The World Travel and Tourism Council (WTTC), *Travel and Tourism Economic Impact 2012: Cape Verde* (London: WTTC, 2012) estimates a 16.2% direct contribution to GDP from travel and tourism. The World Economic Forum, *The Travel and Tourism Competitiveness Report 2011* (Geneva: WEF, 2011), estimates tourism’s share of GDP to be 21.9% in 2011. Data from the Central Bank of Cape Verde (BCV) shows travel receipts from tourism accounting for 17.7% of GDP in 2011.

⁴⁵ International Monetary Fund (IMF), *Cape Verde: Selected Issues*, IMF Country Report No. 08/243 (Washington DC: July 2008).

⁴⁶ World Travel and Tourism Council (WTTC), *Travel and Tourism Economic Impact 2012: Cape Verde* (London: WTTC, 2012), 5. It should be noted that Cape Verde does not yet have a robust tourism satellite account system. Moreover, this author is unaware of any empirical studies that attempt to quantify tourism’s role and contribution.

⁴⁷ Data gaps and discrepancies, including the complete absence of reliable statistics in some sectors like agriculture, are major issues throughout the economy. In cases where statistical information exists, the same information might differ between agencies, or there will be discrepancies in the same data reported by an agency in its different publications or year to year. These discrepancies are noticeable even in BCV publications.

Tourism has induced a structural change in the economy. Indeed, Cape Verde's economy is increasingly specialized in tourism, its biggest sector. The trend is toward a sector that is increasingly dominant in the economy. The rise of tourism can be a dual-edged sword, however. A successful strategy to consolidate the industry through product diversification and strengthening cross-sectoral linkages will permit Cape Verde to fully maximize the benefits of tourism. Indeed, strengthening the tourism value chain, especially through improved local sourcing and stronger SME participation in the value chain, will actually help build up tourism's competitive position by reducing the operating costs of the industry. Achieving this, Cape Verde will have a strong economic pillar to power its transition to upper middle income status. On the other hand, the current evolution of the industry, while bringing some benefits, may also be creating new risks for the economy. Overspecialization is dangerous. The risk of some form of distortion akin to Dutch Disease may not be as great or as grave. The real danger is that overspecialization exposes the economy to external demand shocks – an economy that is already structurally vulnerable. Even in the absence of external shock, Cape Verde's tourism is a high cost, single product with a number of weaknesses. This is a thin basis to compete effectively. The open question, therefore, is whether tourism will provide Cape Verde a sufficient basis to lead the country to the next level of development.

1.3 Macroeconomic Performance

Cape Verde's fiscal and current accounts have deteriorated in the last two years. The global and Eurozone crises have resulted in deteriorating fiscal and current account deficits. These are the two biggest macroeconomic challenges today. The source of these problems, it must be noted, has not been bad policy or macroeconomic mismanagement. An important contributing factor to this deterioration was the expansionary policies since 2009. These policies, especially the debt-driven public investment program, were effective in stimulating domestic demand and targeted the modernization of key economic infrastructure. The downside of the program is the lost fiscal space today and the growing debt. Since these investments targeted major economic infrastructure, the expectation is that they will promote future growth and generate new revenues. The country's fiscal and current accounts deficits have reached double digits since 2010. These deficits are expected to be transitory, however. As noted, the deficits are the result of deliberate policy choice to stimulate the domestic economy and the weakening world economy.

Since 2001, and until the onset of the current crisis, the key macroeconomic indicators have been favorable, all else being equal. This is a notable accomplishment given a country with so many structural weaknesses and vulnerabilities. It reflects the strong macroeconomic management, and the solid fundamentals put in place over the last two decades. Since 2001 to 2009, the fiscal balance was negative but in single digits. The decade average was about -6.7 percent of GDP. The fiscal balance, predictably, has been worsening since 2010. The central bank reports a budget deficit of 13.5 percent of GDP for 2012. The current account, including official transfers, averaged -11.2 percent of GDP during 2001-2011.⁴⁸ The central bank reports the current account deficit at 12.9 percent in 2012. It is unsurprising that the situation worsened considerably in the last two years. The country's external debt hovered in the low 60 percent of GDP for most of the decade, but has shown a sharp increase since 2010. Total nominal stock of public debt had risen to 74.9 percent of GDP in 2010. The central bank reported that the total stock of public debt (external and internal) was 83 percent for 2012. In 2010 the IMF concluded

⁴⁸ Author's calculations based on data from the IMF.

that the risk of debt distress for Cape Verde was “low.” At the end of 2012 it warned of the risks of “elevated debt levels.”⁴⁹ The IMF projected that the present value (PV) of external debt-to-GDP ratio would approach the risk threshold in 2012. Most of Cape Verde’s external debt is concessional, and nearly three quarters of it is multilateral. Finally, the growth of private debt, facilitated by the country’s euro peg, has raised concern.

Tourism receipts, foreign direct investments, and emigrant remittances have been major sources of external financing for the economy. These inflows have performed well in recent years, although some have declined in the last two-three years. Tourism receipts have averaged 18.7 percent of GDP during 2005-2011, ranging between 12-21 percent.⁵⁰ For its part, FDI averaged 10 percent of GDP during this period, oscillating between 6.3 to 14.2 percent of GDP. Drastic reductions in FDI inflows were noticeable in 2009. Inflows of approved FDI resumed in 2010, but took another steep drop, 21.6%, in 2011.⁵¹ Remittances likewise averaged 10.3 percent of GDP, reaching a peak of 14 percent during the period.

Cape Verde’s balance of payments is perennially in deficit. It has deteriorated during these crisis years. The current and capital accounts deficit rose to 15.5 percent of GDP in 2011 and 12.1 percent in 2012, up from 10.5 percent in the previous year.⁵² The current accounts improved slightly during 2011-2012, dropping from 16.2 percent of GDP to 12.9 percent in 2012. The deterioration in the current and capital accounts, as alluded to elsewhere, was the result of a combination of increased imports, reduction in services exports, and significant decline in development assistance. The central bank has projected the deficit for 2012 to be 12.7 percent of GDP.

1.3.1 Monetary and Fiscal Policies

A credible exchange rate policy has been another critical part of Cape Verde’s development performance. Cape Verde’s peg to the euro has been the basis of its monetary stability. The credible peg has been a big reason driving FDI.

Despite the loss of fiscal space and growing budget deficits, the government has been able to avoid serious contraction of revenues, especially tax revenues. Slower growth and cut backs in donor support necessarily resulted in revenues decline. Long prior to the current crisis, the government had anticipated the waning of official transfers, and thus began implementing major fiscal reforms to compensate for the expected loss in ODA. In the last several years the government has invested heavily in fiscal reforms, especially in terms of improving and broadening collection. Fiscal receipts grew in 2011. In response to growing deficits, the government reduced spending by the latter half of 2011. Spending containment persisted into 2012. These measures slightly reduced the budget deficit in 2011 by 2 percent of GDP, to -10.1 percent, including official transfers, according to central bank data. The budget deficit was 13.5 percent in 2012. Nonetheless, the deficit was still much higher than it was at the start of the crisis, when it was roughly -1.8 percent of GDP in 2008.⁵³ The expectations for 2012 are decline in tax revenues and

⁴⁹ IMF, “Statement at the Conclusion of an IMF Mission to Cape Verde,” Press Release (Washington: IMF, Dec. 3, 2012).

⁵⁰ Author’s calculations based on BCV data.

⁵¹ BCV, *Relatório de Política Monetária*, (Praia: BCV, May 2012).

⁵² BCV, *Relatório de Política Monetária*, (Praia: BCV, May 2012); and *Relatório de Política Monetária*, May 2013.

⁵³ BCV, *Relatório de Política Monetária*, (Praia: BCV, May 2012).

significant drop in official transfers. The new budget approved for 2013 shows a budget gap of over 20 percent.⁵⁴

As discussed in chapters 3 and 4, important changes have occurred in tax and incentives policies in the last two years that could have substantial impact on the trade sector and on tourism. First, as codified in the 2013 budget law, new fees are introduced for customs administrative procedures, for both importing and exporting merchandise. All processing of imports and exports using Customs' Sydonia++ will be assessed a series of fees for individual procedures. The fees differ according to procedure. For example, customs declaration will cost \$5,000 escudos. For tourism, the VAT will increase from 6% to the national rate of 15% effective January 2013. It is not known whether this increase will have any discernible impact. On the other hand, this may help reduce the government's administrative costs and hurdles in administering and applying the old differentiated rate because of the inherent difficulty in determining which enterprises or transactions qualified as "touristic."

Other new fiscal policies and proposals are also being discussed or planned. A new "ecological tax" was passed by the national parliament in mid-2012. The new law assesses a tax on "packaging" for liquor and beverages. The receipts are destined for a special environmental fund which was created. The new tax generated a bruising political fight among the political parties, and has been controversial among some businesses. There are new fiscal policy proposals that directly impact the tourism sector. First, there is a heated debate inside and outside government on the government's proposal to streamline the entry visa process and fees. A second proposal introduces a "bed tax," applying a €2 per night tax in the tourism sector. Both proposals are still under discussion as of this writing.

The worsened external environment has given rise to several important macroeconomic concerns. The first, as discussed above, is the growing debt. A second concern is the growing risks arising in the national banking sector. For much of 2011-2012, banking credit to the economy contracted. It is noteworthy that the central bank (BCV) has been raising this alarm consistently in its publications in the past year. Domestic contraction, and lower external demand, poses risks of instability for the national financial sector.⁵⁵

The national banking sector is solid. The sector has strong regulation and oversight, and it has performed favorably over the years. There are today eight commercial banks in the sector, but the sector is still not fully competitive. First, two big banks dominate the sector. They control an estimated 70 percent of the credit market, according to central bank data. Second, there is high concentration in the sector in terms of overlapping ownership and corporate governance. Cape Verde's banking system is not very integrated into the global financial system and, as such, this transmission path poses less of a contagion risk. The main source of risk is domestic. The primary source of potential instability to the commercial banking sector is credit risk. The central bank estimates 10 percent of outstanding credit as non-performing. The most immediate danger to the banking sector is the health of the construction and real estate sectors. Roughly 33 percent of all outstanding commercial credit at the end of 2011 was in the housing market. Tourism also represents a source of risk, according to the recent stress test by the central bank.⁵⁶ The banking sector has a high concentration of its loan portfolio in the real estate market. Further weakening in the sectors may jeopardize outstanding loans owed to the banks.

⁵⁴ Government of Cape Verde, *Boletim Oficial*, Serie I, No. 71 (31 December 2012).

⁵⁵ BCV, *Boletim de Estabilidade Financeira* (Praia: BCV, June 2012).

⁵⁶ BCV, *Boletim de Estabilidade Financeira* (Praia: BCV, June 2012), 22.

Despite the external crisis and the economic contraction at home, there is no risk of devaluation in Cape Verde. The central bank has been swift and vigorous in its monetary management. As noted, the overriding goal has been preservation of the stability of the exchange rate regime. Underlying monetary and financial policies have slowed down the expansion of domestic credit.

1.3.2 External Sector

As is well known, and analyzed in-depth in numerous studies, the economy of Cape Verde is externally dependent. All Small Island Developing States (SIDS), and any economy with the physical and productive characteristics of Cape Verde, are characterized by high degree of dependence on trade. Small states and SIDS have miniature size, limited domestic market, and usually limited exploitable resources. The result is that these states become highly dependent on their external sector, and trade assumes a disproportionate importance in the economy, especially imports. Even more, the trade of small states, especially insular ones like Cape Verde, is typically characterized by a high degree of concentration, in product as well as market. It is unsurprising that a country like Cape Verde has a high degree of export concentration, given the characteristics listed above. Only a few, like Singapore, have managed to break out of this smallness trap. It is only today in the 21st Century global economy that such small states have a more open playing field and more opportunity, as globalization has spurred the growth of knowledge-intensive and ICT-based products and services in the world trading system. Small states now have a chance to compete and diversify without the hindrance and handicap of smallness and remoteness.

The development of a robust capacity to export merchandise and services will transform Cape Verde. Indeed, as the experience of other countries show and as current realities dictate, Cape Verde will have to develop this capacity if it is to make a successful transition to upper middle income. This transition implies, and requires, that Cape Verde compete with countries much bigger and better endowed, from Malaysia, to Brazil, to Costa Rica, Montenegro, Tunisia and Mauritius. This will not be easy. And Cape Verde cannot compete with such upper middle income countries on the basis of scale. At the same time, Cape Verde *must* find new sources of external financing because traditional sources of external financing, such as official development assistance (ODA) and remittances, have been shrinking.

Despite graduation, Cape Verde continues to rely on development assistances as an important source of budget support and external financing for the economy. Cape Verde ranks among the top per capita recipients of ODA in the world. These years of crisis have had a predictable negative impact on the inflow of development aid. Bilateral donor transfers fell by 47% in 2011 from the previous year.⁵⁷ The reduction is expected to be even more severe for 2012. The recently approved 2013 national budget shows official transfers and budget support accounting for 11.4 percent of revenues. In the midst of these lean years and drastic cutbacks in official transfers, Cape Verde received good news in early 2012 when it signed a new Millennium Challenge Account (MCA) Compact agreement with the Millennium Challenge Corporation of the United States. The \$66.2 million USD grant will be invested primarily in the water and sanitation sector and in land and property rights registration system. The MCA Compact is the largest “free” money that Cape Verde receives and, unlike some other transfers and concessional loans, it does not come with any conditionalities. The first Compact was quite successful, producing visible results especially in key economic infrastructure projects and in the agricultural sector.

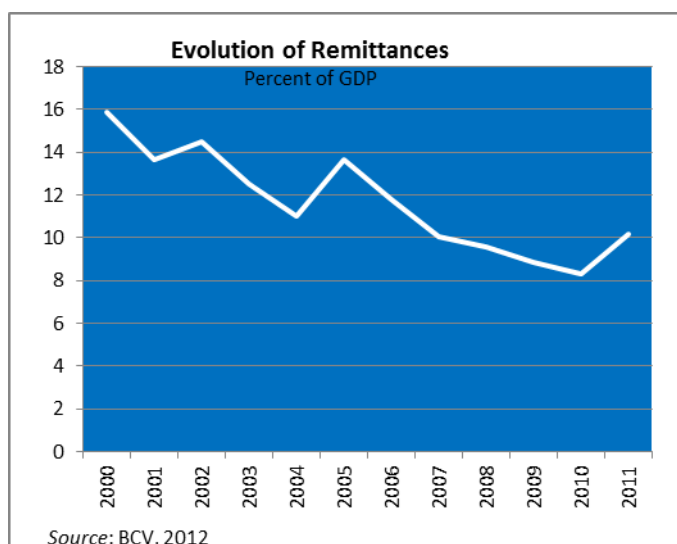
⁵⁷ BCV, *Relatório de Política Monetária*, (Praia: BCV, May 2012).

Remittances have been a bright and positive factor in an otherwise bleak external environment. Indeed, remittances flow has been robust during the crisis years. After a small 7 percent drop in 2009, remittances grew in 2010 and 2011. Remittances grew by 30 percent in 2011 from the previous year.⁵⁸ This is quite unexpected considering the economic downturn in the major host economies for the Cape Verdean Diaspora. Remittances growth continued strong into the third trimester of 2012, according to BCV data, equaling the annual total for 2010 and on pace to match or surpass the 2011 figures. As with tourism receipts, remittances inflows are not seasonal, thus providing a steady, predictable flow of financial resources for the economy and families. However, in terms of its share of GDP, remittances have been in long term decline. Remittances had dwindled to 8 percent of GDP in 2010, whereas in 1991 it comprised 17.9 percent of GDP.⁵⁹ Given demographic trends as well as domestic political and immigration policy changes in the major host countries for Cape Verdean migrants, Cape Verde will not be able to continue to rely on remittances as an important source of cheap and regular external financing for the economy. Looking ahead, the only two important questions regarding remittances are: what the *rate* of decline in remittances will be, and whether there will be a growth in emigrant deposits and emigrant investments as traditional remittances fade.

There are two important economic phenomena involving Cape Verde’s large emigrant population. Such phenomena may transitory, but they may hold some future promise. It may soften the impact of the fall of remittances in the economy. The two phenomena are: emigrant deposits in the national banking system, and emigrant investments.

Remittances data collected by the central bank distinguishes between remittances and “emigrant investments.” In the last few years, we have noticed this emerging phenomenon of more and more emigrants investing back in Cape Verde, both in terms of business ventures but also in terms of employment-generating investments involving building family and vacation homes. Emigrant deposits remain strong. The landmark 1995 legislation permitting these special interest-bearing accounts has been one of the most successful pieces of legislation Cape Verde has adopted. Emigrant deposits are also carry tax-free benefits on earned interests. It is a model for all countries that seek to mobilize their Diaspora, and has been an effective strategy to promote Diaspora-assisted development. Emigrant deposits grew by over 400 percent between 1996 and 2010.⁶⁰ Despite the global crisis, deposits increased consistently every year from 2008 to 2012, growing by 9 percent between 2011 and 2012. These emigrant deposits have been an important source of financing and liquidity for the commercial banks. At the end of 2011, emigrant deposits constituted 48.5 percent of quasi-money (M2) in the banking system.⁶¹

Figure 9 Evolution of Remittances, %GDP



⁵⁸ Author’s calculations based on data from the BCV.

⁵⁹ BCV, *Boletim de Estatísticas – 20 Anos* (Praia: BCV, 2012). Current prices.

⁶⁰ Author’s calculations based on data from the BCV.

⁶¹ Banco de Cabo Verde (BCV), *Boletim de Estatísticas*, III Semestre 2012.

An important take-away from the above discussion on remittances and emigrant deposits is that Cape Verde's Diaspora remains fully engaged and attuned to Cape Verde's development. Another important take-away is credibility – that is, that Diaspora sees their home country (and economy) as credible. The stable exchange rate regime, macroeconomic stability and sound management, and good governance have all clearly inspired this credibility. The Diaspora's ties to the home country have evolved beyond familial and sentimental attachment. The ties are now financial. Cape Verde is seen by its Diaspora as an attractive place to invest. A logical implication of all this is that Cape Verde has an opportunity to exploit much deeper these Diaspora ties, from the standpoint of investments, tourism, and export markets. The Diaspora has been *coming to* Cape Verde. Now Cape Verde must develop strategies *to go to* its Diaspora communities.

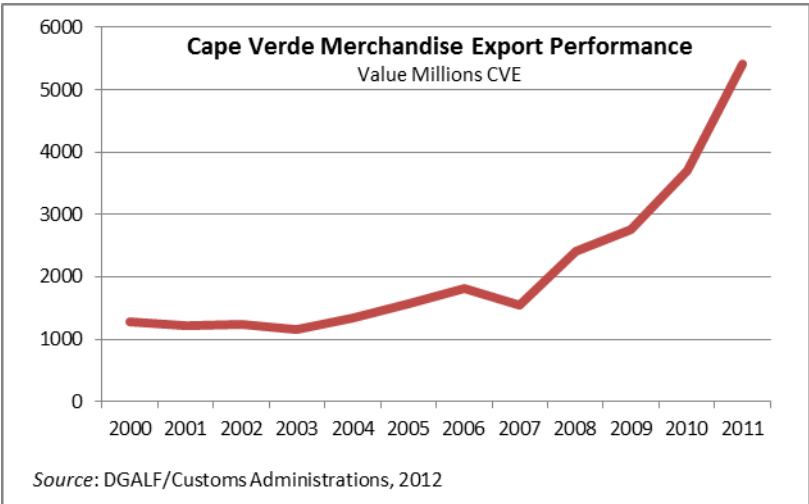
1.3.2.1 Trade and Investment Flows: Features and Trends

The past two decades have witnessed substantial structural changes in the external sector of the economy, primarily as it relates to trade and foreign direct investment (FDI) flows. Both export trade and FDI have been growing, however modestly, for most of this period. Trade is a huge part of the economy. As noted, given its limitations of scale, productive base, and natural resources in merchandise trade, Cape Verde's merchandise trade balance will always be in structural deficit. The inflow of FDI, development aid, and remittances has historically helped to offset this imbalance and thus keep the overall balance of payments manageable. Nonetheless, the evolution and structure of its export trade reveals glimpses of promise and opportunities for expansion.

In terms of the structure and composition of Cape Verde's merchandise trade, several features are visible and worth emphasis. The following key features characterize Cape Verde's trade:

- *Structural Trade Deficit:* The first is the inescapable structural deficit, since the country simply cannot produce the food, energy, technology, consumer and durable goods, raw materials, industrial or agricultural inputs, etc., that it needs. Cape Verde is an import-dependent economy.
- *Narrow Export Basket:* Second, the country's export basket is narrow. As emphasized in this report, and stressed by strategic development documents, the first big challenge the country has to overcome in order to more fully integrate in the multilateral trading system is to widen this export basket by developing new exportable goods and services.
- *Services Trade:* Services exports, especially tourism travel exports, comprise the greater part of Cape Verde's participation in the global economy. This is unsurprising given the characteristics and natural endowments of the country and the fact it is a services-based economy. This feature is very much in line with broad national development objectives of transforming Cape Verde into an international hub for high quality services.
- *Export and Market Concentration:* Third, in both structure and composition, Cape Verde's trade profile reveals several layers of concentration. The country's merchandise exports are highly concentrated, with two or three product categories accounting for nearly all export earnings. Even more, two firms account for over 70 percent of the value of merchandise exports. None of the country's exports has high technology content. The same may be said of services exports, which consists primarily of the single-product tourism export, although transportation services (mainly fuels re-exports) are significant. This profile is not necessarily unique to Cape Verde, as it is a feature common to many developing and lower middle income countries. For both imports and exports, Cape Verde's trade is also concentrated by destination markets. The EU market accounts for roughly 90 percent of Cape Verdean exports, even here too the market is highly

Figure 10 Cape Verde’s Merchandise Export Performance



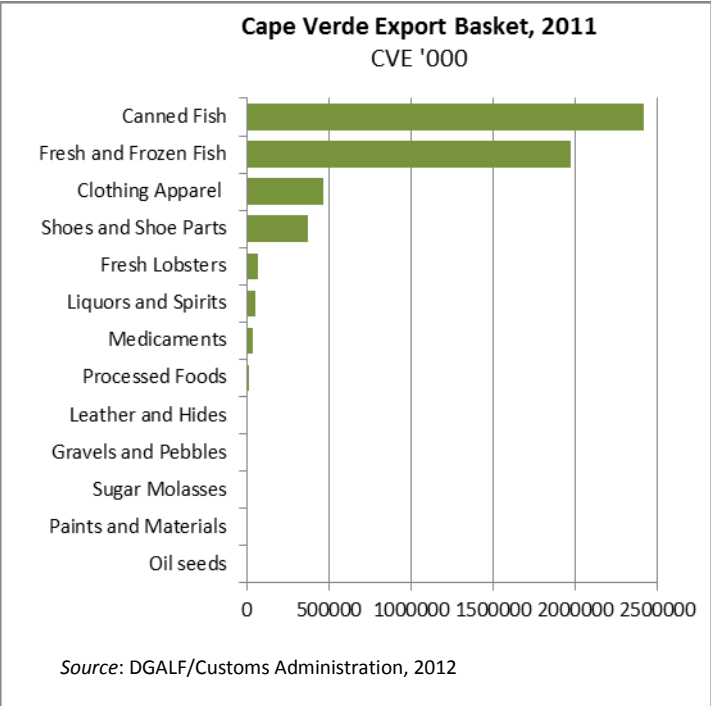
concentrated. As such, the full scope of the challenge facing the country going forward is a dual challenge to expand and diversify both the export basket as well as diversify its markets.

Like many other small island states, as noted, import and export trade is a huge part of the economy. Trade’s share of the economy has been increasing steadily since 2001, comprising roughly 115 percent of GDP in 2011.⁶² Cape Verde is an import dependent economy. It imports much more than it exports, thus

the external structural deficit. Cape Verde’s merchandise exports in 2011 covered only 6 percent of its import invoice. The scope, scale and composition of imports are unsurprising given the characteristics of the country – a small island state that has to import everything it consumes.

In terms of export profile, like the rest of the economy, Cape Verde today is mainly a services exporter as a result of the growth of the tourism industry. This is a significant fact because if we were to consider only traditional merchandise exports, Cape Verde’s exports are miniscule and had yet to surpass \$100 million USD by 2011.⁶³ In fact, whereas merchandise exports totaled just under €50 million euros in 2011, the central bank, Banco de Cabo Verde, reports ECV 30.3 billion escudos, or roughly €275 million euros in exports of goods and services.⁶⁴ This figure still covers only a third of the value of imports for the year. However, if we widen the scope to include a more generous definition of exports, then Cape Verde’s export profile and participation in the multilateral trading system becomes more substantial for the small island country. When we include merchandise exports, re-exports, tourism travel services, and remittances – which we can use as

Figure 11 Cape Verde's Export Basket, 2011



⁶² World Bank, WDI, 2013.

⁶³ World Trade Organization, *International Trade Statistics*, 2012.

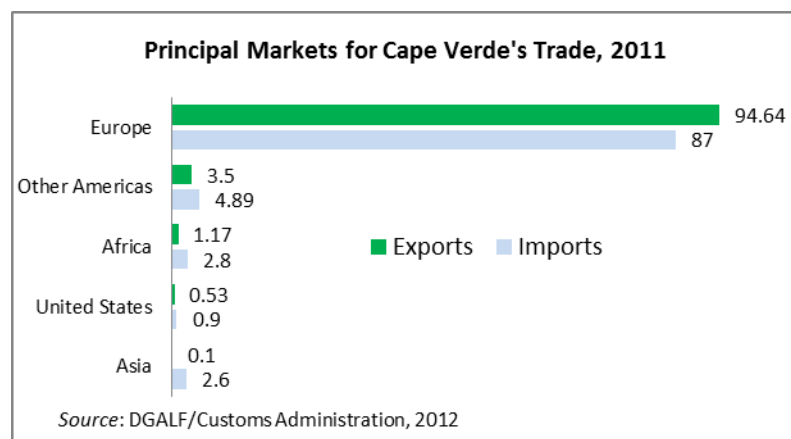
⁶⁴ Banco de Cabo Verde (BCV), *Boletim de Estatísticas*, III Semestre 2012.

a rough proxy for labor services exports – Cape Verde total exports double to surpass ECV 60 billion escudos in 2011, or approximately €554 million euros and covering three quarters of imports.⁶⁵ Such calculations are curiosity exercises rather scientific. Yet, give the persistently strong flow of remittances, in a context of high rates of out migration and a committed Diaspora, it is not implausible to consider labor services exports.

Cape Verde’s exports, both services and merchandise, are highly concentrated. The country’s export structure has low diversification in both products and markets. Services exports remain concentrated in tourism. Merchandise exports are heavily concentrated in fish products, accounting for over 80 percent of total merchandise exports. Clothing and footwear constitute only about 15 percent, and have been declining in shares over the years.

In terms of destination markets, roughly 90 percent of Cape Verde’s merchandise exports (as well as services exports) go to the European Union market. In general, Cape Verde’s trade (imports and exports) is highly concentrated by destination, namely the EU market. In 2011, 87 percent of the country’s imports came from Europe, while 95 percent of its merchandise exports headed to Europe. Even here

Figure 12 Principal Markets for Cape Verde's Trade, 2011



there is a further concentration, or low market diversification, in two Eurozone economies. Spain and Portugal accounted for 88 percent of Cape Verde’s merchandise exports in 2011. Spain in particular has been in the ascendancy as Cape Verde’s number one export market since the mid-2000s, and in 2009 surpassed Portugal as Cape Verde’s main export market. The position of Spain, as mentioned, is primarily due to the export of a single product group, fisheries, and the role of a single Spanish multinational firm based in Cape

Verde. This degree of concentration and lack of market diversification can be harmful to countries. Fortunately, the Eurozone crisis did not have a severe negative impact on imports and exports. Indeed, exports remained healthy, although this was a one-dimensional story as mentioned above. In terms of the sub-region and the continent, despite an enormous market and potential niche opportunities because Cape Verde is relatively more advanced in some industries, West Africa and the continent receive no attention from Cape Verdean exporters and importers. Barely 1 percent of its exports end up in Africa, and less than 3 percent of its imports come from the continent. Unsurprising in the African context, basic transportation, namely maritime links, represent a major obstacle, along with the stifling problems associated cross-border trade. Nevertheless, some links do exist, with regular air and maritime links to key markets such as Senegal, São Tomé & Príncipe, Guinea-Bissau, and Angola. The mentality has been to ignore the Africa market. Although incipient, the recent trends involving Cape Verde’s pharmaceutical company and the big agribusiness venture of Ilha Verde may revolutionize Cape Verde’s commercial links to the continent.

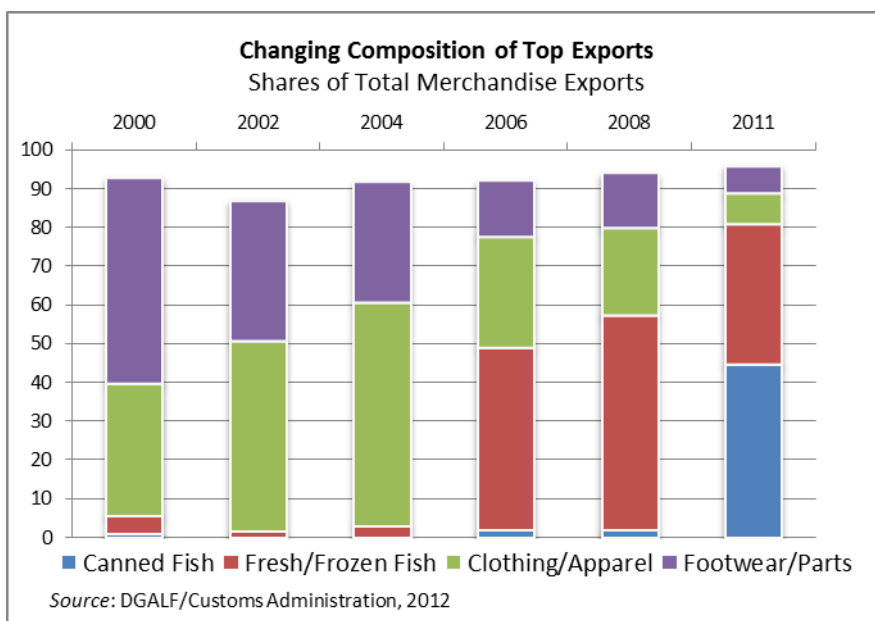
⁶⁵ Author’s calculations based on data from Banco de Cabo Verde (BCV) and National Institute of Statistics (INE).

As illustrated in the figures above, merchandise export trade has been growing steadily since 2003. After a 15 percent dip in 2007, export performance has been robust. After an atypical high rebound in 2008, the growth rate has been in double digits, reaching over 30 percent in 2010 and 2011.⁶⁶ This is surprising given the external environment, especially the recession in its principal destination market, the Eurozone. Cape Verde's merchandise exports grew in value by 326 percent between 2000 and 2011.⁶⁷ Merchandise exports continued to grow, by 5 percent, in the third trimester of 2012, while imports fell by a larger margin.⁶⁸ In 2012, export performance was mixed, with the value of merchandise exports declining by 16%, according customs data, while services exports grew by 12 percent as a result of tourism's continued growth.

Cape Verde's recent export performance, even though narrowly based, shows promise for the future. Export shares of GDP have been increasing slowly in the last several years. Central bank data reports that "exports of goods and services," in current market prices, accounted for 23 percent of GDP in 2011.⁶⁹ Tourism travel services takes up most of this. However, merchandise exports have also been increasing their share of GDP. In 2011, merchandise exports accounted for 4.1 percent of GDP.⁷⁰ This is a big jump from the previous year when the share was 2.9 percent. Since 2005, merchandise exports share of GDP was 1.8 percent, and grew steadily since.

Cape Verde export performance reveals interesting trends in terms of composition. Two notable longer term trends are visible. The first is the decline in the importance of traditional exports such as clothing apparel and footwear and footwear parts. Up until 2005, these two categories were dominant in the export portfolio, but declined thereafter. In fact, in terms of sales value, apparel and footwear have been fairly stagnant during the past decade. Other traditional exports, such as coffee, electronic components, and flour, declined or disappeared altogether, although none ever occupied a significant share in total exports. The other notable trend, in contrast, has been the rapid growth in the export of fisheries, processed as well as fresh and frozen. The growth of fish exports has been spectacular – considering its

Figure 13 Changing Composition of Top Exports



⁶⁶ INE, "Evolução da Taxa de Crescimento do Comércio Externo," 2013.

⁶⁷ Author's calculations based on data from Direcção Geral das Alfândegas (Customs Administration).

⁶⁸ INE, "Boletim das Estatísticas do Comércio Externo," 3rd Trimester, October, 2012.

⁶⁹ BCV, *Boletim de Estatísticas*, III Semestre, 2012. World Bank data (WDI, 2013) on Cape Verde's goods and services exports shows a much higher value, with exports of goods and services averaging 40% of GDP during 2008-2011.

⁷⁰ Author's calculations based on statistics from the BCV and Customs (Direcção Geral das Alfândegas), 2012.

negligible participation a decade back despite the enormous maritime resources the country possesses. In 2011, fisheries exports accounted for over 82 percent of the country's total merchandise export.⁷¹ Processed, or canned, fish alone account for 45 percent of total exports. The growth of fisheries exports has been phenomenal since 2000, from roughly 7 percent of total merchandise exports in 2000 to its present share today. This astounding growth is largely the result of the major Spanish foreign direct investment based in the major port city of Mindelo, the FRESCOMAR canning and fish processing firm. With over 500 workers and a huge economic impact on the region, FRESCOMAR alone accounted for 43 percent of the country's total merchandise exports in 2012. In general, the country's current export mix has a low content of technology, tending to primary goods or manufactured and processed merchandise, such as canned fish and alcoholic beverages, that use low technology and low skilled labor. The growth of pharmaceutical exports may slowly change the technology content of exports.⁷²

Other trends worth highlighting – and tracking in the coming years – are pharmaceuticals exports as well as the export of liquor and spirits. Both are at an incipient stage, but recent market and production trends are favorable. The strong tradition and production capacity in the indigenous liquor, the sugar cane-based *grogue*, the associated spirits such as *ponche* as well as the wine of volcanic origin, translate into a potential growth opportunity niche segment for Cape Verde. Both the wines from Fogo and the traditional sugar cane liquors are entering the US market and available in the store shelves of the Diaspora communities. As for pharmaceuticals, the modern, internationally certified pharmaceutical company, Inpharma, has adopted a clear and aggressive internationalization strategy focusing on a number of West African countries. Finally, it should be noted that Cape Verde's re-exports, primarily in transportation services (re-fuelling and bunkering, primarily), are typically much larger in value than its merchandise exports in any given year. According to the National Institute of Statistics (INE), Cape Verde's earnings from re-exports were three times larger than that of merchandise exports. Such figures offer positive support for a strategy to position Cape Verde as an international services provider in air and maritime transportation.

In terms of services exports, the biggest single services export remains tourism travel. Based on central bank calculations for 2011, tourism travel services now accounts for 76.8 percent of Cape Verde's total exports of all goods and services.⁷³ Tourism travel services export is four times larger than the total value of all merchandise exports. It is the major source of earnings. Travel services exports have grown rapidly and consistently. As this Report emphasizes, Cape Verde has an opportunity to expand services exports. These include services envisioned by the Agenda for Transformation, such as maritime and air transportation services, financial and business process outsourcing. The strategic goal is to diversify and bring more added value to the tourism services sector. Yet there is also an opportunity to engage in internet-based services. The good news is that Cape Verde possesses some essential ingredients – modern telecommunications infrastructure, solid regulatory environment, and excellent access to the global network. Cape Verde has two access points to the transnational fibre optics infrastructure, the Atlantis II and West Africa Cable System (WACS) cables. Of critical importance here is the government's ability to foster greater competition in the sector, and promote creative solutions, to reduce telecommunications costs, and facilitate universal internet access.

⁷¹ Author's calculations based on data from Direcção Geral das Alfândegas (Customs Administration).

⁷² On Cape Verde's manufacturing exports, see the very good study by CPE/UNIDO, *Relatório sobre Competitividade Industrial de Cabo Verde* (Praia: CPE, 10 February 2012);

⁷³ Banco de Cabo Verde (BCV), *Boletim de Estatísticas*, III Trimestre 2012.

In terms of exports promotion, Cape Verde does not have an integrated or focused institutional or fiscal support regime. Business leaders complain that there is no clear and specific export promoting policy and institutional support. They point to the clear, generous and focused support granted to foreign investors, and ask why such targeted and effective support is not forthcoming for domestic enterprises that want to export. For example, they point out, there is no credit policy for exporting firms and some programs intended to support exporting firms are defunct or never implemented. A number of senior business leaders encourage the adoption of an industrial policy and a more proactive but predictable approach to policy in this area.

The country tried unsuccessfully in the 1990s to develop a version of export free zones, or “*zonas francas*,” geographically designated areas where foreign firms can establish export-oriented activities, such as Lazareto Park in São Vicente. Firms designated as “*zona franca*” benefited from several fiscal and customs incentives, including a 10-year tax holiday and duty free imports and exports. Most of the businesses closed after a decade. The only notable survivor is the fish processing and canning giant, the Spanish owned FRESCOMAR in Mindelo, São Vicente. As part of its WTO accession agreement, Cape Verde agreed to revise its policies on free trade zones. Today some important innovations are being attempted, and the thinking has shifted away from the old model. In 2011, the government instituted the “Center for International Business” (CIN, in its familiar Portuguese acronym) as the main instrument to promote export-oriented enterprises. The “center” comprises all business activities in the area of export, industry and services, and all three activities can occur in the same designated CIN. The government assumes the responsibility of building up the necessary infrastructure in the centers, including physical installations. Unlike the previous model of a single isolated export processing zones, the CIN opens up the entire national territory for designated physical locations while the entire territory of the country is available for services. The fiscal incentives, however, are not as generous as before. Companies licensed to operate in the CIN benefit from corporate tax reductions of 90 percent during 2011-2018 and 85 percent during 2019-2025; tax exemptions on profits and dividends; and duty-free imports for inputs, raw materials, and equipment.⁷⁴ As of this writing, no firms have been formally registered in the CIN.

In general terms, all countries are constrained by their international obligations under the WTO commitments (specifically, the Agreement on Subsidies and Countervailing Measures, or Subsidies Agreement for short) in the nature and scope of domestic supports for export oriented firms and industries. Some forms of support are allowed, but subsidies, for example, cannot be “specific” insofar as they target particular firms, industries or groups within the national territory. Similar constraints apply in the case of protections against competing imports or infant industry development. As such, these international obligations severely constrain small and developing countries in their efforts to foster new businesses and diversify their economy by building up new industries and sectors. Such difficulties stand in sharp contrast to developed world practices, as the extreme case of agricultural subsidies demonstrates. Moreover, the practical reality is that small countries like Cape Verde lack bargaining power. Nevertheless, small and developing countries are able to benefit from the special and differential treatments afforded under these international commitments. In addition, small and developing countries can emulate the practices of the big and rich countries that employ a wide variety of creative and innovative policies to promote their exports.⁷⁵

⁷⁴ Rep. Cape Verde, Decree Law 1/2011, 31 January 2011, reprinted in *Boletim Oficial*, I, No. 5 (31 January 2011).

⁷⁵ As an illustration, the United States employs a wide variety of domestic support measures and policies to support its export firms and industries. The Export-Import (ExIm) Bank of the United States provided USD \$32.7 billion in low-interest loans, guarantees, and insurance to US exporters, primarily to large multinational

Finally, as argued in the chapters below and illustrated in Table 1 above, the country has a lot of work to be done to improve the doing business climate, especially in the area of cross border trading and trade facilitation. Trade facilitation refers to the trade-enabling environment for importing and exporting firms, primarily the customs, port, and other administrative procedures, documentation and formalities of bringing and sending goods across borders.⁷⁶ In short, cutting “red tape” and reducing the administrative burdens on firms that are involved in trading. Trade facilitation encompasses three critical policy domain areas: sound trade policies and regulations; efficient and user-friendly trade and customs administration; and adequate trade related infrastructure, such as ports and logistics, to move, distribute, and ship goods. In Cape Verde, given the characteristics described in this Report, it is necessary to include the quality, efficiency and adequacy of the national logistics chain (in this case, cargo transport operators, port handling, customs brokers, warehousing) as key parts of the infrastructure component. Trade facilitation factors can either reduce the trade related transaction costs for firms, or they increase these costs, thus lowering the export competitiveness of firms and lowering the attractiveness of the country for FDI. As Cape Verdean importers and exporters know too well, the high number of days involved to process a shipment is frustrating and costly. But such inefficiencies can also prove fatal to the agribusiness sector Cape Verde wants to develop. Because their goods can be perishable, agricultural exporters cannot wait. Exporters of fresh fish and agricultural products risk losing their products, and therefore clients, if their exports sit at the port awaiting inefficient and redundant bureaucratic procedures and formalities.

Cape Verde may rank favorably compared to most West African countries and the Sub-Saharan average in the ease of cross border trade, but it is not competitive in this area in the global context. The process of importing and exporting remains costly and time-consuming. Trade facilitation is a critical area that needs attention. Cape Verde does not perform well in the international measures on cross border trading, and its position has deteriorated. Individuals and business complain incessantly about the archaic and time consuming procedures, the inefficiencies of port and customs administration, the administrative costs, the arbitrariness or lack of transparency in procedures. Lack of coordination and standardized procedures among the many agencies involved in cross border trade create more inefficiencies and add to the costs businesses face. As a senior member of one of the chambers of commerce observed regarding public administration and agencies, ‘the left hand often does not know what the right hand is doing’. To be sure, the state, through its various port, customs and other relevant agencies, must ensure the security of borders, protect public health, and ensure the safety of the nation’s consumers through its efficient and judicious administration and monitoring of the border. From an institutional perspective, trade facilitation is always a major challenge for countries because governing the international borders typically involves multiple agencies and incompatible mandates. In

corporations such as Boeing. In 2010, the US launched its National Export Initiative whose objective was to double US exports in 5 years. Japan and South Korea provide subsidies to high technology firms that reach certain export sales targets. Supports do not always have to be financial and direct. Aside from the fundamental role of economic diplomacy and providing an enabling business and regulatory climate, non-financial supports, for example, can include market intelligence and market development, statistical data, export training, patents and intellectual property registration and protection, insurance and risk mitigation support, loan guarantees, feasibility studies, logistics and warehousing facilities, applied research, taking action to remove barriers and distorting subsidies in foreign markets that discriminate against Cape Verde exports, travel support for SMEs to participate in international trade fairs, .

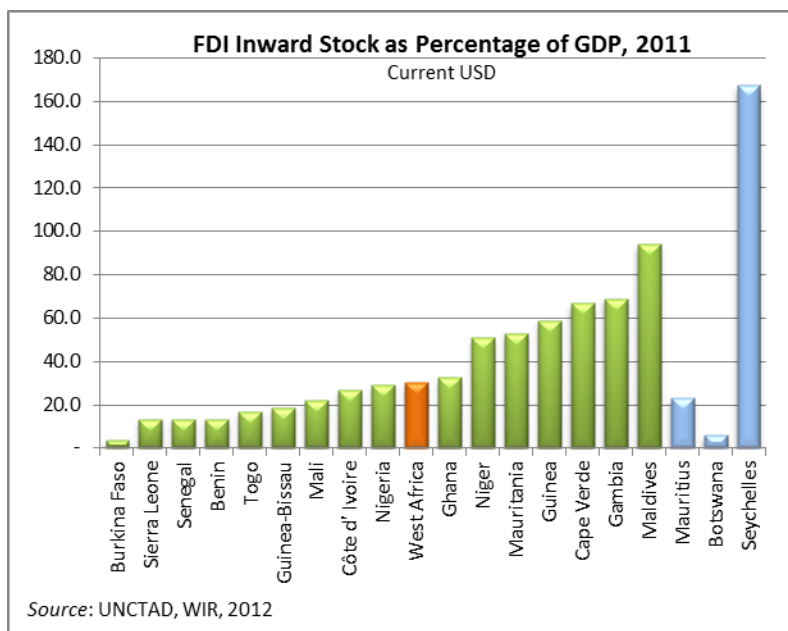
⁷⁶ United Nations, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), *Impact of Trade Facilitation on Export Competitiveness: A Regional Perspective*, Studies in Trade and Investment, No. 66 (New York: UNESCAP, 2009).

Cape Verde, up to seven different agencies, each with their own procedures, schedules, and institutional objectives, may be involved in any one cross-border transaction.

1.3.2.2 Foreign Direct Investments

In 2006, for the first time, foreign direct investment inflows surpassed the totals for ODA and remittances respectively. Here too the structural reforms and major policy measures since the 1990s, including generous fiscal incentives and land concessions, resulted in spectacular success. The rapid and extensive privatizations of the 1990s also attracted foreign direct investments. Up until the recent crisis, Cape Verde became an attractive place for foreign investments. By the early 2000s, it became clear that FDI was now becoming the most important source of external financing for the economy. Growth in FDI inflows was strong, especially during 2000-2008.⁷⁷ At the end of that period FDI constituted roughly 12 percent of GDP. The peak year for FDI inflow was 2008. An assessment by the African Development Bank (AfDB) argues that FDI in Cape Verde had a strong growth effect, more beneficial than in many other countries in West Africa.⁷⁸ Cape Verde's stock of FDI is relatively high, as a share of GDP, compared to many other countries. In 2011 the share of country's total FDI stock in GDP was over 60 percent, more

Figure 14 Inward FDI Stock as Percentage of GDP, 2011



than double the regional average for West Africa.⁷⁹

Unsurprising, FDI inflows have reduced significantly since 2008. The collapse in realized FDI from 2008 to 2009 was roughly 40 percent, based on central bank data. A negligible 2 percent growth in 2010, realized FDI dropped by 12.6 percent in 2011. The outlook for 2012 is bleak, with FDI totals through the third trimester barely covering 32 percent of the total for 2011. The collapse of FDI inflows since 2009 was predictable given the global and Eurozone crisis. However, it is still worrisome considering the next of development will rely heavily on

FDI. Added to the worry is the fact that currently nearly all FDI is tied to the tourism sector, and such heavy concentrations make the economy vulnerable to external shocks.

The structure and composition of FDI in the Cape Verdean economy is also unsurprising. First, roughly 90 percent of all FDI into the economy comes from the Eurozone. Not surprisingly, the biggest source country for FDI initially was the former colonial center, Portugal. Today, however, most of the FDI

⁷⁷ Note: FDI figures for Cape Verde do not include emigrant investments and deposits.

⁷⁸ African Development Bank (AfDB), *Cape Verde: A Success Story* (Tunis, AfDB, 2012), 41.

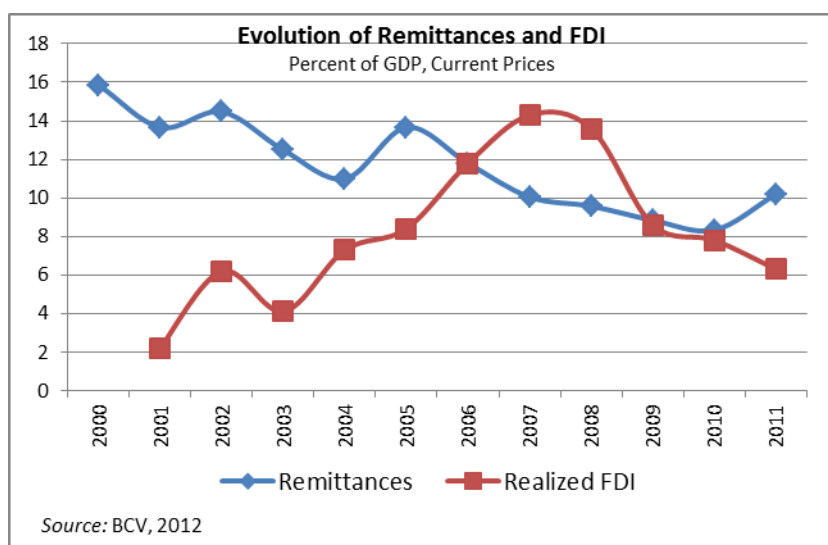
⁷⁹ Author's calculations based on current USD GDP data from the World Bank and FDI stock, in current USD, data from the United Nations Commission on Trade and Development (UNCTAD), 2013. In its 2012 *World Investment Report* (WIR), UNCTAD reports Cape Verde's FDI stock as a percentage of GDP to be 66.8% for 2011.

money is coming from elsewhere in Europe, particularly the United Kingdom. Based on data from the investment promotions agency, Cabo Verde Investments (CI), the accumulated FDI during 2001-2010 revealed the following composition: United Kingdom (35%), Italy (31%), Portugal (17%), and Spain (11%). FDI in Cape Verde is heavily concentrated – nearly all of it in the tourism sector, ranging between 70 and 90 percent during 2006-2011. The second biggest sector attracting FDI is banking and financial services.

A recent trend in FDI in the last 3 years of so has been the entry of investors from Angola. It is too early to assess whether this discovery of the Cape Verdean market by Angolan investors is a temporary and one-shot phenomenon, or the beginning of a powerful new dynamic in the economy. Angolan FDI thus far has focused in three sectors – banking, telecommunications, and inter-island transportation, marine and air.⁸⁰ Angolan investors have recently purchased a controlling share of the country’s second largest telecommunications provider.

As mentioned in the previous chapter, Cape Verde has yet to develop a focused FDI strategy beyond the passive policy package of fiscal, land and customs incentives. Investor targeting is not practiced. The scope of investment promotion has thus far been limited to attending international trade and business fairs primarily in Lisbon, Portugal and hosting an annual business fair that attracts mainly Portuguese and Spanish firms. As useful as these activities have been, the next phase of development will require an activist national strategy that can align investor targeting with the sectoral and development objectives of the Agenda for Transformation, including the very important component of diversifying the tourism product. Here too, as noted, the country’s economic diplomacy can make an important contribution.

Figure 15 Evolution of Remittances and FDI



The reality is that if Cape Verde wants to realize its Agenda objectives as an international hub of top end services in transportation, ICT, financial and business processing services, heavy involvement of FDI will be required to build up these new competitive sectors. The national private sector is yet too weak, and domestic financing avenues inadequate for the scale projects required. Yet a passive approach will not bring the necessary or desired FDI.

In terms of the institutional framework for FDI promotions and management, the primary agency responsible is Cabo Verde Investments (CVInvest, or CI). This agency is the subject of much scrutiny and criticism, as discussed elsewhere. Some of the criticisms, from investors and everybody else in between, is deserved. Other criticisms, while legitimate, may not be as warranted or deserved by the agency. It is an agency tasked with multiple and complex duties, but its organizational and technical capacity is limited. It is also an

⁸⁰ Angolan investors are currently in negotiations with Cape Verdean counterparts to participate in the Cape Verde Fast Ferry and the second national airlines company, Halcyon Air. News reports also indicate Angolan interests in one of the smaller commercial banks.

agency embedded in an larger web of agencies characterized by overlapping or confusing mandates, fragmentation, and poor coordination. This confusion and poor coordination is especially visible in the critical economic sector shared in common by all the mandates, tourism, which is also the primary destination of nearly all foreign direct investments. Nevertheless, there are some positive trends, especially as regards FDI and CI. Over the years, CI has become the *de facto* one-stop-shop for foreign investors. CI integrates the back office administrative and legal procedures. This back office integration is not yet perfected. It is not always successful or efficient as a single window for investors, since it is itself dependent on the efficiency of all the back office agencies and processes over which it has no control. In 2012, CI adopted a new business plan, which is expected to provide it with the strategic focus and internal competencies to better carry out its duties.

1.4 The Reform Agenda

The DTIS Update and its Action Matrix are being elaborated in a propitious context of substantial on-going reforms. When considering the implementation of strategies and measures to enhance its trade, a favorable institutional and business climate is essential. Cape Verde will not be starting from zero. It will build on over two decades of sustained institutional and business environment reforms. These reforms have been examined by several publications, including in the III GPRSP, and they do not have to be elaborated upon here. An important point to emphasize, which is also quickly recognized by the government, is that these reforms are incomplete, some have not been fully implemented and much work lies ahead. Gaps remain. Efforts have focused on macro and meso level reforms, but necessary micro level reforms are lacking. Modern, computerized and streamlined procedures are introduced, but often coexist with or required the old traditional paper-bound procedures of duplicates, notarized signatures, and standing in long lines. Major steps forward are taken, such as the Business in a Day initiative, but important ancillary or complementary reforms needed to generate the full impact of the major reforms are not carried out. Businesses repeatedly complain about this. Notwithstanding these many shortcomings and gaps, the country is moving in the right direction. There are several categories in the nation's reform agenda that are pertinent to this Report and its Action Matrix.

The first categories are reforms are the state modernization reforms, part of which aims to greatly improve the efficiency and responsiveness of the public sector to the needs of citizens and businesses alike. The electronic governance platform, with its vast back-office integration, has made a revolutionary impact, as the experience and results of the House of the Citizen and Business in a Day clearly show. These are on-going reforms. For example, citizens still cannot obtain all necessary documents, or pay all taxes and fees, etc., through these platforms. The Business in a Day initiative is still in the process of integrating all the components and services entailed in the full life cycle of a business enterprise. An important new reform initiative addresses land and property registration, including a modern *cadastre* and a single-window for real estate transactions. Ultimately, the reform is about securing and clarifying property rights. The economic benefits will be substantial, considering the size and importance of the real estate and construction sector as well as the heavy investments being made to fomenting the transformation of agriculture as a business enterprise.

The second category of reforms involves the continuing modernization of public finances, especially in terms of management, budgeting, planning, and revenues. Key to its past success, an important strong point of Cape Verde is its sound public financial management system. Whereas organizational and technical capacity deficits are common themes for Cape Verde's governance institutions, the institutional infrastructure for public finances and monetary policy have been good. A new generation of

reforms has been launched to bolster this capacity, such as the implementation of a national planning system, including a debt management and national investment system. Fiscal reforms will continue. These reforms include not only reducing tax burdens and streamlining the tax and incentives code, but also modernizing and improving payments and collections. Since the mid-1990s Cape Verde's fiscal reforms, particularly with regard to widening the tax base and improving collection, have paid off as illustrated in the robust growth of tax revenues. Reforms of the tax system, to improve efficiency and broaden collection, were motivated by the expected loss of tariff revenues resulting from WTO commitments, the partnership with the EU and obligations under the regional economic community in West Africa. The third categories of relevant reforms for the aims of this Report are the reforms targeting the trade sector, covering both infrastructure, institutions, and process. Major investments have targeted the country's port infrastructure in the past decade, and much more is planned as the "sea cluster" programs and investments are realized. With the exception of infrastructure, progress in the other areas has been much slower and weaker compared to other reform areas. Customs administration requires much more investment in terms of modernizing procedures, equipment and human resources.

An urgent reform that can have a huge impact on trade facilitation is the development of a single window for trade to streamline all the bureaucratic procedures involving ports, customs and other administrative formalities. A number of competing ideas and projects are underway. The problem appears to be a classic one of bureaucratic turf battles. A resolution to the problem is urgent. Here too Cape Verde must think big and be bold. It aims to develop a world class maritime services industry and to build internationally competitive export enterprises, for example, but the country can only compete internationally on the basis of quality and efficiency. It cannot compete on the basis of price or volume, in sectors such as maritime services. In the area of trade facilitation and improving the business and trading climate, Cape Verde should look to the example of countries like Singapore. In the late 1980s, Singapore introduced a bold reform that used ICT to create a modern, super-efficient paperless trade system that allows goods at its port to be cleared in two minutes rather than the seven days previously.

1.4.1 Trade and Private Sector Development Policy

The private sector is the motor for growth and development in Cape Verde. The challenges and weaknesses confronting the private sector in Cape Verde are well documented, and need not be repeated here. These constraints and weaknesses cover an extensive terrain, including access to financing as a result of imperfections in the credit market, high cost and low quality of inputs, lack of scale and market dimension, poor management, among others. Similarly, Cape Verde's broad reform agenda to build up the private sector and improve the business environment are also well documented, as are the many remaining challenges and gaps in these areas. The focus in this section is to underline the programs and investments planned under the III GPRSP that promise to enhance both trade and private sector capacity.

A critical contribution to trade and private sector development will be the major infrastructure investments planned over the next five years. These infrastructure investments, including ports, water and energy, will benefit all economic actors, especially as the broader institutional and policy reforms deepen and widen. The heavy investments in water resources mobilization alone will have a big impact on agriculture.

A critical factor – of success or failure – will be whether Cape Verde is able to push further and deeper the necessary reforms to improve the microeconomic environment for business. Businesses and entrepreneurs in Cape Verde face a daunting set of unfavorable factors and conditions that affect their day to day operations, from the regulatory framework, cost and quality of basic inputs, labor regulations, and so on.

1.4.1.1 Building Export Competitiveness and a Competitive Economy

The III GPRSP recognizes the critical importance of trade in Cape Verde’s next phase of development. Cape Verde has always been an outward-oriented, open economy. Trade has always assumed a large and important role in the economy. The external sector in general has been critical to both growth and poverty reduction. Participation in the world trade system is nothing new, and dates back to the ages of discovery and the Atlantic slave trade. Even during the brief and limited experimentation with import substitution policies in the few years following independence, trade and cross border flows were critically important. Today the country is fully committed to integrate fully and deeply in the multilateral trading system. Its 2008 accession to the World Trade Organization (WTO), while of practical and symbolic significance, was just one component of a much larger strategy to position Cape Verde in the world economy. Indeed since the early 1990s, and more explicitly formulated after 2001, the strategic option has been to transform the country into a “hub” of international services and transnational transactions. This is the essence of the Agenda for Transformation. It is thus revealing to place Cape Verde’s participation in the EIF in a much larger context – a longstanding and long term national grand strategy to transform the country into a player in the global trade system, primarily services.

Building export competitiveness is critical, but it is complex, multidimensional, long term and on-going. The significance of the EIF for Cape Verde is precisely to support the country’s ongoing efforts since 2001 to build up its external competitiveness. Countries like Cape Verde face an array of domestic and international barriers and constraints to export competitiveness. As this report makes clear, various options and strategies are available, some of them are simple and routine, others more complex and demanding. Likewise, this Report is adamant about the urgency to address simpler but critical issues, such as trade facilitation and domestic supports. The Report also makes clear the need to explore, in the medium and long terms, opportunities in internet-based services trade and business processing outsourcing. At the same time, the Report emphasizes that Cape Verde already has a number of promising export products, and that efforts must be devoted to building on success by improving the quantity, quality and markets of these current products.

A critical first step toward building export competitiveness is to overcome supply-side constraints, specifically production constraints. More broadly, for Cape Verde, the challenge is to diversify the economic base and, thereby, broaden the export base. Economic theory tells us the importance of a broader base of exports, which lowers externally-induced volatility and instability of earnings, along with other positive macroeconomic and growth impacts. For Cape Verde, and considering the focus on exportable commodities in traditional sectors, the diversification of the export base will have a big impact on employment, poverty reduction, social and gender inclusion. As noted, Cape Verde has a narrow export base. Cape Verde does not have the scale nor resource inputs for a scale manufacturing base, which bigger developing countries have typically relied on in order to enter global markets and transform their economies. For Cape Verde, export variety is narrow and will likely always remain within a narrow band compared to other countries, including other SIDS. The International Trade Center puts

the number of Cape Verde's exports at 48 6-digit level products. This is a very low number, even when compared to other small island states. It is lower than that of São Tomé & Príncipe. In reality, Cape Verde's export basket is even smaller when measured by value and concentration. Cape Verde's export basket consists of four main product groups that account for over 80 percent of all export earnings: fresh fish, frozen and processed fish, footwear and accessories, apparel and accessories.

As the trade policy and institutions chapter argues, trends in the global economy today and digital age technological change open up some possibilities for small, insular countries like Cape Verde to overcome their structural handicaps and break into the global services market. Diversifying exports is possible by developing services exports that exploit the internet and digital age information and communications technologies (ICT). The chapter on culture and the creative economy likewise stresses the crucial role that ICT tools can play in unleashing the creative energies of individuals and communities. To capitalize on these opportunities, however, requires a profound upgrading of human capital and deep reform of the educational system. The issue is urgent because of the rapid pace of technological change, and as the technology frontier keeps changing it will be more and more difficult for countries like Cape Verde to catch up.

Finally, it is natural to think about trade development, export promotion and diversification from the standpoint of increasing production and developing new products and sectors. These are important. However, equally important is to consider the market for these exports. There are two critical facets to the issue of markets. First, considering Cape Verde's structure of trade, an important part of the diversification and export growth strategy must be to expand and diversify the country's export markets. As we noted, this may be exceedingly difficult for a micro and insular state like Cape Verde to achieve, largely because of international transportation costs and the firm-level transaction costs relating to distribution, market information, marketing, and re-certification. Nonetheless, national interests demand an effort to diversify markets. In this regard, this Report argues, Cape Verde's Diaspora communities offer an excellent first step and entry point into new markets. Second, the issue of market is critical because it must be very much part of the larger equation of evaluating which products and services to invest in order to develop. This is an obvious but neglected point. Product potential cannot be assessed in the absence of knowing the demand market. If the Diaspora communities represent a realistic opportunity for Cape Verdean businesses and entrepreneurs, then evaluations on product development must work their way backward from market to product.

As discussed below, there are four typical strategies to improve export competitiveness. However, before discussing these, it is vital to understand that building export competitiveness is not only about inventing or designing new products and novel trinkets. This may not even be the most important aspect. Critically important to export competitiveness is the trading environment, and whether or not the right policies, regulations, institutions, infrastructure, and processes are in place that facilitate trade. Trade facilitation is key. The efficiency and cost-effectiveness with which goods can be moved in and out of ports and airports are critical. In Cape Verde, as noted, there is universal dissatisfaction with the process and procedures involved in shipping or discharging goods in the country's ports. If these trade facilitation issues are not resolved, the country will not derive the full benefits of all the investments being made in other areas to build up the country's economic competitiveness.

As this Report underscores, Cape Verde's strategy to diversify its export base should proceed along two dimensions: horizontal diversification and vertical diversification. As emphasized in the chapter on agriculture and agribusiness, for example, horizontal diversification consists of developing and adding new products to the basket of current products being presently exported in a given sector. As

emphasized by the chapter on trade policy and institutions, a strategy of vertical diversification will consist of shifting from traditional sectors to secondary and tertiary – or, better yet, to develop export capacity in secondary and tertiary sectors while continuing to focus also on primary sectors exports. The objective should be to move up the value added chain, thus capitalizing on the dynamics and strengths of primary sectors. This is the goal of the government’s focus on transforming agriculture, for example. Cape Verde has limited potential in light industry and manufacturing, but promising and employment-intensive industries can develop around the agribusiness and fisheries value chain. However, there are opportunities in services exports.

In building up its export competitiveness, Cape Verde has, minimally, four distinct strategies. Each can be a stand-alone option, but they are not mutually exclusive, and many countries work along all four possibilities. The four specific strategies are:

- Increase existing exports through improved product quality and productivity;
- Develop new products, horizontally or vertically, that reflect Cape Verde’s comparative advantages and endowments, or exploits opportunities in the world market, but which the country is not currently producing and exporting;
- Value added transformation to develop new products that represent downstream processing of existing export products;
- Export growth and diversification

1.4.2 A Note on the Diaspora as Market: Moving Beyond Monetary Remittances

As noted in the previous chapter, there is a lively and productive debate inside Cape Verde on the potential for its Diaspora to be a partner in its development and as a new source of growth in the future. There is some irony in this debate, of course, considering the indisputable importance of remittances in the country’s development since 1975, and considering the substantial size and impact of emigrant deposits in the nation’s commercial banking sector. Specifically, the recent debate has focused on whether the Diaspora can be a viable niche market for Cape Verdean exporters. It is beyond the scope and aims of this Report to provide an in-depth analysis to resolve this debate. Moreover, there is a growing stock of quality research and literature on the subject.⁸¹ Notwithstanding the critics and skeptics, a lot of international empirical research is showing a positive correlation between migration and trade.⁸² That the Diaspora can be a powerful force in the development for their home country has been proven and tested, and anyone familiar with the development experience of countries like Israel, India, and Ireland cannot doubt this importance. The role of the Diaspora as a key ally in combating poverty and as a significant source of cheap external financing is well known. Less appreciated is the potential for the Diaspora to be an important source for trade, investment, and knowledge remittances (innovation, research, skills development, technology transfers). It may well be that, in the end, it will turn out that the Diaspora potential for Cape Verde is minimal, exaggerated, or even negative. Indeed, there has been a dark and unpleasant side to the Diaspora ties which have added to the national skepticism and aversion to the Diaspora, namely the problem of deportees. Not all Diaspora are created equal. Not all the Diaspora can or will positively contribute to development or become an important market. However, until the country makes a conscious and deliberate effort, based on a clear and

⁸¹ See for example the recent study by the World Bank, *Diaspora for Development in Africa*, eds. Sonia Plaza and Dilip Rhata (Washington DC: World Bank Group, 2011).

⁸² World Bank, *Diaspora for Development in Africa*.

practical Diaspora mobilization strategy, we will not know the true impact and potential of the Diaspora. The debates will remain academic and esoteric.

Before considering some specific arguments regarding the Diaspora potential as a market, it is important to make a few general observations about the relationship between Cape Verde and its Diaspora. First, few countries are as fortunate to have a Diaspora with such strong emotional bonds, an intense loyalty, attachment, and living ties. These ties and emotional bond are dissipating with generational change, but all the indicators continue to show a strong and close connection (for example, the full flights on the national airlines from the main Diaspora host countries, the robust inflow of remittances, Diaspora deposits and investments). Second, even though Cape Verde has not readjusted its view or adapted its policy toward its own Diaspora, the Diaspora itself has changed its relationship and role in the country. That is, there is a discrepancy between where and how the Diaspora is reinserting itself in national economic life, and where the country itself is in terms of thinking about and involving the Diaspora. There is a gap, and policy has lagged behind. National policy has remained stagnant, or uncreative, while the Diaspora has evolved. When we consider the phenomenal growth of emigrant deposits and emigrant investments, the Diaspora itself – and on its own – appears to have redefined its role in national development. Diaspora deposits have kept the banking system liquid, and able to finance spectacular growth in sectors like housing and construction. Diaspora investment in Cape Verde is a reality. No one can walk through communities like Praia, Assomada, Mosteiros, or São Vicente without noticing the very visible economic impact of the Diaspora. However, this Diaspora investment is not limited to the construction of family and vacation homes, but also investments in office space, inter-island transportation, telecommunications, and other sectors. Third, there is a noticeable recent trend in “brain gain” reverse migration. More research is needed here, and it may be a temporary and abnormal trend, too incipient to make any conclusive observations. In recent years, however, it is noticeable the number of Diaspora professionals, not just retirees but also young university graduates, returning to Cape Verde to start a business or explore new career paths. The country’s strong growth performance and booming economy, of course, was the determining factor attracting these professionals.

Fourth, the Diaspora is already a demand market for Cape Verde’s tourism and merchandise exports. An oddity of the Cape Verdean Diaspora, especially in the United States, is that they do not go to Jamaica, the Canaries, Rio de Janeiro or London for vacation. They “return home,” visiting family, attending the major cultural and religious festivals, or just discovering the birth country of their parents for the first time. Diaspora “tourists” are not captured in the statistics, and many argue that they should in fact be excluded from official statistical surveys. Regardless of whether they are counted, what is clear is that the average Diaspora ‘tourist’ spends much more money and contributes much more to the income of local communities than the average international tourist. In addition, the Diaspora is consuming Cape Verde’s products. Much of this “trade” occurs through informal channels, primarily these same Diaspora ‘tourists’ who return to their host countries with suitcases and coolers packed with goods, artifacts and memories of the birth country. Formally, exports of wine, liquor, biscuits, flour, coffee, fish, and other items are appearing on store shelves in Diaspora communities. One of the most popular community grocery stores in the City of Brockton, Massachusetts in the US is the Cape Verdean-owned Vicente’s Supermarket, which daily packed with Cape Verdean and other emigrant shoppers looking for cultural and ethnic foods and products. Such shops are popular despite the wide availability of lower priced big supermarket chains. Why? All of these are important *market signals* that need to be paid attention to and studied.

The fifth and final observation is the following: all these many different ways in which the Diaspora is engaged and has redefined its role in national development has been occurring in the absence of any

explicit national policy, and has been happening despite a significant information asymmetry, or information deficit, that exists. In other words, the Diaspora has been doing the heavy work on its own to find and identify investment opportunities, to find information of tourism packages, to find information of products available for export and the procedures involved. The information deficit is substantial. The policy innovations of the 1990s, such as emigrant deposits and customs exemptions for returnees, are acknowledged as critical and forward-looking, but very little has been done since. There is no national policy for trade and investment promotion targeting the Diaspora. Many Diaspora communities in the United States and Europe are poor and working class people without the wealth and disposable income for international investments. But some do have wealth assets, and there is potential for the kind of micro-financing and collaborative entrepreneurialism that the chapter on culture and the creative economy discusses.

The Diaspora can be an important niche market for Cape Verdean exporters. As is often commented, the size of Cape Verde's Diaspora is estimated to be twice the size of the national resident population. This is significant given the micro size of the domestic market. The Diaspora market will not be a panacea. More importantly, getting products *into* the Diaspora markets is the first big challenge – that is, meeting all the standards, non-tariff requirements and administrative hurdles involved in market entry into the US and European economies. Second, as this Report argues, getting products *to* markets, whether the domestic or Diaspora markets, remains a critical structural barrier for Cape Verdean producers and exporters. Nevertheless, the Diaspora can be a viable market in two very important ways: first, as a consumer market and, second, as a market catalyst and initial point of entry. The Diaspora provides Cape Verdean firms a unique and privileged opportunity for learning-by-doing that allows them steadily and gradually to build up their firm-level competitive capacity for the larger global markets.

There is a basic market rationale, informed by rudimentary economic theory, as to why the Diaspora can be a viable market as a consumer and as catalyst. For any exporter, the significance of having a Diaspora as an opportunity market is an intuitive proposition. Getting into new markets, or expanding in existing export markets, is very demanding and costly for firms, even big and powerful multinationals from developed countries. Opening up new export markets, and gaining a foothold, is a daunting and expensive task. For any exporter considering entering a new market or deepening market penetration, what are the key hurdles and constraints? Producing high quality and price competitive goods is not sufficient. Successful export market penetration requires a number of critical time- and money-consuming activities and capacities, such as market research, identifying and contacting potential (gateway) customers, distribution and marketing. Branding and raising product visibility, winning the interest and confidence of customers, on the one hand, and developing a reliable and cost-effective distribution network, on the other hand, are tasks that very few Cape Verdean firms are in position to do. The Diaspora can provide an opportunity for exporting firms to bypass or mitigate the high costs involved in these critical stages. Product familiarity and trust are major barriers, but not with the Diaspora as consumers. The Diaspora will be demanding in terms of product quality, safety, and packaging, but with Diaspora customers exporters who minimally meet the market entry requirements of the country will have more time and leeway to improve and perfect product quality and packaging. The Diaspora has a strong preference for the goods and products of their homeland, even when these goods may be price uncompetitive. Nostalgic trade, in other words, lessens the costs and competitive pressures exporting firms may otherwise face in the larger market. It is the intrinsic cultural or natural qualities of the product that the Diaspora is seeking, and may be less drawn to the product by packaging and marketing.

The practical utility of the Diaspora as market is not limited to the opportunity for exporting firms to mitigate or avoid the high costs (in time and money) involved in marketing, distribution, market research, etc. The practical utility lies in the fact that the Diaspora as market can provide an important learning-by-doing-and-improving opportunity for Cape Verdean firms. The harsh and unpleasant reality is that if Cape Verdean exporters are thrown directly into global markets, they will fail. Even if they have high quality goods and services the success rate will be minimal, even in niche segments, the pressures of global competition, especially the very expensive marketing and promotions essential to gaining a foothold. As noted previously, even if very specific niche segments, such as volcanic wine or grogue, Cape Verde is neither the only producer, nor the biggest, nor the most cost effective. The Diaspora as market offers an opportunity for firms to build up their firm-level competitive capacity, and subsequently use the Diaspora market as a jumping off point to expand into the larger national market in the host economies. Secondly, through its contacts, local knowledge, and professional networks, the Diaspora becomes an important bridge between the exporting firms and potential new buyers and distributors in the wider market in the host economy. At a minimum, the Diaspora can be an important source of information and market intelligence. (Indeed, we are seeing this bridge role occurring in reverse, whereby Diaspora individuals have been playing an important intermediary and information source for foreign investors who are interested in the Cape Verdean market). Diaspora groups and associations can, and have, play an important role in organizing and hosting trade fairs, business-to-business roundtables, and products exhibitions in the host country.

1.5 Conclusions and Recommendations

Cape Verde is at a critical juncture in its development, all the more so because it finds itself in the context of an unfavorable external environment. The real challenge facing the country is not the current global and Eurozone crisis, which appear to have bottomed-out and the worst of it dissipating. Even after the crisis is passed and healthy recovery returns to its main trade partners, Cape Verde will still be facing major challenges because many of these challenges are structural (losing cheap external financing such as ODA and remittances) and related to the requirements of transition into its next higher level of development. The general findings and recommendations of studies such as *Cape Verde: The Road Ahead* by the African Development Bank are accurate, and need not be repeated here. The choice facing the country is simple – stagnation and relative decline or progress. The world will not wait, and will not care. As long as Cape Verde wants to an inclusive growth that sustains increasing living standards for its population, it must confront these challenges.

The individual chapters that follow will examine the specific challenges and make targeted recommendations of the set of policy priorities and actions needed. At the broadest level, these challenges and recommendations can be summed up in the following categories:

- *Economic and trade diversification*, which include, among many other things, the very difficult and complex tasks of improving both the quantity and quality of production, developing new economic sectors, build a national quality system, and strategically positioning Cape Verde in niche segments in the world economy;
- *Institutional capacity*, an urgent and continual demand because for economies like Cape Verde's, their ability to compete effectively in the global economy is based on efficiency and adaptability. And because economies with the characteristics of Cape Verde's put new and different demands on the country's institutional framework, the efficacy, proficiency and

- productivity of its public institutions will be a critical determinant of the competitiveness at the national as well as firm levels;
- *Knowledge Infrastructure and Human capacity* follow logically from the premise outlined above, and has been a consistent theme in nearly every report written on Cape Verde. There is simply no way to implement the Agenda for Transformation, nor to minimally sustain the current growth model let alone compete in the world economy, without a rapid and serious upgrading of the skills and competencies of the labor force;
 - *Quality of the Physical Infrastructure* has been another consistent theme, and the chapters in this Report focus heavily on the most important bottleneck to entrepreneurial activity, production and exporting – the national logistics system. At the same time, the ability to exploit new opportunities in the creative economy and global services industry depend on the country being able to revolutionize the access, quality, and reliability of its critical infrastructure, especially in energy and telecommunications;

In terms of recommendations from this chapter, only broad ideas are offered here. The individual chapters provide specific and operational recommendations. Moreover, the list of recommendations here is not exhaustive. The ones mentioned – or omitted – have been discussed at length in many previous studies. The broad categories of recommendations include the following:

- i. Export diversification through (a) developing new niche products and services based on moving up the value chain of sectors where the country has some comparative advantage as well as improving the quantity and quality of existing export items; and (b) adopting a strategy of export market diversification, including a focused effort to exploit the potential of its Diaspora communities as a market;
- ii. Reorganizing and improving how government works in the context of the Agenda for Transformation and the institutional requirements of global competitiveness. This idea goes beyond only export promotion. The model and practices of how governments (public administration) are organized to work, manage and implement economic policy and development strategy remains traditional and largely unchanged from the original model developed back in the 16th and 17th centuries despite the demands of a 21st Century global economy. It is too much to ask or to expect *any* government to fundamentally rethink and retool how it is organized to do the work of governing, especially economic governing. However, at a minimum, and during the short and medium terms, Cape Verde must act to better align its policy and institutional architecture to the requirements of formulating, coordinating, and implementing the operational strategies of the Agenda for Transformation. The modest and limited steps taken to create cluster-specific task forces, such as the task force on the economy of the sea, are steps in the right direction, but such task forces will need real authority and resources. Specifically, as several chapter below emphasize, there is urgent need to:
 - (a) improve policy coordination;
 - (b) realign the mandate and capacity of key institutions (especially in tourism, energy, fisheries) according to the economic significance of the respective sectors;
 - (c) bring greater rationalization and consolidation in the institutional framework, consolidating related institutions, ending duplication and putting an end to the cycle of resorting to creating new but ineffectual institutions and laws that neither have clear mandates, resources or are never implemented;
 - (d) improve human and technical capacity;

- (e) deepen and accelerate the impressive state modernization program, especially the back-office integration and computerization that enhances efficiency, accountability, and transparency. The 'single window' and 'one-stop-shop' model clearly works, and ought to be extended horizontally across all areas of the relationship between the state, citizens and businesses as well as extended vertically to the municipal levels, where progress has been limited;
 - (f) improve or develop the analytical capabilities of key institutions, including data and statistical collection and treatment, knowledge management systems, and the analytical and quantitative skills needed in the areas of policy evaluation and general M&E, international negotiations and contracting, and language skills.
- iii. Export promotion policies must be an essential component of the overall national effort to diversify the economic base and diversify the country's export basket. As argued previously, key elements of the export promotion strategy include:
- (a) Proactive economic diplomacy;
 - (b) Domestic support policies and measures that contribute directly to production and key sectors where export supply potential is high;
 - (c) Trade facilitation measures and reforms, focusing especially in the areas of continued improvement in port management, modernization of customs administration, the urgent need to improve the efficiency of trading across borders procedures, especially the creation of a single window and streamlined procedures for all aspects involving trade and the transactions involved in a maritime services economy such as transshipment and bunkering;

Short term macroeconomic policy measures to mitigate the risks arising from the current global and Eurozone crisis. In this area, the country has moved quickly and resolutely, under the able leadership of the Central Bank (BCV) and the Ministry of Finance and Planning, to mitigate these risks and readjust fiscal and monetary policies so as to protect the underlying fiscal, monetary and exchange rate stability of the country. Continuing the tax reform and improved collection measures are important, as are the overall public sector modernization reforms, especially in public financial management. Rising debt levels and evaporating fiscal cushion are troubling, especially in the context of the disappearance of donor support. The political and electoral context is favorable to maintain fiscal discipline and eschewing lower priority expansionary policies, since the next cycle of national or municipal elections are not until 2016. However, with fewer resources, the government must improve its capacity to evaluate and triage spending priorities, while fostering the economic and export diversification goals outlined in this Report and in the III GPRSP;

Private sector development is another of the familiar themes and injunctions found in every study on the Cape Verdean economy. This is a complex and vast area, with the majority of the responsibility lying with the private sector agents themselves. The internal weaknesses of the private sector are familiar. A critical handicap is sector organization and leadership. Sector leadership is lacking, even though the two main chambers of commerce are active, vocal, and visible. Two important areas of improvement include developing policy advocacy posture and promoting a structured, on-going strategic dialogue with the public sector. At times, the relationship between the private and public sectors is fractious and unproductive. The private sector remains reactive. It must also lead policy by formulating and advocating specific policies and measures that reflect private interests rather than reacting to the proposals of government. These internal weaknesses, at the level of associations and at the level of the individual firms, only the private sector itself can resolve. However, the state has a critical responsibility

in fostering an enabling business environment, improving its efficiency and competency to respond to business needs, and using the full array of fiscal and non-fiscal policy levers to foster and support entrepreneurial activity. In the specific area of trade, this Report focuses on the need to build up the trade capacity of small and medium enterprises.

■ CHAPTER 2: TRADE POLICY AND INSTITUTIONS

2.1 Executive Summary

Cape Verde consistently runs one of the largest visible trade deficits in the world, relying heavily on the import of most consumer and capital goods. The economy is becoming more reliant on trade; not just on imports as the economy develops, but on services exports such as tourism and transport. Whilst tourism growth has been a source of economic strength thus far, goods exports are neither increasing nor diversifying and almost entirely comprise fisheries and clothing.

For these reasons and more, now may be an appropriate time to consider fresh opportunities in the services sector. This is not to discount the possibility of expanding existing goods exports or developing new growth areas, such as in fisheries or niche agricultural products, but the biggest opportunities for diversification and value-addition lie in the services sector. In addition the nature of the services industry suits the characteristics of the Cape Verdean economy. The original 2008 DTIS attempted to address the services orientation of the economy, presenting trade-related challenges and opportunities, giving a useful overview and analysis of trade agreements and providing a set of guidelines aimed at mainstreaming trade. During consultations for the DTIS update a number of stakeholders and government officials expressed a desire for more specificity and direct applicability in the national context. Whilst considerable attention has been placed on goods trade, e-business and e-commerce may hold much greater export potential.

The expansion of broadband access should be the major national economic priority. Internet access in Cape Verde is currently too slow and expensive, and other country examples such as Singapore suggest that an orientation toward ICT may enhance Cape Verde's position as a successful exporter of services. ICT has a number of specific advantages in distant, small and fragmented states, reducing the need for domestic and international physical transport, allowing access to research and enhancing diaspora links. Telecoms liberalisation could bring with it important trade openings, given appropriate design of the telecoms regulatory framework aimed at ensuring reasonable costs and good service.

Although Cape Verde's development experience has been very different to that of Singapore, several parallels exist including small size, a high level of human resources, a lack of resource burden and an increasing orientation toward services. Lessons include the need to actively cultivate the levers of economic control including taxation, spending and investment. Education, infrastructure and national savings also have implications for trade policy. In addition the example of Singapore suggests that trade should become much more central to Cape Verde's development strategy. Cape Verde's physical isolation may not matter as much as it did a decade or more ago, allowing more opportunity to potentially emulate the Singaporean progression from basic production to higher end value-addition. Yet in order to attempt to follow this process the institutional framework still needs to improve. It is suggested that one step in the direction of better institutional design would be to conduct a Trade Capacity Building and Action Plan as performed in a number of other EIF countries. In Cape Verde at least three related institutional capacity constraints are apparent:

- The analytical capacity of the MTIE (Ministry of Tourism, Industry and Energy), particularly with regard to negotiations
- Coordination with the Ministry of Foreign Affairs (MFA) and overall trade mainstreaming
- The MTIE structure

Following the Singaporean example Cape Verde may wish to consider the creation of an Economic Development Board (EDB) to oversee the generation and implementation of trade, business and investment policy, operating with direct authority over existing Ministries. Another option is to consider a more general form of trade mainstreaming such as that followed in Chile, Uruguay or Lao PDR under which existing ministries are linked through an official structure. A more radical choice may be the creation of a pool or Unit of talented civil servants working on broad economic policy issues with the mandate to enforce their findings. Reporting directly to the Prime Minister's office, the Unit could address issues from finance, to investment, to tourism, to trade policy, operating on an as-needed basis with different Department and Ministries.

A number of obstacles face the trade situation over the near term. However, many of the perceived challenges amount to a question of whether the glass is half-full or half-empty. Smallness can often be considered an advantage since it allows adaptability. A lack of 'resource burden' can often be considered a benefit since it allows a move into higher value-adding activities, particularly in the services sector. In order to turn these perceived challenges into opportunities, policy tools must be used actively so that economic structure can be directed in an appropriate direction. Cape Verde does not yet have the institutional capacity or size to be able to develop an East Asian-style proactive industrial policy, but it must strive to mould the economic environment toward its own ends. An activist trade strategy is hard to develop, but it is preferable to passively submitting to the diktats of the global economy.

The Eurozone crisis can similarly be viewed either negatively or positively. It affected the European periphery far worse than it did Cape Verde, partly because the latter was less integrated into international financial markets and experienced a smaller property bubble. The difficulties in the Eurozone have certainly weakened growth, but it is possible that the worst of the crisis is over. Cape Verde is in some ways fortunate to have such strong links to the world's biggest trading bloc, and several European countries look likely to rebound well from the crisis. Whilst the euro currency peg has presented problems, the central bank has little option but to maintain the peg, with the government supporting trade with an expansionary fiscal and monetary policy.

At least three broad strategic challenges confront trade policy over the longer-term: building productive capacity; trade negotiations policy and the development of linkages. Whilst difficult, it may be possible to conduct an explicit linkages strategy aimed in particular at connecting the tourism operators with local farmers.

Support from the senior government level for trade negotiations is currently positive, although a wider cross-section of the business community and society needs to be reflected in the official position. Among other things this will require further development of private-sector organisations. Services trade requires specific attention in future negotiations, and it would be worth paying close consideration to services commitments at the regional and multilateral levels over the long term, with the integration of goods and services commitments.

The Special Partnership Agreement (SPA) with the European Union (EU) may hold greater opportunities than in Ecowas, despite the rapid economic expansion seen in some West African countries. Fast-

growing markets such as Angola have great potential for Cape Verde, and avenues are already being explored in the pharmaceutical industry. Whilst the Economic Partnership Agreement (EPA) brings with it vital and secure access to Europe, on the current likely terms it is difficult to see how such a treaty could live up to the development aspirations of the Cotonou agreement.

Given development of the telecoms sector and the Internet, specific business opportunities will emerge, many of which cannot be predicted in advance. However services offshoring and business process outsourcing are already at a nascent stage and may hold significant future potential. A number of services may be delivered online, including music, microwork such as digital handicrafts, flower bouquets or data entry; accounting and legal services; front and back office services; proof reading; design; and translation. Cape Verde's unique electoral system may be marketable internationally. Other potential new areas of services trade include adventure sports and music festivals, and it may be worth holding one-off pilot events to determine the future viability of these activities.

2.2 Introduction

This chapter provides an analytical overview of the main trade-related opportunities and challenges facing Cape Verde, proposing policy and institutional recommendations for taking advantage of these opportunities whilst mitigating any associated difficulties. The aim is to support the trade-related goals of the government Agenda for Transformation and the GPRSP III, using a forward-looking and original approach which draws lessons from other positive examples whilst avoiding the pitfalls of less successful country experiences. The timeframe for implementation is approximately two years, reflecting the ending of EIF support in 2014. Description of known facts about the economy and trade environment is kept to a minimum since this exists in several other documents including the original 2008 DTIS,⁸³ and indeed the chapter should be read as an adjunct to the original document. The chapter takes as given much of the analysis of goods trade performed under chapter 4 of the original DTIS and does not develop a comprehensive and detailed trade strategy, a process which should remain in the hands of government officials.

The chapter first very briefly presents some key trade data and information before reviewing the findings and recommendations of the original DTIS, making critical comments where necessary. Next is a detailed comparison with an economic success story – Singapore – arguing that a number of lessons can be learnt, particularly in the services sector and with regard to the need to actively maintain control of the tools of trade policy so as to pursue areas of dynamic comparative advantage. The subsequent section looks at the national trade architecture before outlining the main trade agreements of which Cape Verde is already a member or may join, including the World Trade Organisation (WTO), the Economic Partnership Agreement (EPA) with the European Union (EU), Economic Community of West African States (ECOWAS) and the Special Partnership with the EU. Next is a discussion of some key challenges, including the exchange rate and the euro crisis. The final section presents the key opportunities facing Cape Verde, with specific suggestions as to exportable products and services which may constitute future growth opportunities. At the end is a series of actionable recommendations aimed at addressing the main issues raised in the chapter.

2.3 Overview

2.3.1 Trade flows

Cape Verde has consistently run a large goods trade deficit, being heavily reliant on the import of most consumer and capital goods. The production structure limited to agricultural and low value-adding products. The trade deficit, which reached nearly 50% in 2008 as a result of rising imports, has traditionally financed by services – principally remittances, tourism, and air transport – as well as by foreign aid, although following LDC graduation aid may be expected to decline somewhat. Tourism has continued to grow and is currently considered to be worth 18-25% of GDP.

⁸³ Such as the 2008 Diagnostic Trade Integration Study (DTIS) and African Development Bank (AfDB) (2012) 'Cape Verde Road Ahead 2012'; AfDB (2012) 'Cape Verde Success Story'; UNCTAD (2011) 'Who is Benefiting from Trade Liberalisation in Cape Verde'; World Bank (2011) 'Cape Verde's Infrastructure'; and World Bank (2012) Africa Trade Report 2012.

Cape Verde runs one of the biggest trade deficits in the world, at 150th on the list of countries on the latest World Trade Indicators. Export integration is rising, largely as a result of an increase in services exports (mainly tourism and transportation), although goods exports by 2009 comprised a lower proportion of GDP than in 2000, at only 6% of GDP, much lower than sub-Saharan Africa's 29%. Imports rose to 54.5% of GDP by 2009, higher than the sub-Saharan African regional average of 38%, as a result of a roughly similar rise in both goods and services imports. The following table confirms the trend of an expansion in services over the last decade or more.

Figure 16 Cape Verde Balance of Payments

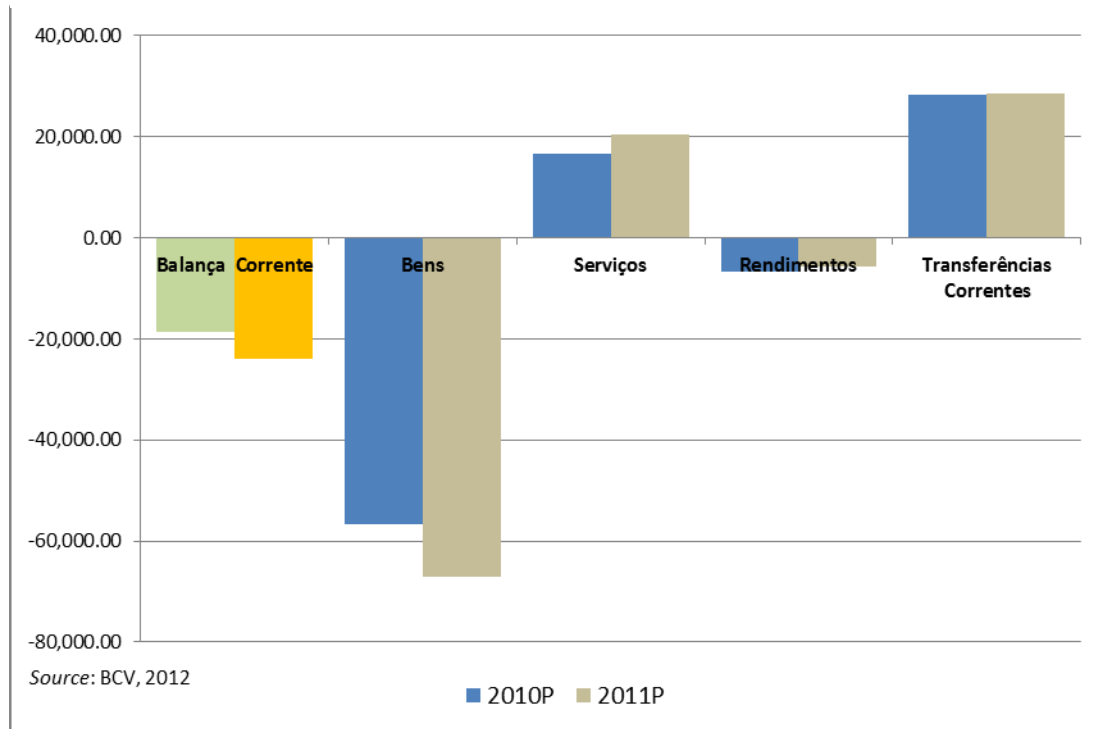


Table 3 Cape Verde's Structure of Trade

	Cape Verde				Sub-Saharan Africa	World
	2000	2000-2004	2005-2008	2006-09 Latest	2006-09 Latest	2006-09 Latest
TRADE COMPOSITION (SHARE OF GOODS AND SERVICES)						
Goods exports share of total exports (g+s, %)	26.25	22.01	18.61	15.42	75.62	70.69
Agricultural exports share of total exports (g+s, %)	2.68	2.14	5.83	5.83	26.55	15.67
Food exports share of total exports (g+s, %)	2.67	1.62	9.74	5.83	20.78	13.33
Non-agricultural exports share of total exports (g+s, %)	23.58	19.81	8.45	8.45	46.08	55.48
Manufactured exports share of total exports (g+s, %)	23.58	20.11	9.92	8.40	17.62	31.54
Fuels exports share of total exports (g+s, %)	0.00	0.00	0.00	0.00	13.75	15.45
Ores and metals exports share of total exports (g+s, %)	0.00	0.01	0.03	0.05	11.34	6.18
Services exports share of total exports (g+s, %)	73.75	77.99	81.34	84.38	24.01	29.20
Transport exports share of total exports (g+s, %)	30.30	31.76	25.84	22.12	5.31	5.86
Travel exports share of total exports (g+s, %)	27.89	32.27	43.61	53.07	12.22	14.06
Other commercial services exports share of total exports (g+s, %)	10.75	8.75	6.57	6.56	5.46	8.35
Government services n.i.e. exports share of total exports (g+s, %)	4.81	5.21	4.28	3.95	4.33	2.14
TRADE INTEGRATION (% GDP)						
Export integration (g+s, % of GDP)	27.45	30.68	38.50	39.59	38.74	45.66
Import integration (g+s, % of GDP)	61.33	66.33	69.44	74.56	56.53	54.41
Goods imports (% of GDP)	42.47	44.42	49.30	54.53	38.92	41.07
Agricultural imports (% of GDP)	14.08	14.78	14.06	13.98	7.43	6.12
Food imports (% of GDP)	13.16	13.79	13.32	13.18	6.93	5.52
Non-agricultural imports (% of GDP)	28.39	29.63	33.25	33.67	33.23	39.27
Manufactured imports (% of GDP)	25.68	25.97	27.96	27.71	23.99	28.21
Fuels imports (% of GDP)	2.59	3.47	4.77	5.34	7.99	8.58
Ores and metals imports (% of GDP)	0.12	0.18	0.39	0.62	0.65	1.22
Services imports (% of GDP)	18.86	21.91	20.17	20.07	17.64	13.34
Transport imports (% of GDP)	8.37	9.83	9.80	9.08	5.51	4.39
Travel imports (% of GDP)	6.83	8.42	6.98	7.39	2.20	2.50
Other commercial services imports (% of GDP)	3.02	2.78	3.16	3.23	4.74	4.67
Government services n.i.e imports (% of GDP)	0.64	0.88	0.69	0.65	4.90	1.33

Source: World Bank, World Trade Indicators, 2012

By product, the range of goods exports is very limited. Fish and related products accounted for 81% of exports in 2011 and have increased as a proportion of the total in recent years. Footwear and clothing make up most of the remainder of exports, at 15-16% of the total according to the most recent data, having declined in recent years. A significant proportion of goods trade is re-exports – mainly canned and frozen fish, mineral products, aircraft engines and containers. Oil re-exports and the refueling of aircraft and ships has grown steadily with the development of tourism and fish trans-shipment. Gasoline was the biggest single import item at 11.3% of the total in 2011. Fuels, electrical products, machinery, equipment and vehicles together account for nearly a third of imports. Food comprises a further third of imports.

Exports are even more concentrated by destination, with the EU accounting for 95% of the total value. Spain accounted for a much bigger proportion of exports than the second largest export market, Portugal -- almost four times the value, followed by France. El Salvador was the fourth most important export partner in 2011, at 3.5%, followed by several neighbouring African countries including Sao Tome, Guinea-Bissau and the Gambia. Exports to these latter three countries together were worth less than 1% for the year. Over the long-term exports to non-EU countries have been volatile, small, and have changed significantly from year to year. In 2011 87% of all imports came from 20 EU countries – principally Spain, Portugal and Italy. Portugal alone accounted for 45% of imports. On the import side the EU bloc was followed by Brazil (2.7%), Senegal (1.4%), China (0.9%), the United States (0.9%), Thailand (0.9%), Argentina (0.8%) and Uruguay (0.7%).

In sum Cape Verde is becoming more reliant on trade, and it is clearly an exporter of services – principally tourism and related areas. The country's Agenda for Transformation calls for the development of new services-intensive sectors. The trend is toward an increasing contribution of services to export growth, and goods exports almost entirely comprise fisheries and clothing, although the latter comprised a decreasing proportion of the total in recent years, making goods exports more concentrated by product. Despite increasing openness to trade goods exports are neither increasing nor diversifying. The trading relationship with Europe is of critical importance and overwhelmingly dominates the trade structure, whilst trade with ECOWAS is very small and volatile. It should be noted that trade with the EU is spread across a large number of countries, and that each of these countries is experiencing the effects of the euro crisis differently.

2.4 The 2008 DTIS

2.4.1 Trade Policy in the 2008 DTIS

The original DTIS provided a valuable overview of trade in Cape Verde and forms the basis of a useful set of guidelines on which to base policymaking and trade mainstreaming. Chapter 4 on trade policy (pp32-44) remains mostly valid in the current context, and indeed the current chapter relies on the detailed analysis therein.⁸⁴ The adoption of a trade policy and strategy should involve the internalisation and integration of some of the main findings of the report as well as others. The original DTIS was the first

⁸⁴ Rather than repeating the existing analysis, the terms of reference for the current report and the thrust of the requests during DTIS consultations were more toward a series of business-orientated trade opportunities, which are suggested in sections 5 and 6 of this chapter.

time that a single document was dedicated to trade-related information and analysis, and it undoubtedly helped focus the activities of the National Implementation Unit (NIU), Department of Trade and the MTIE. Many of the recommendations have broad applicability and still have relevance four years later. Several have been implemented, as discussed below.

During consultations for the DTIS update, however, a number of stakeholders and government officials voiced the need for more specificity and direct applicability in the Cape Verdean context. Many of the more generic suggestions are well-known to officials – the level of human capacity in certain key government positions is high relative to many other countries of a similar level of economic development – and require fine-tuning, revision or further specification. Additional concrete and business-orientated suggestions would add to the strategic analysis in the document. More discussion of business opportunities in the services sector is also needed, particularly in e-business and e-commerce.

The following table shows the key trade policy recommendations.

Table 4 2008 DTIS Trade Policy Work Plan

Chapter 4. Addressing key areas of trade policy						
No.	Action recommended	Priority	Agencies involved	Timeframe	Remarks; assistance under implementation, and required; partners or potential partners involved	
4.1	Support to the definition of an external trade strategy, including towards ECOWAS, the EPA with the EU, the SPA.	Very high	CPA, MTIE, MNECC	2009-2010	Preparation of a strategic position paper under leadership of CPE. Outside assistance could be requested, preferably from multilateral and independent sources, (eg. World Bank, UNCTAD). Definition of external trade strategy should be in conformity with sectoral policies.	
4.2	Elaborate a Trade Policy paper including trade facilitation, internal trade and consumer protection.	Very high	MECG, DGP, Customs, CPE	2009-2010	Possible support from Spain.	
4.3	Finalise a list of sensitive products and train nationals on methodology	High	MECG, Customs	2009	UNCTAD has started work in this area in December 2008, under the one-UN programme.	

Other recommendations in the 2008 DTIS with immediate relevance to trade policy include those under section 5 on the institutional framework (discussed below); 3.2 on improving social, economic and trade policy coordination; and 3.3 on the organisation of donor meetings including on the WTO. A series of additional trade-related recommendations are made under the business environment and investment climate; increasing the contribution of tourism; promoting the concept of Cape Verde as a gateway; developing offshore services; promoting cultural industries; mobilising the diaspora; and improving the contribution of fisheries, export-orientated light industry and niche products.

At the time of writing neither recommendation 4.1 nor 4.2 had been completed, although they remain critical. One of the drawbacks of the way these recommendations were phrased in the 2008 DTIS is that they may be conceived as being donor-led: “support to the definition of an external trade strategy”. Whether or not this was the intention, policy can only be fully articulated by government officials, not only for reasons of confidentiality but because trade policy is a dynamic and evolving process which requires the tacit knowledge of in-country actors. The wording of these recommendations and their inclusion in a donor-funded document may be one reason why the recommendations have not been fully followed through. Government officials themselves are best-placed to conceive the specific evolving, strategic positions required for successful membership of international agreements, using input from the private sector and civil society. In trade policy in developing countries national ownership is particularly important because trade policy is a learning process. India, for example, started from a position of relatively low negotiating capacity around two decades ago (when the economy was much more closed) to become one of the key players in global trade negotiations. In a country like Cape Verde, although lessons can be drawn from other countries and overall strategic comments can be made, the preparation of a standard trade policy document by external consultants would be particularly inappropriate. Cape Verde’s high level of human resource capacity (although it is acknowledged that there is a shortage of highly-qualified officials in some areas, both in the public and private sector) makes it doubly important to provide untied funding aimed at supporting the long-term evolution and development of trade policy and strategy rather than to suggest specific intervention in the content of policy.

In addition, although not mentioned in the 2008 DTIS, the national industrial policy has been under draft for years but has not yet been finalised. The document should be finalised and implemented as soon as possible in conjunction with trade policy so as to provide future direction. Recommendation 4.3 was completed soon after the completion of the DTIS, with UNCTAD support in consultation with government officials.⁸⁵ The list of sensitive agriculture and industrial goods was developed for EPA negotiations with the EU (even though the EPA has not yet been concluded), using a specific method provided by ECOWAS. In the negotiations with the EU, ECOWAS can exclude 20 per cent of its tariff lines (trade weighted with imports from the EU) from liberalization for development and tariff revenue reasons. Several products were identified as sensitive (e.g. for food security) but were not protected due to possible negative impacts on consumers. These are not sensitive products in the sense of ECOWAS - EU negotiations (where sensitive products are to be protected against imports from the EU) but need special attention in any negotiations with ECOWAS since other countries may ask for protection of those products. The signing of any EPA would make it difficult for Cape Verde to develop niche agricultural products and expand domestic production in fruits and vegetables using investments in the primary sector planned under GPRSP III. For reasons of precedent (the EC still hopes to conclude EPAs with the other ACP regions, and it also faces existing or potential multilateral and bilateral discussions with other

⁸⁵ Source: Notes on the preparation of the List of Sensitive Products of Cape Verde, Official Report by Ralf Peters, UNCTAD, 23 December 2008.

countries and trade blocs) the EC is unlikely to agree to allow Cape Verde to impose protective tariffs on the import of major agricultural products. Agriculture is clearly the most sensitive issue in world trade negotiations and it is particularly so for the EU. The evidence from the interim EPAs is that the EC pushed for the maximum possible liberalisation of tariffs in the countries concerned.

The general development list is as follows (Table X), although a much more detailed and extensive spreadsheet is available. Trade officials have been instructed as to the use of the spreadsheet and it can be altered for future use.

Table 5 Sensitive Products List

Name	Sensitive	Super Sensitive
Cement	yes	Yes
Building blocks and bricks	yes	Yes
Doors, windows and their frames	yes	
Food processing fish	yes	
Soft drinks and mineral water	yes	partly
Beer	yes	Yes
Rum, Liqueur	yes	Yes
Textile sectors (chapter 61 and 62)	yes	
Cassava	yes	Yes
Other roots and tubers	yes	partly
Fruits (bananas, papaya, mango, watermelon, pinapples)	yes	partly
Meat (bovine, pig, poultry)	yes	
Tomatoes	yes	partly
Potatoes	yes	Yes
Biscuits	yes	Yes
Eggs	yes	

Overall, the original DTIS recognises the critical importance of services to Cape Verde. The introduction is titled “Cape Verde: A Services Economy” and emphasis is placed on the fact that services comprise three-quarters of GDP. The DTIS rightly draws attention to the services dimensions of the Transformation Strategy – specifically in tourism, transport, information communication technologies, finance and banking and cultural and creative industries. A pertinent paragraph on page 5 points out that movement of natural persons is not always thought of as trade and that “a seemingly commonsense affirmation, sometimes heard in Cape Verde, that ‘we must produce before we export’, does not apply to most categories of trade in services, where consumption is simultaneous with ‘production’.” A footnote points out that assembly production often

involves the aim of producing under sub-contract arrangements rather than trying to market already-existing products. Table 2 on page 5 usefully applies the four General Agreements on Trade in Services (GATS) modes to Cape Verde.

Further lessons need to be drawn from other country experiences and the implications of the services economy need to be developed more – particularly trade in services via the Internet. In the SWOT analysis on page 2, the only services opportunities are “sustainable tourism with maximum spread effects” (an area which is not new and is already being explored); “some international opportunities in international platforms and hubs”; “Business Process Outsourcing (BPO) and offshore activities”; and “cultural industries”. The implications of the analysis in the DTIS need to be explored further and followed through to concrete ends.

In particular, the 2008 DTIS does not outline the implications of broadband Internet access as broadly as it might. Page xxi includes the following sentence: “Access to Internet – nowadays an important indicator of human development – is expanding extremely fast.” The Internet is not just an issue of human development – it should nowadays be absolutely central to economic development, and the

expansion of broadband should be **the** major national economic priority. The Internet should not be treated as just a means of reading the news and checking email – it should be and increasingly is an integral part of all business, even at the lower value-adding end. In many countries the implications of the Internet could not be predicted in advance, and a number of surprising services sprung up with an increase in coverage as prices fell. Cape Verde already clearly relies on tourism exports, and independent and package travellers increasingly research and book destinations online.⁸⁶ Cape Verde is very well placed to take advantage of opportunities in information communications technology (ICT), with its large English-speaking diaspora, educated population and the possibilities of serving the large Lusophone international market. The country also has external connections to two major transatlantic fibre cables. A number of impressive ICT initiatives are under way – such as the Operational Nucleus for the Information Society (NOSI) – which should be supported in their business and trade activities. The government aims to create a cyber-island providing services such as business process outsourcing, back office operations and software.⁸⁷ The creation of the IT park near the main airport is a step in the right direction, although the main ingredients for successful implementation of the ICT strategy are not yet in place, with very expensive rates for Internet access and telephone usage, particularly internationally. One of the standout issues for trade in Cape Verde is the CV Telecom quasi-monopoly, which the government appears likely to try to open up in coming years and which is pivotal to future economic growth. Some possible services opportunities are explored in the sections below.

2.4.2 The Institutional Framework in the 2008 DTIS

Following a description of the MTIE (previously MECC) institutional framework the 2008 DTIS makes a number of useful recommendations, as shown in the relevant part of the action matrix reproduced below (section 5 – Strengthening trade and investment institutions).⁸⁸

Table 6 Extract from the 2008 Action Matrix

5.1	Build up the capacity of the MECC	Very high	MECC	2009	and EU World Bank (competitiveness project) continuous are already involved. Additional assistance required. Potential agencies: WTO, UNCTAD, ITC, UNIDO, UNDP. (Under the One UN Programme). The restructuring of MECC must be aligned with the agenda and administrative reform plan of the govt.
5.2	Review the responsibilities and work programme of MECC and establish priorities	High	MECC, Prime Minister's office.	2009	2009 International expertise may be required.

⁸⁶ Some of the outlying islands, such as Fogo, still face slow and expensive Internet access, and tourism growth is slow as a result.

⁸⁷ AfDB (2012a): 19

⁸⁸ The current ministry, MTIE, was previously called the Ministry of Economy, Growth and Competitiveness, or MECC by its Portuguese acronym.

5.3	Strengthen and raise the profile of the tourism department. Including support to the NTC	Very high	MECC	2009	
5.4	Refocus CI as the one-stop window to promote Cape Verde to the world.	Very high	MECC, CI	2009	MCC is promoting the restructuring of CI.
5.5	Support to ADEI	High	ADEI, MECC	2009	
5.6	Implement the action plans agreed in the WTO accession package. (Customs, SPS, TRIPs and Commerce). Reviewing legal codes, drafting regulations. Institutional support for implementation. Capacity-building.	Very high	MECC, Customs, MDRRM.	2009 - 2011	EU technical assistance approved under EDG Tradecom facility starting in 2008. EU assistance under SPA "convergence" programme. Under the One UN programme, UNCTAD has been designated as lead agency; WIPO, WTO; UNIDO is already executing a project of TBT, financed by EU; despite this TA, further support is needed.
5.7	Strengthen the Chambers of Commerce	High	Chambers of Commerce	2009 - 2011	EU technical assistance approved under EDF Tradecom facility starting in 2008. Could be covered under the One-UN programme.
5.8	Provide support to Customs administration	Very high	MFP	Short term.	SPA, WCO, UNCTAD (ASYCUDA)

Given the short timeframe between the original DTIS and the current Update, it is perhaps premature to assess progress in institutional capacity-building; the timeframes in the original action matrix were highly ambitious, and institutions take many years to evolve. Capacity-building in the MTIE (5.1) is underway and should be given further priority and support. However a simple expansion of numbers and a linear increase in the size and remit of the Ministry may not be the only route to improved capacity. Senior officials indicate that with at least three years before the next general election now may be an appropriate time to consider radical options for the restructuring of trade institutions. Other existing and former senior government officials also suggest that a simple expansion of the existing set-up may be suboptimal, and that more radical options need to be considered, particularly regarding the delineation of responsibilities between the Ministry of Foreign Affairs and the MTIE. The Ministry of Foreign Affairs is already leading efforts to restructure the institutional framework for trade and trade policy, with inter-ministerial discussions under way. Some options are explored in sections below.

Recommendation 5.3 remains a pressing priority. Given the overwhelming orientation of the economy towards tourism, the Ministry needs to be given additional human resources and capacity-building needs to be undertaken with existing staff. Tourism operators report that the functioning of the Ministry needs to be improved, in marketing the country as a tourism destination, in formulating policy, and in the coordination and implementation of policies. In addition the National Tourism Council does not have

enough trade focus and policy discussion is at an insufficiently high level. These areas are dealt with in the chapter on Tourism.

Progress under recommendation 5.4 is more advanced. Cape Verde Investment (CI) is in the process of becoming a fully-fledged one-stop-shop offering a complete range of investment services. The new institution is the result of a 2009 merger of three agencies and is currently still restructuring, with the fiscal code expected to be passed in January 2013 when the rules covering investment will change. Under the Investment law CI covers investment promotion, exports, tourism and has specific responsibility for the free-trade zones. The institution now has an export focus and participates in trade fairs. Two obvious outstanding priorities (acknowledged by CI managers) are investor targeting (see box) and aftercare. The targeting of international investors in services other than tourism, and specifically in ICT, BPO and e-commerce would seem particularly appropriate given government priorities in these areas. Aftercare, or corporate development support, involves looking after investors when they are in the country as part of a long-term strategic relationship involving carefully-cultivated, often personal, relationships. Both of these activities are conducive to trade development, since foreign investors often bring with them new techniques, contacts and access to international supply chains.

Recommendation 5.5, support to ADEI, has seen limited progress since 2009. ADEI presented six concept papers to the EIF involving companies which are trying to export. There remains a need to develop export-orientated SMEs by training people in business skills to facilitate the expansion of SMEs. It is understood that some training has been provided under the EIF. The incubator concept has considerable potential, and it may even be worth recruiting business and technology consultants from successful clusters in other countries to further develop entrepreneurship amongst small businesses. Support to WTO accession (5.6) is ongoing and remains a priority. The action plans agreed in the WTO accession package are in the process of implementation. In 2012 Cape Verde approved steps toward compliance with the WTO Agreement on Sanitary and Phytosanitary (SPS) Measures. The Institute of Intellectual Property has already been installed and is currently working to update its rates. Finally, in the context of legislative action plan, an ecological tax (Law No. 17/VIII/2012) was approved in 2012.

Although recommendation 5.7 was to support the Chambers of Commerce, it is understood that this initiative has not yet been fully undertaken, although several specific projects (within and outside the EIF), have been devoted to the chambers, and government has outsourced a lot of administrative tasks to them. The various private sector institutions remain somewhat fragmented and devolved across different islands. Whilst it is desirable to improve private-sector representation, it is unlikely that in reality the private sector will speak with one voice given that it consists of such a wide range of companies, from international tourism operators, to retail establishments to domestic agricultural producers. Often, chambers of commerce evolve best organically, achieving legitimacy by virtue of their services to members. Funding from government or donors can reduce the incentives for the management to represent companies well and for companies to extract the maximum value from each association. Membership fees should therefore form a large proportion of overall funds. Nevertheless EDF TradeCom assistance may provide a valuable catalyst to the continued strengthening of each chamber.

Recommendation 5.8, support to the Customs Administration has received some support. The government approved the Customs Code which includes the principles of the agreement on customs valuation. Those responsible for this subject are working on the regulations. Cape Verde has an agreement with WTO to reduce the productivity taxes of civil aviation products and of information technology (Legislative Decree nº 4/2010) until 2018.

Investor Targeting

Investor targeting, in part a process of screening, starts with a wide range of possible investors, sectors and projects and through a coherent logical series of steps screens out those which are less appropriate. A manageable number of prospective investors remain that can then be approached with a view to introducing and negotiating investment. Most of the initial steps in investor targeting are simply finer and finer information screens, a process of matching potential investors, sectors and projects to specific informational criteria to find the best matches, involving the investors with the highest possible likelihood of investing. Five main principles distinguish targeting from more general investment promotion:

- Active identification of specific investment projects
- Careful planning and management of investor search programmes
- Investigation of specific corporate priorities
- Confidential promotion to specific corporate executives
- Delivery through a single agency leadership, management and co-ordination

Some other countries explicitly target specific sectors or even TNCs. The state government of Penang in Malaysia played a very pro-active role by knocking on doors and extending special invitations to foreign investors that seemed to fit especially well in the development of the local enterprise cluster, with a special emphasis on the first set of TNCs pioneers which quickly made the location known worldwide. Experience shows that the strategic attraction of specific types of FDI is far from easy. South Africa made efforts to target FDI in specific sectors and to encourage domestic economic activities around these strategic firms. With the exception of a Motor Industry Development Programme, however, the results were modest. In some cases it has not been possible to attract the envisaged foreign investments while in others no substantial forward and backward linkages have been built.

Finally, some countries develop an integrated strategy using investment promotion agencies that combine marketing and company targeting with aftercare and product development. Trade and Investment South Africa (TISA) seeks to establish linkages with larger foreign-based firms in order to find export markets for SMEs. TISA staff have a mandate to encourage TNCs that they deal with to source locally and work with the main national SME development agency to facilitate such opportunities.

Investor targeting involves:

1. Active identification of specific investment projects

The rationale for a proactive approach is that:

Investment projects can be pursued that match the country's needs and capabilities

Targeting raises the understanding of business processes in IPAs and government

The development of target sectors can benefit local companies and institutions

It builds a business based partnership with potential and present TNCs

2. Carefully planned and managed investor search programmes

A distinctive feature is the process of identifying the sectors, companies, projects and benefits associated with a positive national partnership with international investors. It helps to plan targeting through the eyes and perceptions of international investors.

3. Investigation of specific corporate priorities

Targeting also involves devising and developing a project in relation to the known business priorities and processes of a specific company. It is not simply meeting with a company to suggest investing in Cape Verde, but rather a thoughtful contribution to the company's business priorities for the region. In turn this involves pro-active economic diplomacy, possibly using the diplomatic service as the front line in identifying companies and markets.

4. Confidential promotion to specific corporate executives

A fourth feature is to identify the specific corporate executive or group of executives with the remit and authority to accept projects for evaluation and to authorize investment. This does not involve a general promotion to corporate public relations executives, regional sales staff or engineers. Targeting programmes are usually confidential, invisible and only known about when successful projects are commissioned.

Source: UNCTAD

An outstanding issue, not covered in the 2008 DTIS is to create a one-stop, single window for all trade. The Port Administration is developing a single window, while Customs and others have separate windows and NOSI and others want to develop yet another. The government should assess the various initiatives and develop a similar model as for business registration (the Casa do Cidadão model), with a single central authority stipulating which single approach should be adopted so as to avoid duplication and lack of coordination. Most successful single window approaches are based in the Department of Customs and/or Trade rather than other Ministries or agencies.

In addition the process of cross border transactions remains challenging (along with general ports administration and institutional coordination). Customs administration is antiquated and procedures archaic, resulting in lengthy, slow and inefficient import and export procedures. Up to seven different agencies are involved in inspecting or approving any one ship that enters Cape Verdean waters and ports. For a maritime services economy this is unacceptable and will severely retard the growth of exports as well as increase the cost of imports, with an overall impact on economic growth. The customs administration itself has requested additional government investment in modernization but the overall process of import and export remains costly in terms of time and money. Whilst the DTIS does not contain a chapter on trade facilitation, more analysis and support may be given to this issue as it is often neglected due to being the responsibility of a number of separate agencies. The World Customs Organisation, for example, has conducted Time Release Studies in a number of countries, contributing to the identification of barriers to trade in critical areas. It may be appropriate to conduct a separate trade facilitation study following the end of the DTIS. However in large part the remaining obstacles in trade facilitation and Customs identified here are issues of coordination and central government priority. It may first be more relevant to conduct further assessment of the institutional environment for trade policymaking and to improve the trade-related architecture in the ways suggested under 3.4 below.

2.5 Lessons from Singapore

Country comparisons are always difficult, and it can often be almost impossible to isolate the specific critical causes of national development experiences -- still less transfer findings from one context to another. Singapore and Cape Verde experienced very different growth trajectories despite gaining independence only 10 years apart. Singapore's GDP per capita grew from an estimated US\$510 at the time of Cape Verde's independence in 1975 to US\$52,200 on a purchasing-power basis in 2009. It is now, per person, the world's third-richest country. Cape Verde's income per capita stagnated for many years.⁸⁹ But there are reasons to believe that now may be an appropriate time to consider lessons from Singapore – particularly in services. Cape Verde's recent growth acceleration and emergence from least-developed status as a rapidly developing, resource-poor small island nation make a comparison with Singapore's post-independence period relevant.

At independence in 1965 Singapore had a per capita income of only US\$1,500 (Cape Verde's nominal per capita income is currently around US\$3,500) and a population of 1.9 million (Cape Verde's is 491,875).⁹⁰ Before land reclamation the main island of Singapore and small surrounding islands had a land area of only about 600 km² (much smaller than Cape Verde's total area of 4,033 km²).⁹¹

⁸⁹ According to the last census in 2010

⁹⁰ Singapore Department of Statistics 1974: 1. The following section draws on Gay (2009): 146-178

⁹¹ www.governo.cv

In Singapore, as until recently in Cape Verde, industrialisation was in its infancy, and agriculture undeveloped. Singapore depended heavily on its status as an entrepôt and staple port for the trans-shipment of goods such as tin and rubber from neighbouring Malaysia. Somewhat similarly in Cape Verde re-exports comprise a reasonably high proportion of trade. The Transformation Agenda has tried to position the country as a gateway or hub – largely to West Africa. Whilst unemployment in Singapore was 14 per cent, labour unrest was frequent. Cape Verde continues to experience difficulties in unemployment although the 2010 Census put unemployment at 10.7% (youth unemployment is much higher) with a labour force participation rate of 52.8%. Cape Verde has a relatively settled background of industrial relations.

In his autobiography Singapore's first Prime Minister Lee Kuan Yew – the man generally considered to have been the architect of the city-state – discusses the limitations of having no hinterland. In reality, however, smallness and the lack of economic diversification may have been an advantage. Sachs (2005) has highlighted the adaptability that comes of having no 'resource burden'. Rather than seek to develop self-reliance in agriculture the preferred approach was to cultivate good relations with import partners, to diversify import sources and to concentrate on viable sources of dynamic comparative advantage.⁹² The near-absence of natural resources meant that the composition of exports was more easily influenced by government strategy and that the government could direct the economy toward the services sector, which at the time was not traditionally seen as a source of economic growth. The economy of neighbouring Malaysia grew more slowly than Singapore's in part because it is bigger and burdened with large rubber and palm oil sectors, which add less value than technologically-orientated and service industries. Cape Verde's lack of natural resources may thus be turned to its advantage.

In Singapore a goods trade deficit in 1965 worth 23 per cent of GDP was largely balanced by a surplus on services trade. The overall current-account deficit was funded mainly by net inflows to the banking sector, which was as yet undeveloped, dealing mainly with trade finance. Aid flows, unlike in Cape Verde, were insignificant. The only two years in which there was an overall balance of payments deficit in Singapore were 1964 and 1965, except during the recession of 1986, reflecting the trade-orientated structure of the economy and the subsequent build-up of reserves. Although the absolute sums grew much larger in subsequent years, and the economy became much richer, the trade and capital-account deficits grew following independence. The development of the financial sector by the mid-nineties resulted in a large net outflow of capital. The large balance on services trade by 1995 was a result of the development of Singapore as services-orientated rather than only a goods producer (re-exports form a large part of goods exports), and reflecting the advantage of having no resource burden.

Not only were Singapore's early physical and economic characteristics somewhat comparable, another similar and distinctive advantage of the Singaporean economy at independence was the high level of education in government. The largely English-educated People's Action Party (PAP) in Singapore consisted mostly of professionals who had hit a glass ceiling under colonialism. Lee Kuan Yew studied Law at Cambridge University. A capable, technocratic administration, fluent in English, could deal with an international audience. Similarly the Portuguese used Cape Verdeans as administrators in colonies such as Macau and Timor Leste. The country consistently performs well on international education indicators, with a literacy rate of 82.8%. A number of highly-educated international returnees have assumed prominent positions in government.

⁹² The current Cape Verdean initiative to establish plots of land for agricultural purposes in Paraguay and to establish self-reliant import channels with large and modern storage facilities at the port has parallels with Singapore's strategy of buying plots of land in other countries such as Lao PDR to grow grain, fruit and vegetables.

Singapore's government, like that of Cape Verde, also paid particular attention to corruption. Tolerance for malfeasance in both countries remains extremely low and in Singapore government salaries are amongst the highest in the world, reducing the incentives for graft.⁹³ This stance was aimed partly at winning the confidence of international investors in a politically unstable region and at reassuring the business community that the government put the economy first. According to the Ibrahim Index on good governance Cape Verde is the most transparent country in West Africa. In Africa as a whole it is second only to Mauritius. Transparency International ranks Cape Verde as the second least corrupt country in Africa, behind Botswana.

Such comparisons are only a small part of the story. Singapore was extremely fortunate to be on the world's busiest shipping lane at a time when its East Asian neighbours were successfully pursuing a trade-led development strategy. Singapore's economy has always been very open. Trade formed approximately 230% of GDP at independence, a similar proportion to now. Cape Verde, by contrast, is clearly much more physically isolated, runs one of the biggest trade deficits in the world and lies in a much less prosperous region. Its isolation and vulnerability makes it vulnerable to external shocks.⁹⁴ There is no question that at the current stage the lack of economies of scale arising from smallness, as well as isolation and fragmentation, are disadvantages which make trade less competitive.

Despite these critical differences it is not unrealistic to suggest that Singapore may have trade policy lessons for Cape Verde. The government should not attempt to emulate Singapore's exact strategy – such a move would almost certainly be ill-fated in today's changed climate – and however cleverly it adapts the lessons of Singapore it cannot expect the same results. Nevertheless it can draw some higher level strategic lessons. Above all the levers of economic control must actively be nurtured, including taxation, spending and public investment. Even education, infrastructure and national savings have implications for trade policy. In addition, trade should become much more central to Cape Verde's development strategy. Singapore proves that small island economies can develop via services trade. A considerable proportion of new trade is conducted globally via the Internet, and as a result physical location is increasingly unimportant. Cape Verde's physical isolation may not matter as much as it did a decade or more ago.

Because the Singaporean economy was so small, it could remain open and adaptable. Smallness is not the disadvantage that it is often perceived to be. The influence needed to clearly and self-consciously shape the economy is more easily achieved in a small state than a large one and enable the government to take into account subjective national characteristics including institutional peculiarities. The government of Cape Verde must make every effort to retain, and in some cases develop, the policy tools required to manipulate policy in the required direction.

⁹³ For example the President is paid upwards of US\$1.5 million per year.

⁹⁴ It is not among the most vulnerable countries in the world, being ranked around midpoint of the UNCTAD economic vulnerability list, with a ranking of "vulnerable", behind 150 countries ranked "highly vulnerable" and "extremely vulnerable" but more vulnerable than 88 countries ranked "at risk" or "resilient". It is not strictly true to say that "Cape Verde is far more vulnerable economically than many of its peer island countries" (AfDB 2012a: 27). Economic fragmentation, smallness and distance from major markets is much worse in many Pacific island states including Kiribati, Tuvalu, Nauru, Niue, Solomon Islands, Vanuatu, Tokelau, the Marshall Islands and the Federated States of Micronesia.

Singapore's first finance Minister Goh Keng Swee draws particular attention to the need to move higher on the value-adding ladder by leveraging trade preferences: "We have followed policies which developed countries have urged all developing countries to pursue, that is, to start with simple manufactures (which the developed countries helped by opening markets via GSP [Generalised system of preferences]) and then to upgrade our economic skills and go on to more skill intensive manufacture" (Cited in Chow et al. 1997: 19). In Singapore this process has ultimately led to the reduction of reliance on physical manufacture and a move toward ecommerce, design, management and leadership, with the island-state attempting to become a "knowledge-based economy" completely covered by high-speed wireless access available at low cost (or free) to all residents and visitors. Whilst Internet access was provided in an ostensibly competitive environment via a number of large telecoms providers, the undisputed influence of government in most strategic areas of the economy meant that in reality politicians had considerable influence over the move toward widespread broadband availability. As in many other areas of the economy, in no way was the growth of the Internet in Singapore purely private-sector led. Financial and air transport services played an ever-increasing role after independence and the island-state has become a regional hub in these areas. Tourism is also playing a larger role in the contemporary economy.

Similar value-adding options are available to Cape Verde using the Special Partnership Agreement with the European Union, AGOA and the GSP and GSP+ under WTO membership, although Cape Verde may be able to leapfrog the basic manufacturing stage. The items which benefit from trade preferences may be different – the export of garments and basic electronics is more challenging now than in the 1970s – but the same principles apply, which are to start with simple production and to undergo a process of learning and skills upgrade until more high value-adding activities are possible, whilst trying to maximise linkages and spillover effects. Section 5 outlines the kinds of activities which may nowadays be more conducive to this process for Cape Verde.

Additional specific lessons include the following:

- The overall need for strong leadership and planning, with Ministries coordinated via a central structure and with the economy and trade as the ultimate imperatives. A surprisingly small team of technocratic and powerful Ministers drove industrial policy and development strategy using the Economic Development Board (see below) as one of the primary vehicles. From an early stage government tried to cultivate social and political cohesion. Economic advancement was seen as the over-riding goal, and citizens were encouraged to subordinate their immediate wishes to the long-term aim of wealth creation. Whilst the latter may not be seen as appropriate in other, more pluralistic countries, and Cape Verde is a more vibrant democracy than Singapore, ultimately the state-led nature of development in Singapore was partly a product of political authoritarianism.
- The need to win international confidence and to attract FDI as a source of innovation and know-how. In Singapore between 1980 and 2000 FDI averaged around 25% of Gross Fixed Capital Formation and the country became the leading destination for FDI in East Asia.
- The importance of following a sustainable long-term public expenditure policy but to conduct counter-cyclical expenditure during times of economic downturn.
- The possibility of strategic government support for promising future industries, but without always directly "picking winners". The Singaporean government actively promoted industrial growth in a number of broad sectors, initially using infant industry protection (although it phased this out early on), as well as tax breaks and subsidies. Approximately half of GDP now comes from Government Liked Corporations, which can readily be influenced by political

priorities. First Finance Minister Goh suggested that in the first 15 years the industries directly initiated by the government were as big as the entire private sector prior to independence. Government-linked corporations operate in a highly competitive domestic and international marketplace but with strong overall state influence.

- The viability of using tax policy to incentivize strategic industries. Indirect taxation in Singapore is much higher than direct taxation, and low income taxes attract foreign companies and workers. A policy of attracting “foreign talent” is actively pursued.
- The possibility of managing the exchange rate to support trade policy, given appropriate central bank technical capacities. Singapore historically ran a budget surplus but spent readily during recessions.

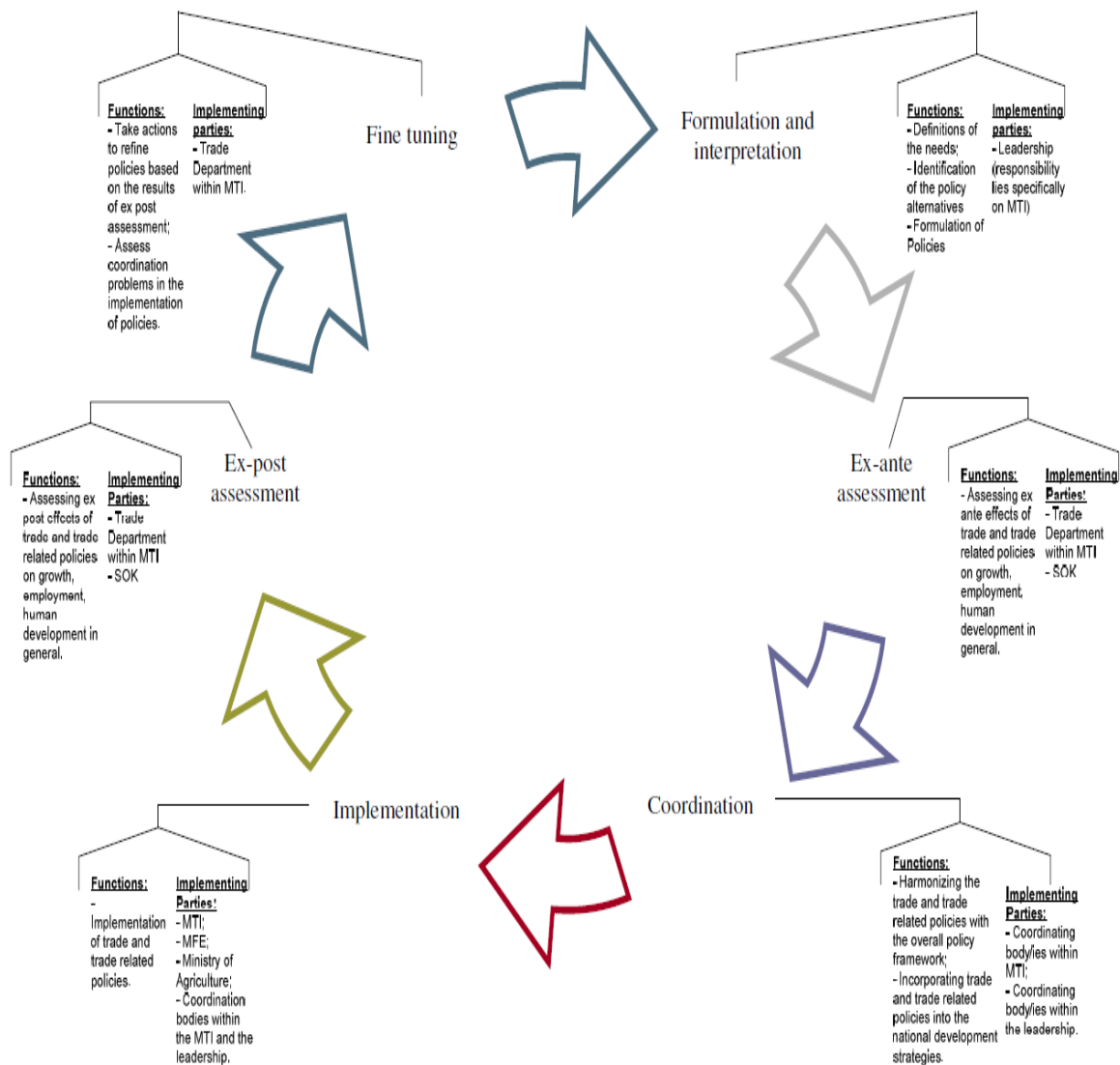
2.6 Institutional Structure

A well-designed institutional structure is critical for achieving appropriate trade policy, although no single structure is appropriate for all countries. The environment for trade needs to be designed by government in such a way that strong leadership is possible, directing policy in an appropriate direction using the best available analysis and insight from national specialists. Further analysis of the MTIE capacity is needed, and this may be achieved through a systematic Trade Capacity-Building Assessment and the design of an Action Plan, as has been performed elsewhere under the EIF.⁹⁵

For example in Kosovo, which recently underwent an EIF Trade Capacity-Building Assessment, trade policy should first undergo a process of formulation and interpretation, followed by ex-ante assessment; coordination; implementation; ex-post assessment; and fine-tuning, before beginning the cycle again with formulation and interpretation of policy. The full policy cycle is shown diagrammatically below. Although this is an ideal scenario and it may not play out fully in practice, it is a process at which Cape Verde should aim. It is also a good illustration of the dynamism of trade policy and the need to periodically redesign the trade framework.

⁹⁵ At the time of writing the UNDP had conducted capacity assessments under the EIF in Kosovo, Lesotho, Samoa, Chad and Sao Tome and Principe.

Figure 17 The Trade Policy Cycle



In Cape Verde at least three related capacity constraints are apparent:

- i. The analytical capacity of the MTIE, particularly with regard to negotiations
- ii. Coordination with the Ministry of Foreign Affairs (MFA) and overall trade mainstreaming
- iii. The MTIE structure

The analytical capacity of the MTIE is influenced above all not by the knowledge or skills of existing staff but by the ministerial structure and coordination between the MTIE and other ministries and agencies. Disagreement exists over whether the remit of the Ministry of Foreign Affairs and the extent of the involvement of the MTIE in negotiations. Ideally negotiations should be overseen and coordinated by

the MTIE, given their technical content, although much international diplomacy has an increasingly commercial angle and thus can be considered part of foreign affairs. Even above and beyond negotiations policy coordination failures between ministries are partly a result of the complexity of the Ministerial structure. Leadership and vision on trade may be curtailed partly because knowledge and analysis are not readily transmitted to the Ministerial level. Overall, there appears to be a certain shortfall in leadership and direction with regards to trade policy, and trade could be better integrated into development policy. Other country experiences can also prove instructive, and again Singapore provides a possible example. Singapore's development policy centered around trade, and to this end a ministerial structure with cross-cutting mandate was created – the Economic Development Board – often considered the locus of the city-state's development.

Box 4 Singapore Economic Development Board (EDB)

Singapore's Economic Development Board (EDB)

Singapore's EDB has formed a key platform of economic development since its establishment in 1961, two years before full independence. The EDB is the lead government agency aimed at enhancing the country's position as a global business centre. Its mission is to generate sustainable economic growth with vibrant business and good job opportunities, aiming to:

- Attract foreign investment via a one-stop agency which facilitates and supports local and foreign investors in both manufacturing and services.
- Help existing industries explore new areas.
- Enhance the business environment by providing feedback to other government agencies to ensure that infrastructure and public services remain efficient and cost-competitive.

The multi-faceted role of the EDB means that in effect it is one of the best examples of trade and investment mainstreaming in practice. Its cross-Ministerial authority means that it coordinates trade policy across the different government institutions involved with trade, overcoming the problem of policy fragmentation that often faces trade policy in developing countries. As noted above, the EDB was endowed with considerable power and could override or influence constructively the actions of other Ministries.

Source: www.edb.gov.sg

Cape Verde may wish to consider the creation of an EDB to oversee the generation and implementation of trade, business and investment policy, operating with direct authority over existing Ministries. Other countries have followed the same route, Rwanda being a notable and successful recent example. The current document is not the place to discuss the full design of the EDB and its full range of responsibilities. However the overall point of an EDB is to coordinate the development process and to overcome the fragmentation and diffusion of trade policy that sometimes emerges through the existence of several overlapping trade-related agencies. Part of the board's mandate could be the formulation and negotiation of trade policy in conjunction with the MTIE. As part of the EDB, at the top a subset of the cabinet of ministers, chaired at the deputy prime minister level, should oversee trade negotiations at the multilateral and regional level. When Cape Verde begins to implement bilateral, regional and multilateral agreements, such as with regional partners and under ECOWAS and the EPA, direct involvement from the top levels of political leadership will be needed to broker compromises across ministries and monitor their implementation. At the technical level there also needs to be

increased coordination in participation, commitments and servicing in various trade agreements. After the ending of the EIF the NIU could be integrated into the EDB as a trade implementation unit (see box).

Box 5 The National Implementation Unit (NIU)

Despite the short remaining timeframe of the EIF, the ongoing success of the National Implementation Unit (NIU) will prove critical to the success of the DTIS and the EIF in general, as well as the implementation of trade projects. The NIU already appears to be well integrated within the Ministry and it has an impressive and dynamic leadership. Lessons from other countries show that structuring the institution well and situating it well with regard to existing trade institutions is critical – and Cape Verde seems to have heeded these lessons. The NIU should operate within the government structure but be able to operate somewhat flexibly without the need to use government procedures on every matter. It should act as a coordinating mechanism with the authority to perform trade-related tasks under the EIF but without duplicating the activities of other institutions. Ministerial buy-in is essential for the success of EIF projects and initiatives, while the NIU or NIU staff should ideally be incorporated as a trade implementing agency within the Ministry following the end of the EIF in 2014.

The NIU is also a good forum within which to provide training and skills development for junior trade officials and to broaden the cadre of personnel who are familiar with trade issues. The location of the NIU office within the Ministry provides an ideal opportunity to enhance capacity in such a manner. Subsequent to the ending of the EIF, donor roundtables on trade may be organised in order to capitalise on the success of the project thus far. It will remain important to maintain momentum following the official ending of the EIF. One key lesson is to avoid the perception that the NIU is a 'donor project', thus isolating it from other ministries and departments and reducing the chances of its being incorporated into government activities.

An EDB would only be successful with the active support of senior political echelons and if the institution was endowed with sufficient power to be able to pursue its agenda. The creation of such a Board would carry a number of advantages:

- It would improve co-ordination and trade mainstreaming.
- Pooling resources would tackle existing human resource shortages.
- By its nature the Board would have a proactive agenda which systematically pre-empted trade-related concerns rather than waiting for problems to arise.
- The composition of the Board would by definition enable it to better reflect the interests of exporters and civil society – both of which emerged as shortcomings during DTIS consultations.
- Cape Verde's position for forthcoming bilateral and regional trade negotiations could be better formulated and articulated, where possible representing the demands of the private sector and civil society.
- Opportunities for greater linkage promotion would also be created. As noted previously, linkages should form a central component of development strategy.
- Investment and export development are connected; many countries which benefited from trade were able to do so by attracting foreign investors with the know-how and contacts for large-scale export. Several countries have successfully developed promoted exports using a board with an investment promotion mandate.

However an EDB is only one option for improving trade mainstreaming and leadership. Three other examples follow⁹⁶:

Chile has no dedicated Trade Ministry but it has developed a dedicated institutional structure. The Comité Interministerial de Negociaciones Economicas Internacionales (Inter-Ministerial Committee for International Economic Negotiations), formed in 1995, has become a key mechanism for trade policy development. It includes the Ministers of Foreign Affairs, Finance, Economy and Agriculture and the Secretary-General of the Presidency, as well as the private sector. The Committee meets monthly.

In **Uruguay**, the Comision Interministerial para Asuntos de Comercio Exterior (CIACEX) aims to integrate trade negotiations, promotion and investment in one system involving government agencies with a trade function: Foreign Affairs, Economy and Finance, Livestock, Agriculture and Fisheries, Industry, Energy and Mining and Tourism and Sport. Whilst CIACEX initially had shortcomings, in 2011 it was revitalised with a new Executive Secretariat with a long-term trade strategy and the mandate of monitoring trade and investment programmes.

Lao PDR created a National Integrated Framework Governance Structure (NIFGS) supported by the Trade Development Facility Project, a multi-donor trust fund with financing from the European Commission and Australia. The Facility supports NIFGS in trade facilitation, SPS, export competitiveness and the business environment, trade policy analysis and National Implementation Unit capacity.

Whilst many countries focus on inter-Ministerial coordination or the creation of a super-Ministry or national coordination structure, in Cape Verde a different approach may be required because of its smallness and the ever-present difficulties of attracting sufficient numbers of high-calibre personnel. A number of excellent senior officials operate in prominent positions, but with a population of only half a million a limited number of such staff are available. Compared with bigger countries Cape Verde will always struggle to find sufficient numbers of government officials with expertise specific enough to be able to divide labour according to the large number of tasks associated with trade policy. Trade negotiations alone cover a large number of areas: at least goods (tariffs), services, trade facilitation, standards, investment, ROO, SPS, TBT and TRIPS, each of which is involved in one or more agreements. Staff numbers will never be high enough for a single person or group to specialise in each topic sufficiently to be able to negotiate on an equal basis with larger countries, while the for similar reasons development and implementation of domestic policy will always be challenging. Often the various issues in trade policy become dormant at any one time (for instance the current lack of progress in the Doha round has meant that WTO negotiations have assumed a lower priority than regional or bilateral issues), and many small countries cannot afford to dedicate an entire group or even individual to a single issue such as TRIPS negotiations.

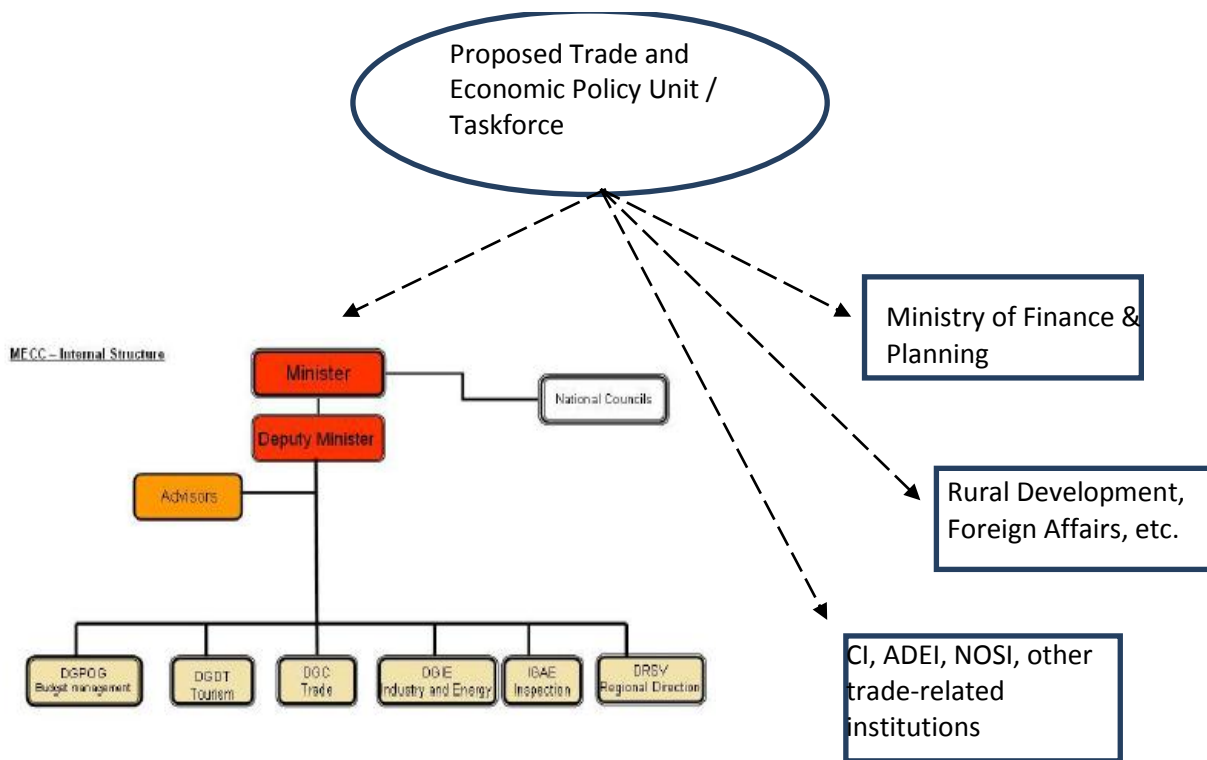
Creating new institutions or expanding existing ones can often create more bureaucracy, filling positions with unqualified staff. As noted by one government official consulted for the DTIS update, the Ministerial and trade policy structure may not be the most pressing issue; rather the main challenge may be clarification of responsibilities and the mobilisation of appropriate personnel.⁹⁷ It makes little sense to spread good people across different Ministries and Departments and to dilute their effectiveness; departments or institutions staffed by several excellent staff are more than the sum of their parts.

⁹⁶ Source: adapted from UNDP (2011) 'Trade and Human Development: A Practical Guide to Mainstreaming Trade'

⁹⁷ Communication with former Director of Trade, October 2012. See AfDB (2012a): 37-41 for further discussion of human capital resources.

Given that most officials must multi-task anyway, a radical (and not mutually exclusive) approach would be to create a group of a pool of talented civil servants and/or consultants to work on a wide range of different tasks relating to general economic development.⁹⁸ This pool, unit or permanent taskforce could exist as an independent entity separate from any single Ministry and may even report directly to the Prime Minister’s office.⁹⁹ It could address issues from finance, to investment, to tourism, to trade policy, operating on an as-needed basis with different Department and Ministries. The Taskforce or Unit would need a permanent staff and an official premises, as well as possibly parastatal status so as to be able to operate semi-autonomously from government and a pay structure designed to attract and incentivise staff.

Figure 18 Relation of proposed economic Taskforce/ Unit to other Ministries and Agencies



The idea would be to create a centre of excellence rather than just another institution with positions filled to a predetermined level. It is not possible to say here how exactly how many staff the institution

⁹⁸ A rough parallel is the Japanese group production system, whereby a car is assembled in its entirety by a group of workers, rather than Fordism, where an individual worker repeats the same task on a production line.

⁹⁹ In the UK the previous government created a dedicated Special Delivery Unit acting as a mini-government within the Prime Minister’s office. The Unit was staffed by senior civil servants as well as a number of young graduates on the government’s Fast Track scheme, designed to attract and quickly promote the best candidates. Although the Unit was slightly different to the proposed economic taskforce in Cape Verde, one of its jobs was to enhance connections between the Prime Minister and various Ministries, in some cases bypassing official bureaucratic procedures.

would need, but it is suggested that a high-calibre director be employed first and personnel – ideally with economics and related skills – subsequently recruited in small numbers if they meet stipulated high standards.

Only if there was a strong, high-level commitment to making the Unit the pre-eminent source of policy analysis would it be fully effective. Officials from other Ministries or Departments may be seconded to the institution on a periodic basis, and it should have strong links with academia, both nationally and internationally. The focus of work, however, would not be academic, and would involve the development and implementation of actionable policy. In this sense it would differ from the existing Center for Policy Strategy (CPE), also operating from the Prime Minister's office, which conducts policy analysis, impact studies, and makes recommendations. The Unit would have a different purpose – implementation, coordination, clearing obstacles, and problem-solving orientation rather than solely analysis. It may make sense to adapt the remit of the CPE or to create two interdependent institutions under one umbrella so as to avoid duplication. The broad remit of the Unit would mean that it formed a good understanding of the links between various elements of economic and trade policy. One of the key issues raised during DTIS consultations was the lack of coordination between Ministries and their acting with a 'silo' mentality on cross-cutting issues. It may make sense to organise the Unit according to work clusters based on the Transformation Agenda. For example tourism, a form of services trade, requires the development of linkages with other sectors, and these may be promoted via fiscal incentives. At least three institutions would be involved in this particular example – the Department of Tourism, the MTIE, and the Ministry of Finance. The proposed Economic Taskforce or Unit would act as an informed and proactive intermediary with the ability to implement and enforce its proposals.

The hopefully dynamic and broad-ranging nature of the Unit's work would help motivate and attract dynamic and qualified individuals from young graduates to internationally-trained returnees. One drawback may be the creation of tensions with existing departments and ministries – particularly with an institution like CI, which is new and currently restructuring. Given the higher pay structure and the shortage of officials, another risk would be the depletion of existing departments and Ministries. Clearly the idea would have to be developed further in the national context, involving more than just the MTIE. Yet these challenges may be overcome with careful design, maximum consultation across government and with authority from the top levels of government. Once the taskforce proved successful, existing institutions may actively seek out its services.

2.7 Key Challenges

A number of challenges face Cape Verde. In the near term are the issues of the euro crisis and exchange rate. At least three broad strategic challenges confront trade policy over the longer-term: building productive capacity; the development of linkages; and trade negotiations policy. These issues are connected. Productive capacity is itself facilitated partly by the development of backward and forward linkages, and there is a critical to adopt exchange rate, fiscal and monetary policies which support the development of productive capacity and trade. An effective trade negotiating strategy must reflect the interests of various stakeholders in order to underpin and enable the expansion of trade, whilst trade negotiating strategy must take into account the need to build productive capacity. Over the very long term periodic crises such as that in the Eurozone are to be expected, and the economy should be sufficiently diversified domestically, by export product and by destination so as to weather future international difficulties. These challenges collectively should therefore be tackled together as part of a coherent trade strategy. As the subsequent section shows, several of the perceived constraints and

barriers can be turned into advantages, following the strategy adopted in countries which successfully promoted development through trade.

2.7.1 Immediate Issues

2.7.1.1 The Eurozone

The Eurozone crisis deeply impacted the Cape Verdean economy via reduced investment, remittances, incoming tourism and increased uncertainty about future aid payments. Concerns have been expressed about the future: “given the deteriorating external environment, there is much more worry today that the country may not be able to sustain its present growth trajectory.”¹⁰⁰ Graduation from LDC status, with its associated loss of preferences, came at a difficult time given that the world economy appears set for a period of slow growth. However it is worth disaggregating the various concerns associated with the downturn. First, the property bubble had to end at some point. In Cape Verde the half-finished houses, downturn in property prices and abandoned hotel projects are far less of a problem than in some other countries. In parts of the United States, and in Ireland, Spain, Portugal and Eastern Europe a considerable proportion of economic growth during the last decade or more was based on artificially cheap credit and openness to property speculation. The collapse in asset prices in some cases lowered GDP by as much as a quarter. Cape Verde’s economy, although sluggish in the past few years, because of its lack of exposure to international property speculation and financial markets, has grown faster since 2008 than many of the bigger Eurozone economies including that of the UK. Cape Verde’s financial sector was also much less integrated with international financial markets and therefore the economy had much less to lose from the crisis. The lack of serious vulnerability to the property and credit bubbles was in some ways an advantage, and hopefully policymakers will have learnt lessons from the negative experience of some other countries, particularly small island countries such as Iceland which deregulated their financial sectors to such an extent that international indebtedness became uncontrolled and excessive, resulting in default.

Second, it is quite possible that nearly five years after the start of the Eurozone crisis the worst may have passed.¹⁰¹ Vulnerability to the Eurozone as a whole is not the main problem for Cape Verde; the core Eurozone is likely to rebound, possibly stronger than before if Germany and France are able to inflict internal devaluation on Greece, Spain and Portugal via wage and public expenditure cuts. Trade data clearly show a significant diversification across European countries, and not all are equally affected by the euro crisis. Some recent reports have urged Cape Verde to integrate *more* with the EU.¹⁰² For Cape Verde the main risks are euro break-up and continued exposure to weakness in Portugal and Spain. At the time of writing euro break-up appeared unlikely. The consolidation of the euro into a smaller zone of central members could cause currency revaluation, which, assuming a continuation of the euro peg, would weaken Cape Verde’s competitiveness in other international markets, although given that most tourism and investment comes from the Eurozone this may not be as big a problem as might be supposed. Currency appreciation in a smaller core Eurozone would presumably reduce incoming tourism, investment and remittances from Portugal, although it may increase immigration.

¹⁰⁰ AfDB (2012a): 46

¹⁰¹ Smart investors buy at the bottom of the dip!

¹⁰² Such as UNCTAD 2011: 25

There may also be deflationary consequences given that approximately a quarter of imports come from non-EU countries.

Long-term devaluation would most likely be a result of continued weakness in the Eurozone and may herald a further reduction in FDI, remittances and tourism inflows from euro members as well as the prospect of further destabilisation of EU aid inflows. Inflation may increase. Currency devaluation would, however, give Cape Verde a competitive export edge in other markets and may even attract new sources of incoming tourism and FDI. The UK, although its own economy would also be severely impacted by euro devaluation, is not a euro member and is for Cape Verde an increasing source of tourist arrivals and investment.

Overall the EU is the world's biggest trading bloc and that strong European links are to be valued not only in terms of commercial opportunity but as a source of technology transfer and opportunity to learn via the import of technology. To put the issue in perspective, Africa's entire GDP is roughly the same size as Britain's. Combined, the US and European economies comprise 52% of world GDP, dwarfing Africa's 2.75%.

Cape Verdean exports to West Africa, currently the most promising source of nearby new markets, are currently negligible, at a few tens of thousands of dollars a year. This is not to suggest that the enhancement of links with West Africa should be abandoned. West Africa may be particularly promising for the export of specialized labor and ICT based and engineering know-how, and even laboratory services (some West African countries are already using Inpharma's laboratory for testing and quality control) However the European economy will continue to be overwhelmingly the most important for Cape Verde in the coming years. As already suggested, physical distance is increasingly less of an issue given cultivation of services trade via the Internet.

The main strategic consequences with regards to the Eurozone are therefore to seek expansion of links in tourism, trade and investment in the relatively unaffected European countries, particularly Germany, France, the UK and Scandinavia, and to remain prepared for continued weakness in Portugal and Spain. Links with other key global markets such as Brazil and the United States should also be cultivated. However overall it should be borne in mind that country targeting is a difficult task, and that the best route to diversification may be the organic development of business opportunities through the Internet, e-commerce and other forms of services trade.

2.7.1.2 The Exchange Rate

As noted in AfDB (2012a), “the view that economies have a unique, market-determined exchange rate which strikes the correct balance between tradables and non-tradables is incorrect in practice... The practical goal of export promotion is achieved through devaluation, lowering the foreign currency price of a country's exports”.¹⁰³ The most likely future prospect for the currency is to remain pegged to the euro, largely for reasons of inflationary and exchange-rate credibility. In the absence of the ability to devalue the currency, however, given appropriate technical expertise and central bank credibility it may be possible to conduct a pro-poor somewhat expansionary fiscal and monetary policy, with reasonable

¹⁰³ AfDB (2012a): 71

fiscal deficits financed more by monetization (selling bonds to the central bank) than by bond sales to the commercial banking sector.¹⁰⁴

Vigilance must be maintained over the possibility of Dutch disease, under which resource-driven economic growth makes non-resource exports less competitive. Although Cape Verde is not known to have significant natural resources, the over-expansion of one sector such as tourism can create a Dutch Disease-type effect. According to economic theory, first a ‘spending effect’ occurs as the increased demand causes inflation to accelerate and the real exchange rate to appreciate.¹⁰⁵ Higher prices for domestic and foreign inputs raise the cost of production in the agricultural and manufacturing sectors and give rise to a contraction or stagnation of other tradable sectors. Secondly, a ‘resource-movement effect’ occurs because the booming resource sector draws mobile factor inputs away from other sectors. The greater the amount of factor inputs used by the resource sector, the greater the drawdown of those factors on the traded non-resource sector and the non-traded sector.

There is so far little sign of Dutch disease in Cape Verde. However in the absence of the ability to significantly manipulate the exchange rate, in order to offset the future possibility of such a problem the government should try to mitigate any tourism or resource-induced volatility as much as possible, including coordinated fiscal and macroeconomic policy without overheating the economy; development of the financial sector; diversification of the non-resource economy; trade facilitation; the improvement of linkages between resource industries and the overall economy, as well as improving the investment climate. All of these measures are compatible with sensible economic development policy. Overall the authorities must make every effort to ensure exchange-rate credibility and price stability as part of a coherent trade strategy. A rapid appreciation of the real effective exchange rate would undermine trade-related initiatives in other areas.

2.7.2 Longer-term Strategic Challenges

2.7.2.1 Productive Capacity

The economy has already been very open for many years and has enjoyed duty and quota-free access to developed markets. This suggests that the challenge, as in many small island developing states (SIDS), lies not primarily on the demand-side but the supply side. Whilst it is not entirely true that supply creates its own demand, market access is only part of the story. SIDS often succeed in their export efforts by virtue of their ability to develop and maintain a consistent stream of exports in sufficient volume and quality as to be viable in international markets. The benefits of trade will only be fully realised via the development of productive capacity, something which depends critically on amongst other things political stability, infrastructure, sanitary and phytosanitary standards (SPS), financial-sector development, property rights and the legal framework. These issues deserve mention in this chapter because they are so fundamental to trade strategy, although they are dealt with fully in the other chapters of the DTIS, particularly those covering agriculture and tourism.

¹⁰⁴ AfDB (2012a): 73

¹⁰⁵ The explanation of the Dutch Disease and decomposition into the spending and resource-shift effects are from W. M. Corden and P. Neary (1982), “Booming Sector and De-Industrialization in a Small Open Economy”, *Economic Journal*, 92: 368.

2.7.2.2 Linkages

Domestic linkages are also crucial to the development of productive capacity and in turn the export effort. Many successful development experiences – notably that of South Korea – were partly a process of learning via diversification of the domestic economy, rather than exclusively by buying technology or capital from abroad or attracting FDI. Given the likelihood of continued new foreign investments in Cape Verde in the near future it will be doubly important to develop linkages both between large and small domestic companies and between foreign companies and local companies. Many of the tourism operators in Cape Verde import a large majority of their foodstuffs, and the all-inclusive resorts operate in an enclave with limited connection to the domestic economy. An explicit linkages development programme may be the best way of achieving this objective. Linkages include backward linkages with suppliers, linkages with technology partners, forward linkages with customers and other spillover effects. Linkages are often lacking because local firms cannot meet international production standards, as well as corporate requirements in terms of consistency, continuity and volumes of production.

In several countries – notably Haiti and Guatemala – the UNDP has conducted or is undertaking an initiative known as the Supplier Development Programme, which aims to identify a suitable large company which currently sources inputs from abroad, such as a large supermarket or food manufacturer, and to identify and coach suitable local firms to supply that company. In Haiti a group of 33 local consultants, of whom fewer than 20 are expected to pass exams, were selected for training in business and supply chain management in order to help the small firms service the large company. Two consultants will be assigned to each supply chain. Eventually it is expected that the project will become self-sustaining. Under these programmes in other countries some local firms have subsequently developed into exporters themselves. In addition the UNDP and other agencies have established one-stop centres where entrepreneurs have access to business development services and inputs (i.e. entrepreneurship training, information, finance, quality control, networking and business counselling). Thailand established a unit dedicated to the development of linkages (see box below).

Table 7 Specific measures by governments (of host and home countries) to promote linkages

Technology upgrading	Training
Partnership with foreign affiliates. Incentives for R&D cooperation. Home country incentives. Promote suppliers' associations.	Collaborate with private sector on one-stop service. Support private sector training programmes. Collaborate with international agencies.
Information and matchmaking	Financial assistance
Provide relevant information. Maintain updated electronic databases. Act as honest broker in negotiations. Support suppliers' audits. Provide advice on subcontracting. Sponsor fairs, exhibitions and conferences. Organize meetings and visits to plants.	Legal protection against unfair contractual arrangements and other unfair business practices. Guarantee recovery of delayed payments. Indirect financing to suppliers through their buyers. Tax credits and other fiscal benefits to firms providing long-term funds to suppliers. Co-finance development programmes with private sector. Directly provide finance to local firms. Home country measures: Two-step loans, and Using official development assistance
<i>Source:</i> UNCTAD, (2001) table VI.1, p. 210.	

The Board of Investment's Unit for Industrial Linkage Development (BUILD) in Thailand

BUILD has been established to provide a wider range of investment-related services. BUILD functions as a "middleman" to forge links between customers and suppliers. The objectives of the program are to use technology transfer to reduce the import of parts and components, linking Thai suppliers with large companies and strengthening part makers in Thailand. BUILD promotes industrial linkages and stimulates domestic subcontracting of parts and components. The unit analyzes parts and components needed by both Thai and foreign assemblers planning to start production in Thailand. BUILD then surveys existing supplier industries in order to identify companies that are capable of producing competitively. The program also collaborates with other government agencies and private firms to help these potential suppliers to upgrade.

BUILD consists of several programs, e.g. the Vendors Meet Customers Program was established to promote industrial linkages and stimulate domestic subcontracting of parts and components. Visits of manufacturers to factories are organized under this program; the main role of the monthly Parts & Components Marketplace is to match customers and suppliers. Every month, BUILD invites 10-20 large companies and 200-300 potential qualified suppliers from a computerized database of supporting industries that includes about 800 companies believed to be capable of producing parts for parent firms. The marketplace consists of a morning seminar on different issues, e.g. increasing efficiency, a presentation by the potential customers on their supply demands, an exhibition of the parts needed, open discussions and opportunities for informal meetings. Subcontracting Seminars provide SMEs with information on how to overcome difficulties in supplying large companies; The Association of Southeast Asian Nations (ASEAN) Supporting Industry Database includes all important industries in the fields of mould-and-die, electronics, automotive, and chemistry in Asia and aims at facilitating matching in the ASEAN region.

Source: UNCTAD

2.8 Trade Negotiations

Any overall trade negotiations strategy needs to be developed with full private sector and civil society support as an evolving set of documents with cross-ministerial support. A trade strategy which was imposed from outside without full government and national ownership would be bound to fall short of its objectives. High-level support for trade negotiations in the Cape Verdean context is currently good; a continuing challenge is the involvement of a wide cross-section of the business community and society. It appears that private sector organisations need to develop further in order to communicate the demands of commercial entities to government.

Services trade requires specific attention in future negotiations, and it would be worth paying close consideration to services commitments at the regional and multilateral levels over the long term, with the development of a clear negotiating strategy which integrates goods and services. The country has made specific commitments under the General Agreement on Trade in Services (GATS) on 10 services sectors and a wide range of subsectors, particularly in tourism. Under the sensitive list developed with UNCTAD support the agricultural industry is entitled to slightly more protection, and any additional

support for farmers – possibly via fiscal incentives – should aim at improving linkages with existing companies and with incoming investors, particularly in tourism.

It is in the interests of Cape Verde to follow WTO developments covering information technology, e-commerce and BPO related services. The existing GATS schedule is comprehensive in its commitments under section 2 on Communications services, and the government has agreed to the standard GATS telecoms reference paper. These commitments can all be used to further the development of the services sector and ICT in particular. A more aggressive step in any regional or bilateral negotiations such as ECOWAS (although it may meet with strong resistance from other ECOWAS members) may be to commit not to impose any restrictions on cross-border trade in any except a mutually agreed (narrow) set of services. Such a proposal would amount to a negative list approach for cross-border trade that treats all services as covered except the explicitly excluded few.

The obstacles to goods market access are, as noted in section 2.6.2.1 above, more on the supply-side than the demand side, and tariffs do not form a major obstacle to export in large, developed markets. Non-tariff barriers are more important, including licensing procedures, technical barriers to trade (TBTs) and sanitary and phytosanitary measures (SPS).

2.8.1 The WTO

The challenge for many newly-acceded members is to meet their WTO obligations, and Cape Verde is no exception. Several LDCs and small island states fail to fulfill the terms of their accession or to take full advantage of the available market access opportunities. Cape Verde joined the World Trade Organization (WTO) on 23 July 2008. Following accession all tariffs were bound. The average most favoured nation (MFN) applied tariff is currently 10.4%, lower than the average for sub-Saharan Africa, which is 12.5% and the average for lower-middle-income countries, currently 11.4%. Tariff concessions were made on 3,047 tariff lines. Bound rates for agriculture average 19.3% and for non-agricultural products 15.2%.

An interesting comparison is Vanuatu, which in August 2012 joined the WTO, the most recent LDC SIDS to do so. Vanuatu also agreed to bind all tariffs. The average final bound rate was much higher at 39.7% (43.6% for agricultural products and 39.1% for industrial products). 85% of tariff lines are either at 35% or 40%, and most tariffs will not fall. For 98 tariff lines Vanuatu will phase in small tariff reductions in by 2015 depending on the product (a smaller transition period than Cape Verde). Little impact on government revenue is expected. In addition Vanuatu's government agreed to include a number of horizontal commitments and specific commitments in 10 sectors and 72 sub-sectors. Vanuatu used GATS to secure the long-term opening of the telecoms sector. The emergence of competition in the sector reduced prices, increased geographical coverage and led to the emergence of a number of new Internet Service Providers offering much improved services. It can be seen that Cape Verde's agreement is much more liberal and exposes the private sector to greater international competition. The significant liberalisation commitments make regional and bilateral agreements with WTO members relatively less relevant in a number of areas given that potential partners already have significant access to Cape Verdean markets on a multilateral basis.

Whilst in Cape Verde WTO membership has already resulted in significant tariff reductions, many bound rates are and will remain above applied rates, and the effective protection rates for most companies remains high, at an estimated 43.5%-147.5%, so it is unlikely that WTO membership will have significant

further effects on the protection of domestic companies. The resulting drop in tariff revenue as a result of lower applied tariffs was largely compensated by the introduction of Value-Added Tax (VAT) in 2004, while imports and tax collection have also increased. Cape Verde does not have any agricultural export subsidy programmes or WTO-inconsistent domestic support programmes. All domestic support measures are considered to be green box (permitted) subsidies. The government has no special safeguard measures in agriculture, allowing for the imposition of an additional tariff when certain criteria are met.

2.8.2 ECOWAS

Progress under the 15-member ECOWAS has been slow despite the intention of creating a customs and eventually a currency union – and for Cape Verde it may be inappropriate to spend considerable time focusing on ECOWAS given the current constraints facing analytical and implementation capacity. As suggested in section 2.6.1.1 above, the EU remains a far bigger trading partner and will continue to do so for many years. Cape Verde has, probably correctly, signalled its intention to negotiate an EPA separately from ECOWAS. The SPA and possibly even the EPA may hold greater opportunities, even though the current rapid growth in West African markets should not be ignored. Markets such as Angola, Sao Tome, Guinea-Bissau, even Liberia have great potential for the likes of Cape Verde, and avenues are already being explored in the pharmaceutical industry. More opportunities may emerge in services trade.

Under ECOWAS the customs union and Common External Tariff (CET) have not yet been implemented although would have the intention of providing duty-free access to members. Non-tariff barriers (NTBs) such as quotas, quantitative restrictions and prohibitions were also to be removed, although at the time of writing this process had been initiated. Cape Verde applies an ECOWAS Community Levy of 0.5 per cent on imports from non-ECOWAS countries. The country also provides for the free movement of persons among the ECOWAS member States.

The original 2008 DTIS suggests that the country has a limited capacity to absorb foreign labour from ECOWAS. This is true in sectors like construction, where incoming labour depresses wages and increases the pressure for Cape Verdeans to migrate in search of better conditions. Free movement also may allow the illegal immigration of ECOWAS nationals to Europe – creating obstacles to the Mobility Partnership with the EU. However if Cape Verde is to follow a high-end, services-orientated trade strategy it will need to remain open to the immigration of talented workers from most countries – including ECOWAS members. An empirical study is needed on the nature and impact of labor migration from Ecowas, with some businesses including in construction reporting that they need specialized labour which can only be found in the region. However regional migrants are also prominent in low-skilled, low wage areas (such as security guards, sanitation workers, public works, etc.) as well as informal retail. Of course this is to the benefit of the Cape Verdean economy in that it is a source of cheap labour, although a more targeted labour policy may be appropriate. Singapore explicitly targets high-skilled workers using a liberal policy toward the granting of visas to established companies, both domestic and foreign, under an official 'foreign talent' programme. Workers are enticed by the prospect of low direct taxation and a good living and working environment. Although trade with ECOWAS currently remains very low, the further differentiation of trading patterns, the reduction of NTBs and transport costs may bring with it an expansion of trade with the region.

2.8.3 The EPA and the Special Partnership with the EU

Cape Verde still benefits from the Everything but Arms (EBA) initiative which gives LDCs duty-free access to the EU for all products except arms and ammunition. Following graduation from LDC status in January 2008 Cape Verde was to be removed from the list of EBA beneficiaries after a three-year transitional period, i.e. from 1 January 2011. This transitional period was then extended until 1 January 2012 because of the economic crisis. In June 2008 the EU also launched a new initiative involving Cape Verde and Moldova in the form of a Mobility Partnership to coordinate and ensure mutual benefits in migration for both the origin and receiving countries.

Cape Verde is still officially negotiating an Economic Partnership Agreement (EPA), although progress has slowed as in most other regions. If completed, the reciprocal access required under the EPA would force many Cape Verdean producers into direct competition with international companies, and many would be unlikely to survive given the additional cost constraints deriving from distance, isolation and smallness of the domestic economy. Neither should the dynamic impact be ignored: an EPA may retard any future development of the goods or services sectors. According to UNCTAD (2011), any slowing of the process of industrialisation would be particularly damaging to the prospects for women, since “as shown by the Asian experience, women particularly benefit from the first phase of industrialization which encompasses the production of low-tech products, such as food preparation, and textiles and footwear”.¹⁰⁶

One of the more problematic aspects of the EPA is the inclusion of the MFN clause -- which has been put on the agenda during other EPA negotiations. Third Party MFN requires parties to the agreement to offer the same or better concessions to each other if an FTA is signed with a third developed or major trading partner. Thus if Cape Verde were to sign an agreement with Brazil it would have to offer the same terms to the EU, restricting the scope of any future bilateral negotiations. The EU would in theory have to offer similar concessions to Cape Verde as a result of any future negotiations with a third party, although this would be irrelevant because of Cape Verde's existing market access to the EU. Third party MFN may result in a more uniform trade policy, although it has been widely criticised on the grounds that the obligation to extend the same concessions to the EU limits the scope and incentives for Cape Verde to negotiate other FTAs, setting a precedent for future FTA negotiations with other trading partners under other regional or bilateral agreements.

In addition to the possible negative impact on the private sector, Cape Verde would probably lose significant government income from a reduction in tariff revenues. UNCTAD (2011) refers to a study by Zouhon-Bi and Nielsen (2007) which found that tariff liberalization under the EPA would lower tariff revenues by 78 per cent, translating to a 15.8 per cent decrease in total Government revenue, a sum worth as much as 3.6 per cent of GDP. Clearly this very large amount of lost tariff revenue would be untenable. Whilst it is acknowledged that companies cannot rely on preferences forever and that exposure to international competition improves efficiency, the EPA may in its current likely form be too liberal over too short a timeframe for many Cape Verdean companies to survive. It is difficult to see how the EPA would on balance benefit the Cape Verdean economy, and significant concessions would need to be made on the EU side if the agreement is to be development-orientated as stipulated in the Cotonou agreement. The precedent from other regions is not promising. Only the relatively sophisticated, comparatively high-income economies of the Caribbean Community (Caricom) have signed a full EPA, and Caricom's lowest-income member, Haiti, has been unable to reflect its interests in

¹⁰⁶ UNCTAD (2011): 26

the agreement because of existing capacity constraints and the impact of the earthquake, and it has not yet benefited from the agreement. No other ACP bloc has yet signalled its intention to move beyond an interim EPA agreement.

As noted in the original 2009 DITS: “With the signing of the SPA and the strengthening of the links with the outermost regions of the EU (Canaries, Azores, Madeira), one possible option is for Cape Verde to avail itself of the provisions of Article 68 of the ECOWAS treaty and negotiate a Free Trade Agreement with ECOWAS (rather than achieving full membership of the CET)”.¹⁰⁷

2.8.4 Bilateral Agreements

In addition to relations with the EU, China and Brazil, Cape Verde has reciprocal bilateral free trade agreements with the African Portuguese-speaking countries of Angola, Guinea Bissau, Mozambique and Sao Tome and Principe, and a bilateral preferential agreement with Mauritania.

In 2007 China designated Cape Verde as one of six Special Economic Areas to be used as entrepôt for Chinese goods prior to their distribution across Africa.

Brazil has increased cooperation with Cape Verde in literary courses, vocational training, water desalinization and agriculture projects. In August 2011 Cape Verde signed a number of agreements with the Brazilian Cooperation Agency worth over \$3 million, focusing on the environment, housing and land planning, cultural heritage, civil aviation, and telecommunications among other. Brazil is expected to provide technical and human resources to Cape Verde to make the identified projects viable.

Although not a bilateral agreement, Cape Verde is also eligible for the African Growth and Opportunities Act (AGOA), which provides duty and quota-free access to the US market. As noted above exports to the US are negligible. The end of the Multifiber Agreement meant that textile products were uncompetitive with Asian exports, mostly from China, in spite of their preferential access. Cape Verde also struggled to comply with the stricter rules of origin under AGOA 2 than under AGOA 1.

¹⁰⁷ EIF / Government of Cape Verde (2009): xxii

2.9 Key Opportunities

Trade has considerable potential to contribute to the Cape Verdean economy and to improve human development. Maintaining low barriers to trade can facilitate the functioning of the market and foster the efficient allocation of resources (Krueger 1998). If a further reduction in trade barriers improves economic growth, in turn this may generate tax revenues for investment in human development. Cape Verde already has a good record in this regard.

Importantly, human development can also lead to development, turning the direction of causality in the opposite direction. The work of Ranis, Stewart and Ramirez (2000: 197) shows that education and health can enhance labour productivity and ultimately economic growth. Ranis, Stewart and Ramirez point out that many successful developing countries, such as South Korea, Malaysia and Singapore invested in health and education at an early stage in their development processes, inferring that a healthy and educated workforce is a precondition for economic growth in the form of longevity, increased labour productivity and the development of skills necessary for value-adding activities. The sequencing of human development reforms is thus important. For trade-related as well as social reasons it will be important for the Cape Verdean government to continue to put in place sound education and health policies in the coming years and to improve training facilities in existing and promising industries such as tourism and IT.

However the development of new international markets will take time. In small countries at an early stage of development diversification of trade by destination is typically the result of strong diaspora links (fortunately much of the Cape Verdean diaspora is in the United States), a dynamic entrepreneur class (returnees can form a valuable source of entrepreneurship, bringing new techniques, contacts and ideas) or insertion into the supply chain of international companies, something which in turn depends on among other things political stability, infrastructure and human resource development, on each of which Cape Verde scores highly. As noted in the sections above, the targeting of specific countries for export is something which governments are often less effective than the private sector, and it may be better to create the business environment in which companies themselves can identify new opportunities, with government playing a supporting role.

The broad-based development of services has perhaps the potential to contribute more to development in the short and long term. Services trade can involve lower start-up costs than industrial manufacture and avoid some of the challenges of infrastructure and transport costs that face the large-scale physical production of goods. Value-addition in services is often easier for countries starting from a low level of development, while services can present an opportunity for small economies to overcome of their unique problems. Particular potential for diversification and value-addition exists in services trade such as microwork (see box below) and BPO, which is currently at an early stage in Cape Verde.

All of this is not to discount the continuing importance of manufacturing and agriculture to the Cape Verdean economy – indeed the export or increased production for the domestic market of individual crops which may measure only a small proportion of aggregate economic output can prove a lifeline to individual farmers or communities. Manufacturing is also important, and may have a more higher-end light industry orientation, such as in the case of the Inpharma pharmaceutical facility, which is considering servicing the foreign market and providing testing and other knowledge-based services. Services and higher value-adding trade has hitherto been somewhat overlooked, and ICT and services trade may be more conducive to moving up the value-adding ladder.

2.9.1 Information Communications Technology (ICT)

Cape Verde is already a proven exporter of services (mostly tourism and transport). Other country examples such as Singapore suggest that an orientation toward ICT may enhance this position. Internet access in Cape Verde is currently too slow and expensive. In many ways the improvement of Internet access for businesses and the wider community is *the* main issue facing the country, building on enlightened initiatives such as NOSI and the provision of free wireless access in a number of public spaces throughout the islands. Until now the Internet has largely been considered an issue for civil society and of the availability of information rather than a business opportunity which particularly suits the country given its physical distance from major markets and its geographical fragmentation and large diaspora. In addition to the expansion of broadband Internet access, trade policy needs to improve in the area of ICT. Heavy levies on imported computers slow ICT growth and encourage the informal importation of IT hardware. ICT is not yet seen as a primary vehicle for economic growth and continues to be viewed as a peripheral luxury.

ICT in archipelago states addresses economic fragmentation, allowing the central authorities to communicate quickly and effectively with the outer islands and for them to be included in overall economic growth. Communications technology can reduce the need for international and domestic travel and freight. Access to international scholarship is necessary for the development of greater domestic research capacity, and the small size of Cape Verde precludes the creation of high-quality traditional libraries. Cheaper and more advanced international communications technology also enables stronger connections – including economic links – between resident and diaspora communities. ICT can also fuel the development of the financial sector through technologies such as mobile payments. Finally, a good ICT infrastructure is critical for attracting FDI, particularly outside the tourism sector, which will be important in the coming years.

ICT-driven business is not just for the educationally-advanced; it represents an opportunity even for low-skilled workers (see box) and may even lead to skills development in the longer term. Not only this but farmers and fishermen may benefit greatly from IT and mobile access to information on prices and market conditions, which in turn feeds into the development of linkages as mentioned above. Information technology, in the right institutional setting, can also enable access to educational courses and materials that would otherwise be too specialised to provide to small population centres. Cape Verde should aim to create a situation where all citizens have access to high-speed broadband and where young people see the Internet as a normal part of the economy and everyday life.

Box 7 IT Services in Haiti

In Haiti, a small very low income island LDC emerging from a recent earthquake which devastated much of the capital, several BPO-type activities have already started on a small scale. In 2009 an Irish company, Taxback.com, opened an office and has created a few jobs in a call centre to provide tax documentation assistance to international customers. Samasource, a non-profit organization based in San Francisco, started operations after the earthquake, employing disadvantaged people to translate text messages related to the emergency. Digital workers have since been hired by Samasource for long-term microwork which is expected to range from creating digital handicrafts such as online greeting cards or flower bouquets, to data entry, Google-map analysis and transcriptions. These are relatively low-skilled operations which can create much-needed employment. It is also reported that Digicel, the largest mobile telephone operator in the Caribbean, has moved its call centres to Haiti.¹⁰⁸ The lessons for Cape Verde – a much more developed economy with more sophisticated workforce and human resources – should be clear. IT services are not only a source of employment for the minority with high-end training in technology, but with suitably available and priced Internet access can be a source of employment for significant numbers of lower-skilled workers and may be a step on the ladder to higher value-adding activities.

Source: Draft Haiti DTIS

The ending of the telecoms monopoly is thus of great significance. International submarine fibre optics; inter-island links; ‘first-mile’ and point-of-use considerations are all important. The regulatory regime will also prove critical. Several other countries, notably in the Caribbean and Pacific, have used World Bank support to open the market and design a regime that ensures competition, in conjunction with other sectors. If the domestic regulatory capacity does not exist it can be possible to draw on periodic overseas expertise to enforce competition legislation on a case-by-case basis. Typically such competition agencies or authorities may:

- Ensure free market entry and exit for firms and prohibit the build-up of monopolies
- Have the power to use relevant legislation to sue companies that artificially restrict supply to raise prices, or set prices too high
- Gather and publish market information on prices
- Investigate complaints
- Ensure the transparency of government bidding processes
- Collaborate with other agencies to share information on uncompetitive behaviour or unfair business practices.

A number of positive experiences suggest that telecoms and Internet competition is possible in SIDS of a roughly similar economic size and population. Vanuatu, Fiji, Samoa, Tonga and a number of less-developed Caribbean states all have a number of telecoms and Internet suppliers. In some cases five or more mobile phone companies take advantage of the low start-up and fixed costs in the industry to keep prices at reasonable levels.

¹⁰⁸ The Daily Beast, 21 September 2011 (<http://www.thedailybeast.com/articles/2011/09/21/michel-martelly-haiti-s-new-president-gets-mixed-reviews.html>)

The worldwide services offshoring industry has grown rapidly over the past decade – and continues to do so in spite of the global economic slowdown, creating many jobs in developing countries. In the Philippines, employment in the sector expanded from 4,000 in 2001 to 350,000 in 2007 and exceeded one million in 2011. In Mauritius, some 2,000 were employed in 2004, rising to more than 12,000 in 2010. New types of services are being handled remotely and across borders, increasing in value-addition and complexity the sections of the value chain that can be performed offshore.¹⁰⁹

With recent and planned improvements in telecom connectivity and electricity supply, and the interest already shown by some entrepreneurs, Cape Verde could become a player in BPO, with associated job-creation and attraction for the diaspora. In some sections of the workforce human resources remain a challenge, and in these segments the simpler type of operations of back office outsourcing, such as data entry, billing, payroll and benefits administration may be most suitable. In addition, the level of education and language skills of some Cape Verdeans – including returnees from circular migration – provides a workforce trainable for front office outsourcing, including customer-related services such as marketing or technical support, usually through call centres. The attraction of such business, however, requires a clear strategy including explicit investor targeting to identify and incentivize prospective companies to offshore specific, suitable front and back office work.

The 2008 DTIS usefully applied the kind of services to the GATS schedule, and it is worth reproducing the table here¹¹⁰. Each of these examples can be considered a specific business opportunity to be further investigated.

¹⁰⁹ A survey of Harvard MBAs found that 57% of decisions considered moving existing activities out of the US, while only 9% considered the possibility of moving activities from another country into the US. (Michael E. Porter and Jan V. Rivfin, *Prosperity at Risk*, Harvard Business School, January 2012).

¹¹⁰ EIF / Government of Cape Verde (2009): 5

Table 8 Modes of International Trade in Services for Cape Verde

Mode according to GATS	Definitions	Examples
Mode 1: Cross border	Service products move across borders. No movement of persons.	BPO, call centres, offshore financial entities, operating from Cape Verde serving clients overseas. Royalties to Cape Verdean artists when their song is played on a foreign radio station.
Mode 2: Consumption abroad	Movement of consumers to the country of importation	Tourists visiting Cape Verde; Foreign fishing or cargo vessels using services at Porto Grande; airlines using services at Sal.
Mode 3: Commercial presence	Establishment of commercial presence in the country where the service is to be provided.	Cape Verdean construction company operating in Angola, but with local workers. (Foreign commercial banks established in Cape Verde and serving the domestic market operate under Mode 3).
Mode 4: Movement of natural persons	Temporary movement of "natural persons" to another country, in order to provide the service there.	Cape Verdean musical groups, construction workers, care workers, working temporarily overseas. (Eg, under the Mobility Partnership with the EU).

More specifically a number of additional services may be delivered online via Mode 1:

- Cape Verde's unique music may be sold online, both to the diaspora and to other worldwide consumers.
- Microwork, such as digital handicrafts such as online greeting cards or flower bouquets, data entry, Google-map analysis (which could mostly be done for countries speaking any language) and transcriptions.
- Possibly accounting and legal services to Portuguese-speaking countries such as Angola, Mozambique or even Brazil.
- Back office operations including call centres, especially for higher-cost Portuguese countries.
- Front office
- Proof reading
- Design services
- Portuguese translation services

Finally, the electronic election system is one of the most advanced in the African region and the world. At the next election NOSI and the electoral commission hope to conduct the entire process digitally, with results available almost instantaneously and no need for electoral officers to intermediate, and

NOSI has considered the possibility of selling it. With refinements, the system may be marketable internationally as a complete package, a product which would be particularly useful in the less transparent developing countries, and one which has been proven to work in the African context.

2.9.2 The Diaspora

The benefits of the diaspora are well-known in Cape Verde, yet more can be done to leverage the diaspora in both goods and services trade. Market knowledge and business contacts are more effectively conveyed via personal or family links. The diaspora also acts as a social safety net; a link to educational institutions and a source of investment finance, labour and tourism. It can play an important role in civil society, internationalising the outlook of organisations. The 2008 DTIS makes the valid point that the diaspora is an important resource for development, and that the contribution of the diaspora and of mobility policies (and circular migration) should be mainstreamed in all economic and social policies, not solely treated as a separate issue to be dealt with by dedicated agencies. Mobilising and incorporating the Diaspora as a source of investment and technical capacity will require concrete projects and specific mechanisms for identification and recruitment.¹¹¹

In particular two areas may be under-exploited: diaspora (heritage) tourism, and the diaspora market for “ethnic” exports, from foodstuffs to cultural products. Some 15,000 passengers fill up the twice weekly Boston-Praia flight each year, with Cape Verdeans retaining strong links to their home country and prioritising holidays there over more conventional vacations. Visitors spend up to US\$5,000-10,000 on each trip, representing as much as several million US dollars per year on local expenditure, gift giving and investment in such activities as house-building.

In 1995 the government passed a successful law permitting emigrant deposits, which helped keep the banking system liquid and reinforced diaspora links. This kind of policy should be followed up in order to maintain a proactive stance toward the diaspora. Governments and donors may wish to collaborate on diaspora research. It may be possible to explicitly target émigrés with specific skills in targeted services, such as ICT or BPO. Campaigns may even be conducted to encourage returnees or visits by long-term émigrés along the lines of the Homecoming Scotland campaign¹¹² in 2009 which aimed to reinforce cultural links with overseas Scots and attracted 72,000 net additional visitors with associated expenditure of £50 million (US\$80 million).

2.9.3 Labour Mobility

Concerns have been expressed about the impact of brain-drain given Cape Verde’s small population, generally lower levels of tertiary education and pay than in developed economies and the resulting scarcity of skills and technical expertise. Yet global migration is increasingly circular, making labour strategy central to economic policy. In Australia, one of the key developed markets for Pacific SIDS, the data show that for every three permanent immigrants from all countries, one returns – usually with new education, expertise or finance.¹¹³ Although brain-drain indeed remains a risk in Cape Verde, small

¹¹¹ EIF / Government of Cape Verde (2009): xxii.

¹¹² <http://www.homecomingscotland2009.com>.

¹¹³ Guest, 2011, pp.23-24. There are currently 215 million first-generation migrants, an increase of approximately 50% since 1990 (Guest, p.16).

states ultimately have little power over the ability of citizens to emigrate, and the best policy for trying to assure the return of workers is to provide domestic employment opportunities and to maintain contacts with the diaspora. Unrestrictive labour mobility policies benefit the economy in the long-run. Singapore, as noted in section 2.4, adopted the explicit aim of attracting foreign talent and encouraged well-educated locals to return if possible.

Examples from other SIDS show that formalising labour mobility within official programmes can reap benefits. The Caribbean Community has established a broad labour mobility programme. The Pacific is working on a less ambitious platform as part of the Pacific Island Countries Trade Agreement (PICTA), a move perceived as a step to an international agreement with developed markets. A study of Tuvalu and Vanuatu (McKenzie and Gibson 2010) showed that a seasonal migration scheme to New Zealand established in 2007 created by far the highest annual per capita income gain out of six interventions surveyed. The scheme raised household income and consumption, allowed households to buy more durable goods, increased subjective living standards, and had additional benefits for communities. It also increased child schooling in Tonga. Cape Verde should entrench labour mobility within any bilateral agreements and within ECOWAS if possible, as well as the SPA with the European Union.

2.10 Recommendations

2.10.1 General recommendations

1. Support the continuing definition of external trade strategy, including policy towards ECOWAS, the EPA with the EU, AGOA and the WTO as part of a National Trade Policy framework document attached to the existing industrial policy.

This should take the form of an overall trade policy framework detailing export strategy, negotiations strategy and policy on the individual components of trade agreements such as goods market access, services, subsidies and countervailing measures, TRIPs, investment, rules of origin, etc. In 2013 Solomon Islands (a Pacific SIDS facing some of the same trade-related challenges, although at a lower stage of economic development) was due to undergo a comprehensive trade framework development and training programme using donor support. Lessons may be learned from this process and applied in Cape Verde. To complement this framework it may be appropriate to undertake a series of empirical impact studies aimed at understanding the impact of potential alterations to trade policy on specific sectors and sub-sectors, as well as desirable objectives in trade policy. In addition studies need to be undertaken on the likely impact of the EPA and other agreements on tariffs, government revenues, economic growth and income distribution.

This process is unlikely to end in a single final document although it is important to confirm policy in writing. Policy and strategy will need to be periodically updated. Any funding should be unconditional and untied, and should support moves by the MTIE and relevant trade bodies to establish for themselves the kind of trade policy cycle detailed in section 2.5 above. In addition to trade promotion, goods and services, the strategy should include at least trade facilitation, internal trade, standards, intellectual property and consumer protection. Negotiation procedures, ministerial responsibilities and inter-Ministerial structures need to be included in this process, as well as basic process (market entry) training for SMEs.

2. Continue moves toward opening up the telecoms sector.

It may be possible to use services commitments under the EPA or ECOWAS to support telecoms liberalisation. It will be necessary to set up a regulatory authority, possibly in conjunction with other areas of competition policy. Depending on government support and funding, universal free internet access may even be considered. A less ambitious recommendation is a technology park with free broadband and/or the provision of free broadband to call centers and BPOs.

3. Although outside the strict remit of trade policy, there is a need to conduct investment targeting (see section 2.3.3 above) given that the attraction of appropriate FDI may lead to export development via the integration of Cape Verde into the supply chains of international companies.

Almost all incoming investment is currently on and as a result is in tourism. Diversification of sources of investment is a priority. Investor targeting is particularly appropriate given the official policy of developing industrial clusters, including in IT.

4. Develop a consolidated internal and external communications strategy and programme.

It should be possible to improve government systems to capture trade-related information and the accumulated tacit knowledge and to make it available over the long-term. Officials do not brief each other widely when they return from missions and some knowledge is lost due to the isolation of departments and Ministries. The MTIE website could be improved, especially in English. A communications strategy could tackle some of these shortcomings and put in place a mechanism to make future knowledge-sharing more systematic.

Although officials communicate often through the print and broadcast media, external communications could be more considered and programmatic. The external component of the communications strategy should involve target audience segmentation and development of target-specific key messages. The MTIE and other key trade-related institutions should implement a co-ordinated series of communications and public relations initiatives including press briefings, media events and programmes. Materials should be developed to enhance communications and PR skills for staff in the MTIE and other key trade-related ministries and agencies. Any strategy, even if facilitated by an external agency, must originate with government officials, who must feel ownership of its content.

2.10.2 Institutional Recommendations

5. Conduct an EIF Capacity Assessment and Action Plan for the MTIE with a view to simplifying its structure and ensuring that the various divisions operate effectively.

Amongst other things the capacity assessment may consider:

The recruitment of a human resources company to review job descriptions in the MTIE so as to create greater specialisation and to match job descriptions with desired functions.

The efficiency of the Customs Administration and the duplication of trade-related services such as vessel inspection among a number of different agencies. The capacity assessment should also make recommendations relating to the single window.

The establishment of an inter-ministerial trade work programme with a proactive and dynamic agenda consisting of issues such as the position on on-going and forthcoming trade negotiations; industrial policy; trade facilitation; and trade, tourism and investment promotion.

Setting up official trade focal points in key Ministries so as to avoid sporadic or ad hoc communications dependent solely on personal links.

6. As part of the Capacity Assessment, consider one or more of the following options:

(a) The establishment over the long-term of an Economic Development Board with overarching responsibility for business, trade and investment policy, based on the Singapore model.

The board would operate as a parastatal or statutory body semi-autonomously from government, with the mandate of overseeing the generation and implementation of trade, business and investment policy, and operating with direct authority over existing Ministries. The board should formulate and negotiate trade policy in conjunction with the MTIE.

(b) An alternative structure for mainstreaming trade along the lines of Chile, Uruguay or Lao PDR (see section 2.5 above).

(c) An economic Taskforce or Unit staffed with talented civil servants and/or consultants working on a wide range of general economic development tasks, reporting directly to the Prime Minister's office. It would address issues from finance to investment to tourism to trade policy, operating on an as-needed basis with different Department and Ministries.

7. Develop monitoring and evaluation (M&E) for trade. Accountability is not currently perceived as being weak, yet more can be done to ensure that services are delivered and promised initiatives are followed up. Lessons can be learnt from other EIF country experience, particularly Lao PDR which has recently done work on M&E as part of its DTIS. An M&E specialist with experience in trade may be recruited to set up a monitoring system with the following basic characteristics:

- **Roles and responsibilities:** Establishing where responsibilities for monitoring and for evaluation functions will reside, who will play what role(s) and how the various persons with responsibilities will be connected in terms of management structure and technical support; incorporation of roles and responsibilities in job descriptions.
- **Results framework:** Framework in which activities, outputs, outcomes and impact are connected in a logical way and which forms the basis for monitoring and evaluation
- **Monitoring plan:** Planning what kind of data will be gathered by whom at what intervals and how information will be managed, analysed and used for reporting and management.
- **A data management system:** A data management system needs to be set up for management and analysis of data gathered.
- **An evaluation plan:** Planning for evaluation, including baseline study, mid-term evaluation and end of programme evaluation; planning for the use of impact assessment methodology.
- **Data analysis and reporting arrangements:** M&E findings should be discussed with stakeholders concerned using a reporting system.
- **Development of M&E capacities:** Enhance stakeholder capacities to monitor aid for trade flows and trade related initiatives relating to existing capacities and enhancing national ownership of the process.
- **Financial resources:** The allocation of budget for monitoring as well as for evaluation.

2.10.3 Recommendations on Products and Services

The government does not export directly and it has little power to direct individual companies to trade in particular areas. Yet incentives can be put in place to facilitate certain types of activities – and in some cases government may itself be best-suited to playing a role in promoting the export of particular products overseas. In addition:

8. EIF funds may be used, as has been done via ADEI, to fund private sector-led market feasibility studies aimed at establishing the viability of suitable services exports such as those detailed in section 2.8.1 above.

9. Consider recruiting an Internet marketing expert to train potential and existing entrepreneurs in ICT as part of an incubator programme. Any incubator programme is unlikely to work effectively unless accompanied by business expertise. The goal should be to create a critical mass of services ICT companies with an export orientation. The likely recipient of such assistance would be ADEI, possibly in conjunction with NOSI. Internet and technology companies tend to have networking effects beyond the sum of their parts. Silicon valley is well-documented and obviously far beyond Cape Verde's current capabilities, but the hub and networking implications stand.

10. As part of a broad programme targeting the diaspora, consider the possibility of a Cape Verde retail outlet in Boston or another city with a large number of Cape Verdeans, marketing the country as a tourism and investment destination. It may be possible to export national foodstuffs including jams and pastries to the diaspora. Given that current marketing activities to the diaspora are virtually non-existent, it should be possible to achieve considerable gains in a relatively short space of time. Diplomatic staff should be encouraged to market Cape Verdean products and services to the diaspora during visits.

11. Conduct pilot events in specific niche activities in which the country may have a comparative advantage such as music or adventure sports.

At these pilot events niche products may be marketed, such as Fogo wine, cheese and coffee. A festival of Cape Verdean music may be conducted in conjunction with activities to attract members of the diaspora. Cultural activities may also extend to neighbouring countries with which the country has historic links, such as in West Africa, or even further afield such as in Macaronesia. The unspoilt mountain environment presents opportunities for adventure sports such as triathlons or Skyrunning¹¹⁴, a series of heavily-sponsored high-altitude mountain running events held across the world. Elite European and United States athletes often seek high-altitude warm weather training camps. Many train in the northern winter at dedicated facilities in islands like Tenerife and Lanzarote, which have dedicated sporting complexes bringing in considerable sums to the local economy.

¹¹⁴ www.skyrunning.org

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■ CHAPTER 3: BUSINESS CLIMATE

3.1 Background and Evolution

Cape Verde is at a unique and crucial stage of its historical course. On the one hand, its graduation as Middle Income Country since 2008 and the recognition as one of the most stable and well-governed African countries coupled with the marked expansion of tourism in the archipelago in the last decade (annual growth more than 10%) as well as its strategic location in the corridor of the Atlantic bring about significant opportunities in terms of levers of economic growth and improvement of living standards at a time when there is of a strong growth of trade flows and FDI to Africa.

On the other hand, the country still has to face several structural challenges in its economy, which limit its ability to turn potential opportunities into real growth and rising incomes. Despite the successful historical trajectory since its independence in 1975, and particularly the strong investments made in the last decade especially in infrastructure, the country's business environment still remains comparatively unattractive – and so is the competitiveness of its economy. Constraints in terms of starting and closing a business, protecting investors, obtaining construction permits, access to electricity and finance, labor market inefficiencies - just to name a few – account for the ranking of Cape Verde in the 122th position among 185 countries benchmarked in 2013 by *Ranking Doing Business* of the World Bank. This profile is certainly worrisome, particularly in a context where the economic growth model adopted so far (based mainly on donations, remittances from emigrants and public investment) is about to run out and the country must start to base its growth primarily on promoting private investment.

This chapter aims to identify and describe the main obstacles to an attractive and competitive business environment in Cape Verde and to propose concrete measures to eliminate or minimize such obstacles. It is not our intention to present an exhaustive analysis of all the constraints in this area, so the emphasis will be on those constraints that, if overcome, will have the most significant impact in terms of attracting private investment (domestic and foreign) as well as on the promotion of more efficient and competitive integration into world trade system, on economic growth and job creation. Special emphasis will be placed on the issues related to state efficiency, small scale of the economy, access to credit, logistics efficiency and competitiveness, and access to information.

3.1.1 The Private Sector in National Development Planning

The importance of the internal business and investment climate as a structuring variable for economic growth has become relevant in terms of public policy, especially since the 1990s. Within the paradigm shift regarding the roles of the State and the Private Sector, the latter is now considered as the principal agent of economic growth while to the State was assigned the role of promoter and guarantor of the conditions for market operations.

This change of perspective was reflected in the implementation of a vast privatization program and withdrawal of the State from the productive sector¹¹⁵, along with the installation of mechanisms of

¹¹⁵ The State withdrew wholly or partially from sectors such as banking, insurance, electricity, shipping, manufacturing, food distribution, among others, thus giving more space to private operators.

market regulation and a legal structure with the aim to promote the private sector. At this point it is worth noting the publication of the Code of Commercial Companies (1993). The Code has introduced more modern provisions aligned with international best practices. Other important documents with the same goal have also been published since then¹¹⁶.

With the political change of 2000, private sector paradigm remains as a lever of economic growth. Therefore, in terms of **policy making**, the issue of business environment emerges as the central concern of the Government programs, since it is seen as an important factor for attraction of foreign direct investment (FDI) and the strengthening of a dynamic national private sector. In this perspective, the Transformation Agenda of Cape Verde - strategic guidance document of the Government elected in 2001 – established *Competitiveness and Economic Infrastructure Program* as two of the five priorities. The National Development Plan 2002/2005 included these strategic guidelines as cross-agency priority goals defined in the document, namely¹¹⁷:

- *Good governance;*
- *Increase in country's competitiveness;*
- *Training of human resources according to the country's needs;*
- *Job creation and fight against poverty*
- *Infrastructure;*
- *Structural food security.*

Private investment is also clearly seen as a complementary channel for poverty reduction. In the first Strategic Document for Poverty Reduction (2004), to "*Promote competitiveness to foster economic growth and job creation,*" is specifically defined as Axis 2, based on a Policy of growth and macroeconomic stability¹¹⁸.

This concern with the improvement of the business environment in order to attract private investment continues to deserve a prominent place in subsequent Government Programs. The Government Program 2006-2011 defines growth and competitiveness of the Cape Verdean economy as the main axis of action, and clearly defines the following guidelines¹¹⁹:

- (i) *The promotion of the dynamic sectors of the economy where the possibility of creating a competitive advantage is coupled with the propensity to create jobs;*
- (ii) *Strengthening of intersectoral linkages that influence the promotion of the dynamic sectors and implementation of cross-agency policy measures and operational coordination between these sectors with a view to facilitating harmonized growth between them;*
- (iii) *Removal or progressive elimination of factors hindering competitiveness;*

¹¹⁶ We can mention, for example, the Tourism Utility Statute, the Statute of Foreign Investor, the Industrial Statute, inter alia.

¹¹⁷ Government of Cape Verde, *National Development Plan 2002-2005*
(<http://www.governo.cv/documents/PND%20Voll%202002-2005.pdf>)

¹¹⁸ Government of Cape Verde, *Strategic Document for Growth and Reduction of Poverty* (GPRSP), Oct. 2004

¹¹⁹ Government program 2006-2011

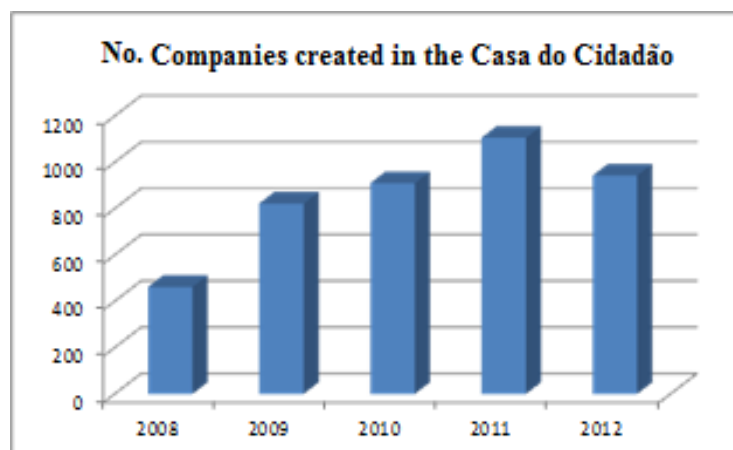
(iv) *Implementation of policies, programs and instruments to promote private investment and business development.*

Consistent with this assumption of the private role investment - and therefore of the awareness on the need of a competitive and attractive business environment - for economic growth, poverty alleviation and the well-being promotion, the successive governments since 2001 have implemented a series of measures and investments in the sectors of infrastructure, the institutional framework and human resources.

With regard to **infrastructure**, significant investments have been made during this period in terms of airport, port and road construction, systems of production and distribution of energy and water, sanitation, telecommunications, among others. A World Bank study in 2011¹²⁰ estimated that during the period, an average of 147 million USD per year has been invested in infrastructure, equivalent to 15% of GDP - one of the highest levels of investment in infrastructure in Africa. However, there are still major constraints in this area: Cape Verde has one of the highest energy and water tariffs in Africa (average of \$ 0.31 per kWh and \$ 261 per m³, or USD \$ 0.38 and \$ 3.16, respectively, for residential use) which, added to supply instability, reduces competitiveness in this area and raises the costs of doing business in the country. Similarly, deficient of inter-island transport services (either sea or air), besides other factors, have created some barriers to a true unification of the national market, and has not at all materialized the full potential impact of investments made to promote private investment.

In terms of **institutional architecture**, a greater importance has been given to State Reform with the creation of a Coordination Unit for State Reform (UCRE) under the direct leadership of the Prime Minister, with the main purpose of designing and implementing policies for the reform and modernization of public administration. In this same perspective, the Citizen's House (*Casa do Cidadão*) was created as a front office for public assistance to companies and individuals, and started to provide, in a centralized manner, relevant information about the country and employment and a range of public services in the areas of citizenship and business. With regard particularly to the business environment, one of the greatest advances is the introduction of the service "*Empresa No Dia*" (Business In A Day), which now allows the creation and registration of a company in one day, with the integration of the various stakeholders into a single platform. The data about the Citizen's House show that from, 2008 to 2012, 4243 companies were created through this service. Despite some concerns raised recently about the need to revisit this channel in order to avoid its use as a form of tax evasion, its impact is undeniable.

Figure 19 New Companies Created Under Business in a Day



¹²⁰ Briceño-Garmendia, C. e Alberto Benitez, D. "Cape Verde's Infrastructure: a continental perspective", World Bank, June 2011

We should also note the creation of ADEI, Agency for Enterprise Development and Innovation, established in 2009 (Resolution No. 13/2009 of 18 May), under the supervision of the current Ministry of Tourism, Industry and Energy, with the mission of "working for the promotion of the domestic private sector and innovation, for the identification and removal of constraints to business development and exploitation of market opportunities, with the ultimate purpose of creating a strong and competitive private sector."

3.1.2 New Reforms and Business Climate Legislations

At the moment (January 2013) two additional projects – being tested or in developmental stage – are intended to introduce significant improvements in the institutional structure with an impact on business. The first project is the *Janela Única Portuária* (Port Single Window), a port management system, implemented by ENAPOR, from which the whole community of agents, customs, maritime and immigration control authorities and dealers are integrated, aiming to allow electronic management of the business process in national ports in a faster and more efficient way¹²¹. However, as it is an ENAPOR's own project, there is no evidence that this solution is integrated with the other platform that has been developed by NOSI, which raises concerns about its future articulation with other solutions under development or to be developed at the operation level of the entire public administration.

The second project, the *Janela Única do Investidor* (Investor Single Window), which is being developed by NOSI to be managed by Cape Verde Investments, plans to implement a single link between the investor and Public Administration, enabling thus electronic processing of investment projects by the various stakeholders agencies and their monitoring by the sponsor through the site of *Casa do Cidadão*. The main objective of this project is to reduce the time for appraisal / approval of projects, introduce greater efficiency and accountability in the process and to improve, therefore, business environment and investment.

In terms of **Relevant Legislation**, the following structuring instruments with an impact on the business environment are to be mentioned, inter alia:

1. Decree Law 3/99 of 29 March approving the *Code of Commercial Companies* - reforms and updates the legal framework for commercial companies in Cape Verde, and is implicitly concerned with the promotion of greater competitiveness of the private sector, which is seen as an important lever of economic growth¹²².
2. Decree Law No 01/2011 of 31 January establishing the *Centro Internacional de Negócios de Cabo Verde* (International Business Center of Cape Verde) – the main purpose of this instrument is to promote international trade and promote investments with export potential. Traders operating within the CIN may engage in industrial activities at the International Industrial Center "CII", in commercial activities at the International Center of Commerce "CIC", in activities and services at the International Service Center "CIPS". The instrument confers a set of incentives, regarding tax benefits for companies (90% of IUR reduction from 2011 to 2018 and 85% from 2019 to 2025),

¹²¹ Source: http://www.enapor.cv/portal/v10/PT.aspx/noticias/Noticias_Detalhe.aspx?id_linha=1723, retrieved in 30 Jan/2013.

¹²² Link: <http://caboverde.eregulations.org/media/dleg%203-99%20codigo%20empresas%20comerciais.pdf>

tax benefits for members (exemption from IUR), customs incentives (duty free pre-defined set of goods) and freedom to import and export¹²³.

3. Decree Law No 02/2011 of 21 February 2011, which regulates the granting of fiscal, financial, conditional and temporary incentives to investment projects for the internationalization of Cape Verdean companies¹²⁴; however, a short time after the publication these two instruments (Decree Laws paragraphs 01 and 02/2011), the benefits therein included were repealed and transferred to the Fiscal Benefits Code, which came into force in January 1, 2013.
4. Law No. 26/VIII/2013 of 21 January approved the Fiscal Benefits Code - this instrument harmonized and synthesized into a single legislation the various incentives that were scattered on several legal provisions. The table below summarizes the tax benefits that are now in force in Cape Verde under this legal instrument.

Box 8 The New Code of Tax Benefits

The New Code of Tax Benefits - What does it recommend?¹²⁵

Tax benefits for investment: In order to encourage productive investment in various sectors of the Cape Verdean economy, the following incentives are established for investments made under the Investment Code:

- *Tax credit on Single Tax on Income (IUR) corresponding to 50% of the significant investments made in the areas of tourism, tourism promotion industry, air and sea transportation, renewable energy and information technology;*
- *Tax credit on IUR corresponding to 30% of relevant investments made in other areas;*
- *Exemptions from Wealth Tax (IUP), Stamp Duty (IS) and duties regarding acquisition of property and other assets for the investment project and the financing thereof;*
- *Tax benefits of a contractual nature to be granted by the Council of Ministers, by agreement of establishment, to investment projects exceeding CVE 10 billion (i.e., approximately € 90 million) that are relevant to the development of the Cape Verdean economy and susceptible to create at least 100 jobs within three years; tax benefits are granted on IUR, IS, IUP and import duties.*

Tax benefits for internationalization: The following benefits can be granted to investments eligible for tax incentives to internationalization:

- *Reduction of up to 50% of the IUR rate applicable to the expiry of the incentive concession contract;*
- *Exemption from IUR applicable to income earned by skilled workers and expatriates;*

¹²³ Link: http://www.cvinvest.cv/leisCI/Decreto_Lei_n1_2001_Centro_Internacional_de_Negocios.pdf

¹²⁴ Link: http://www.cvinvest.cv/leisCI/Decreto_Legislativo_n2_2011_Internacionalizacao_de_empresas.pdf

¹²⁵ Source: Synthesis byPWC (http://www.pwc.pt/pt/pwcinforfisco/flash/cabo-verde/imagens/pwc_flashfiscal_codigobeneficiosfiscaiscaboverde-24-01-2013.pdf)

- Exemptions from IS, VAT, customs duties and taxes, IUP and service charges. Tax benefits applicable to members of the licensed entities at CIN, including exemption from IUR on dividends and on interest and other forms of remuneration for supplies are repealed.

Tax benefits for the financial sector:

Financial investments:

- Exclusion of up to 75% IUR taxation on income from certificates of deposit or long-term deposits.

Savings funds

- Exemption from IUR on income from retirement savings funds (FPR), education savings (FPE) and retirement / education savings (FPR / E) under Cape Verdean legislation;
- Tax credit equal to 25% of the amounts invested in retirement or education savings plans, with a limit of CVE 50,000 (i.e., approximately € 450);
- Exemption from IUR on the amounts paid by FPR, FPE and FPE up to the annual value of CVE 30,000 (i.e., approximately € 270).

Securities market

- Taxation of income from bonds or products of a similar nature (except for government listed) earned by December 31, 2017 5% of IUR tax rate;
- Exemption from IUR on dividends on listed shares made available to respective holders by December 31, 2017.

Investment funds

- Exemption or reduction of IUR on income earned by mutual and real estate funds;
- Exemption from IUR on income from units held by taxpayers in mutual funds and real eState.

Shareholdings Management Companies (SGPS)

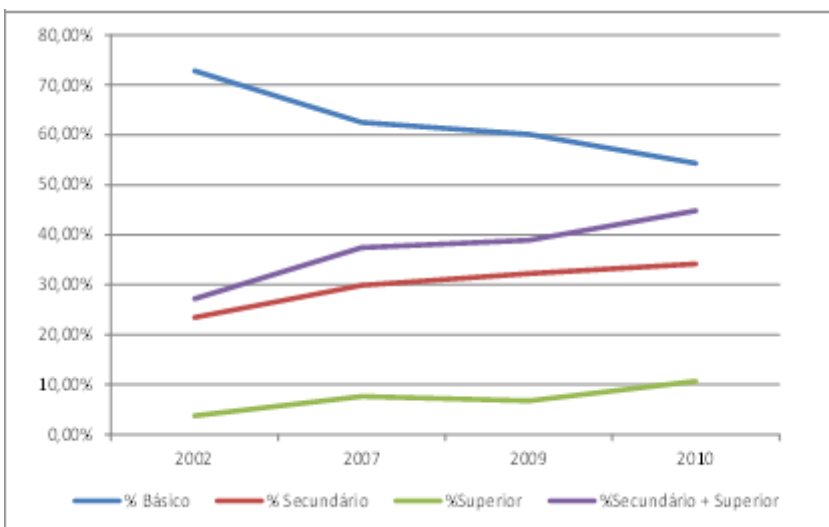
- SGPS capital gains and losses realized by holdings of shares for a period not less than 12 months, as well as the financial costs incurred with their purchase do not contribute to taxable income;
- Shares acquired from entities with which there are special relations or entities subject to a more favorable tax regime are excluded from this rule.

Social and customs tax benefits : The Tax Benefits Code retained much of the tax benefits that, as a rule, were renewed annually through the State Budget, including for the following cases:

- Youth Employment;
- Granting of scholarship;
- Training of youth;
- Import of materials and equipment for exploration in the areas of industry, aviation, maritime transport areas, mass media, inter alia.

In terms of investment, **human capital**, it is one of the sectors that have received more attention by successive governments since independence, taking on average 20% of the State Budget every year. In the last decade there has been a boom in university education in the country, having the number of Institutions of Higher Education (HEI) increased from 0 in 2000 to 9 in 2012. In the academic year 2011/2012, 11,800 students were enrolled in HEIs in the country, which adds up to a few thousand in HEIs

Figure 20 Education Level of Employed Workforce



abroad. This investment is reflected naturally in the evolution of the profile of the employed population in the country, according to Figure 2¹²⁶.

This development, of course, has eventually a positive impact in terms of business environment. However, a World Bank study of 2011 on Higher Education in Cape Verde, published by the newspaper *Expresso das Ilhas*, revealed substantial weaknesses regarding the existence of "a low qualified faculty, some confusion around the concept of e-learning, nonexistent research activities and curricula poorly adapted to the labor needs of the archipelago"¹²⁷. The study also concludes that:

Despite the developments in these three core pillars, which has largely determined a business environment and an evolution in recent years, Cape Verde still has a rather poor performance in this area. The country ranks 122th among 185 countries benchmarked in the World Bank *Doing Business Report 2013*, with its worst performance in items "Resolving insolvency" (185th), "Protecting Investors" (139th), "Starting a business" (129th), "Dealing with construction permits"(122nd) and "Getting electricity"(106th).

A deeper comparative analysis of the business environment and other indicators between 11 Small Island States where the service sector accounts for over 70% of GDP (Mauritius, Cyprus, St. Lucia, Antigua and Barbuda, Seychelles, Bahamas, Vanuatu, Barbados, Maldives, Saint Kitts and Nevis and Cape Verde), shows that:

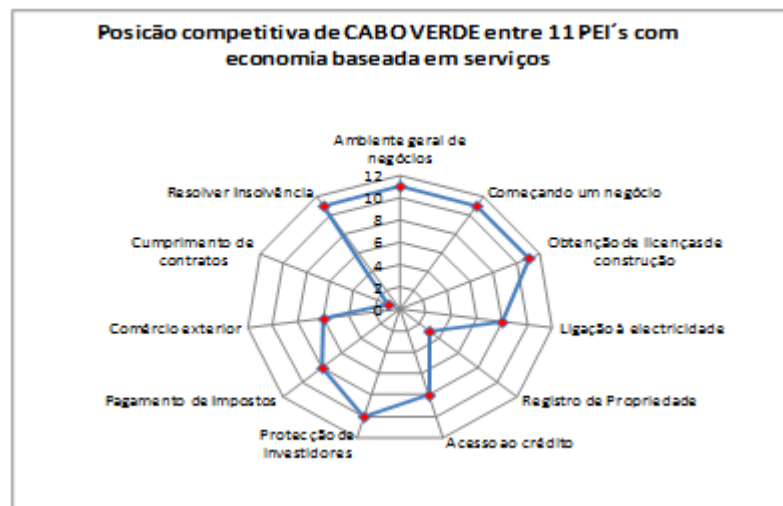
¹²⁶ Sources: 2002, Employed population aged 15 years and over per sector, education level and age range, per year and island, IDRF 2002, 2007, Employed population aged 15 years and over per sector, education level and age range, per year and island QUIBB 2007; 2009, Employed population aged 15 years and over per sector, education level and age range, per year and island IESI 2009; 2010, employed population aged 15 years an over per sector, education level and age range, per year and island, Census 2010. IESE data.

¹²⁷ Source: <http://www.expressodasilhas.sapo.cv/nacional/item/31752-ensino-superior-de-cabo-verde-tem-ainda-um-longo-caminho-pela-frente>, retrieved on 01/30/2013.

- Cape Verde is the country with the worst business environment between the aforementioned countries. Even when analyzed in each of the evaluation criteria, it stands in the last place in relation to starting a business, obtaining construction permits and closures of companies, and is in the penultimate position with regard to the protection of investors (ahead of Barbados only);
- It has though an excellent performance with regard to the fulfillment of agreements, being placed as the 1st in the group. Similarly, in what concerns registering property it has a good performance, occupying the 3rd position after Mauritius and the Seychelles;
- It is, however, in the 5th place among 11 countries in the tourism competitiveness index 2009 of the World Economic Forum¹²⁸, occupying the 64th position, after Seychelles (4th), Antigua and Barbuda (8th), Saint Kitts and Nevis (26th) and Mauritius (51st);
- Regarding the flow of tourists per 1,000 inhabitants (linearized data, 2010) Cape Verde is in penultimate place with 756 tourists per thousand inhabitants, ahead only of Vanuatu (385) and Mauritius (712). The leaders in this field are the Bahamas (3,900), followed by Antigua and Barbuda (2533) and Maldives (2442).

Figure 21 Cape Verde's Competitiveness Position

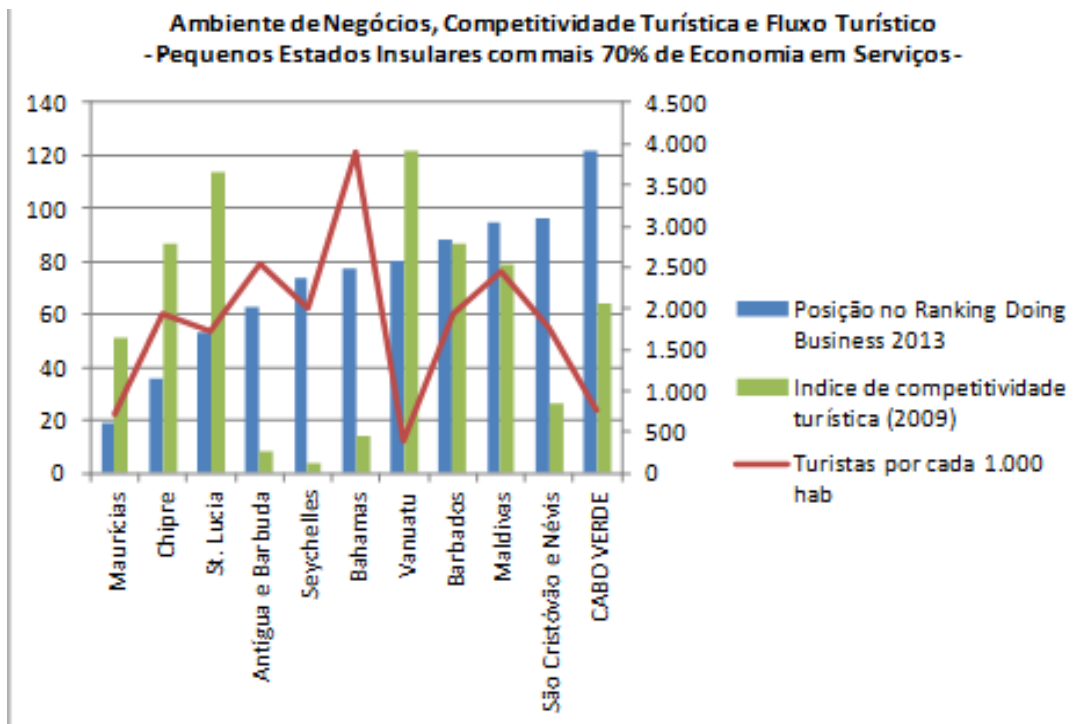
The position of Cape Verde in this ranking between PEI's is justified. The country requires 11 procedures to start a business and the process costs 14.9% of the average income per capita (compared, for example, with 3.3% in Mauritius). To obtain a construction permit 17 procedures are required in Cape Verde (only 8 in Maldives) and cost goes up to the astronomical amount of 459% of income per capita (only 8.2% in Maldives).



In terms of production of electricity, the total of procedures (6) is more or less aligned with the most countries of the group, but the cost of this process is that Cape Verde stands out in a negative way: 981% of income per capita, compared to only 86.5% in Cyprus. The total taxes / year if paid in Cape Verde is 41 (against only 7 in Mauritius), 186hs/year required for this purpose (76hs in the Seychelles). Besides these aspects, several other constraints affecting the business environment and competitiveness of Cape Verde have been identified. These will be detailed later.

¹²⁸ http://www.oceanhealthindex.org/Components/Tourism_Competitiveness_Index_TCI/

Figure 22 Competitiveness, Business Climate and Tourism Flows



3.2 Review of 2008 DTIS: Implementation Progress of Action Matrix

With regard to the business environment, Cape Verde DTIS 2009 had identified a set of constraints and developed concrete recommendations for their mitigation and / or elimination. The table below summarizes the constraints, recommendations and a review of what has actually been implemented.

Table 9 Brief review of Implementation Progress 2008 DTIS

CONSTRAINTS	RECOMMENDATIONS	WHAT HAS BEEN DONE?
<p>Countries with which Cape Verde has been compared in terms of business environment are not the most appropriate ones, considering their specificities.</p>	<p>Benchmark Cape Verde against meaningful comparator countries <i>Meaningful comparator countries should be determined in line with Cape Verde's profile, development goals and competition. The available benchmarking exercises should be revisited to establish clear objectives in terms of competitiveness (factor costs, productivity, regulatory framework, etc.). Detailed comparisons should be made of all factor costs, including, transport and port handling charges. This should be done by MECC with the assistance of CPE, at say, 2 yearly intervals. The results should be published and used to guide intervention and policies. Given the workload of MECC, outside technical assistance will be required.</i></p>	<p>Several recommendations have been made for that purpose. However, there is no evidence (or at least it is unknown) that a formal system of monitoring and reporting the position of Cape Verde has been implemented regarding the most appropriate comparators, as recommended in the DTIS 2009.</p>
<p>Low rate of technical/vocational training across the education system (only 7% of the total enrollment in the education system)</p>	<p>Enhance vocational training programs <i>Focusing on tourism, IT, construction, personal care, and sea careers. Other than for construction, this should include proficiency in English</i></p>	<p>As regards technical training for tourism, we should highlight the Tourism Vocational Training School opened in July/2011 in Praia, Cape Verde¹²⁹, which offers Level III and IV courses. The coverage of technical and professional training has also been extended through the network of Technical Schools and Vocational Training Centers. Vocational Higher Studies Courses have also been introduced. However, there is a need to implement / improve the regulatory system to provide the private sector with more dynamic training provisions.</p>
<p>Low level of language competence affects Country's competitiveness</p>	<p>Develop a national plan for acquiring language skills, particularly English <i>A national plan for increased competence in foreign languages-</i></p>	<p>National curriculum has been revised with main focus on the development of language competences. However, no</p>

¹²⁹ Site: <http://www.ehtcv.edu.cv/>

CONSTRAINTS	RECOMMENDATIONS	WHAT HAS BEEN DONE?
	<p><i>particularly English should be developed. Such a plan should encompass not only the school system, but also consider ways of making widely available and affordable to different groups of the adult population. UNICV and the other institutions mentioned in Annex B should play an important role</i></p>	<p>specific national plan has been designed / implemented to develop language competences</p>
<p>Excessive rigidity and inefficiency of the labor market</p>	<p><i>Support to the implementation of the labour code and of subsidiary legislation</i> <i>Tripartite consultations should continue to take place with a view to making employment less rigid and simplifying procedures . Incentives should be provided to employers to improve skills of their work force.</i></p>	<p>To date, no measures have been implemented in accordance with the recommendations. However, the Government has announced the revision of the Labour Code in 2013.</p>
<p>High cost of electricity / supply problems</p>	<p><i>Promote and guarantee energy sustainability</i> <i>This should involve : (a) the creation of a Strategic Reserve of Fuels; (b) Reform of the fuels sector – rationalization of the sector, creation of an additional point of off-loading, improvement and relocation of stock capacities; (c) Reduction of the country’s dependence on imported petroleum products; (d) Increase in the penetration rate of renewable energy. The idea of splitting ELECTRA into a production company and a distribution company, as well as the principle of ELECTRA buying from private operators could also be explored, in the context of public-private partnership arrangements</i></p>	<p>In the last 03 years the Government has implemented a series of measures to improve the performance of the energy sector, such as: (i) the inauguration of the wind farms of Santiago, Sal, São Vicente and Boavista (with total capacity of 25.5 Mw) and Santo Antão (0.5 Mw), (ii) the inauguration of solar parks in Sal (2.5 Mw) and Santiago (5MW), (iii) investments in the expansion of production capacity of thermal energy, (iv) remodeling of the management of Electra and the General Directorate of Energy. However, such measures are not reflected in the cost of energy to consumers. Rather, the introduction of the new Code of Fiscal Benefits in January 2013 resulted in an increase of over 10% on the final price of electricity.</p>
<p>Poor inter-island transport (in terms of cost, frequency and suitability).</p>	<p><i>Review regulations relating to inter-island shipping and upgrade landing facilities and procedures</i> <i>A critical review should include tariff rates and labour regulations,</i></p>	<p>Besides a specific study conducted by the World Bank in 2010 on this constraint, no measures of effective impact on inter-</p>

CONSTRAINTS	RECOMMENDATIONS	WHAT HAS BEEN DONE?
	<p><i>and the encouragement of competition between boat operators. The Association of Ship Owners should be assisted to prepare a business plan, which should be presented to Government to facilitate bank loans for the renovation of the inter-island fleet. Efforts should be pursued to upgrade landing facilities and processes, as this would lower the costs of inter-island transport.</i></p>	<p>islands transport were implemented. However, the entry into operation in the routes of Santiago-Fogo-Brava by the company <i>Cape Verde Fast Ferry</i> is noteworthy. This has brought about substantial improvements in this line.</p>
<p>Unsuitable and not strategically oriented tax incentive policy to suit the country's needs.</p>	<p><i>Complete the review of investment incentives to ensure support to priority sectors</i> <i>The review of the different investment incentives already under way, under the leadership of Ministry of Finance, with the support of IMF should be completed, notably by benchmarking against the more successful and competitive export-oriented models. The options chosen for regional integration will need to inform this review. The exercise should focus on the best way to make the business environment favourable to ensure the international competitiveness of priority activities, and conducted in close cooperation with local stakeholders and donors. Coordination in design and implementation of incentives among the various entities involved is necessary.</i></p>	<p>In January 2013 the new Code of Tax Benefit was introduced, which redirected the tax incentives for beneficiaries of strategic sectors. The new CTB also rationalized and synthesized investment incentives into a single law</p>
<p>Slow, complex and costly property registration system</p>	<p><i>Reinforce the modernization of the land registration system</i> <i>In terms of efficiency, speed and enforcement of title deeds. The project already prepared by MECC to accelerate property registration according to the business a day model should be considered for attracting funding and implemented as soon as possible.</i></p>	<p>The implementation of a project is underway under MCA I,I whose main aim is to simplify and provide greater security to property registration and transfer process</p>
<p>Import/export licensing system</p>	<p><i>Review export and import licenses</i> <i>To examine the possibility of removing them. Develop other sources of income for the Chambers of Commerce.</i></p>	<p>System changes are unknown. However, the project <i>Janela Única do Comércio Externo</i> (Foreign Trade Single Window) has been implemented in the ports of Cape Verde, which will facilitate / simplify the process.</p>

3.3 National Development Plan/Strategy

The current Government Program for the VIII Legislature 2011-2016 was designed with the goal of accelerating the transformation agenda of the country, having established as its vision "***an inclusive, just and prosperous nation, with opportunities for all.***" It includes a set of initiatives aimed at improving the country's competitiveness and its business environment, to "*ensure the development of a strong private sector, generating highly qualified and well-paid jobs*"¹³⁰.

In the same vein, the Strategic Document for Growth and Poverty Reduction III (GPRSP III) puts a strong emphasis on the need to improve the business environment in Cape Verde. Covering the period from 2013 to 2016 and, guided by the priorities set out in the Government Program for the VIII Legislature, the document is based on the creation of conditions for the promotion of 7 clusters of competitiveness, organized into 03 groups:

- GROUP I: Agribusiness, Marine Economy and Tourism;
- GROUP II: IT and Creative Economy; and
- GROUP III: Finance and Aerobusiness.

In this perspective, the GPRSP III provides a series of major reforms aimed at creating the conditions for a more effective leadership from the private sector as an agent of economic growth. These reforms are grouped into four main areas:¹³¹:

- (i) Maintenance of macroeconomic stability and reform of public finance management;
- (ii) Flexibility of the labor market and promoting increased productivity
- (iii) Enhancement of quality and relevance in education and training to combat unemployment;
- (i) Enhancement of quality in infrastructure and services.

¹³⁰ Programa de Governo 2011-2016.

¹³¹ Source: *Draft* of DECRP III (not yet officially approved by the council of Ministers).

3.3.1 Key Institutions, Roles

The table below presents a list of the main Cape Verdean institutions that intervene or can intervene in export activities:

Table 10 Key Capeverdean institutions

Institutions	Mission
General Directorate for Industry and Commerce (MTIE)	<p><i>It is the unit under the Ministry of Tourism, Industry and Energy responsible for proposals related to the design, implementation and evaluation of policies to increase competitiveness and productivity as well as for sectoral policies for industry and commerce. It is also responsible for the coordination of matters related to regional economic integration and bilateral or multilateral international cooperation. It has the following functions, inter alia¹³²:</i></p> <ul style="list-style-type: none"> <i>To study and propose the strategy of bilateral cooperation in the field of industry and commerce, in conjunction with other agencies, and to monitor the work resulting from this cooperation;</i> <i>To monitor and streamline in conjunction with other agencies, the actions of the MECC in different international organizations in the field of industry and commerce;</i> <i>To support the Government in negotiations and decisions in international fora involving globalization and competitiveness policies as well as sectoral policies for commerce and industry, particularly in the context of organizations for economic integration and bilateral and multilateral international cooperation;</i> <i>To contribute to the development of the national policy of quality, to design and implement, in collaboration with other national organizations, the National Quality System, which includes, among other actions, standardization, metrology and certification in order to ensure the quality of national products and services;</i>
General Directorate of Customs (MFP)	<p><i>The General Directorate of Customs is the central government department responsible for the area of Finance which aims to study, promote, coordinate and implement the measures and actions of customs policy for the organization, management and improvement of the customs system, as well as the exercise of the customs authority. DGA functions are the following, inter alia¹³³:</i></p> <ul style="list-style-type: none"> <i>To ensure implementation of the Government customs policy and to study its impact on the national economy;</i>

¹³² Source: BO nº 47 de 14 de Dezembro de 2009.

¹³³ Source: <http://www.alfandegas.cv/>, retrieved 31 Jan 2013.

Institutions	Mission
	<ul style="list-style-type: none"> • To administer taxes on international transactions, on consumption and other taxes expenses, which are not the responsibility of the General Directorate of Taxation;
Cabo Verde Investments	Agency directly dependent on the Prime Minister, with the responsibility for promoting Cape Verde as a tourist destination and as a destination for private investment.
Agency for Enterprise Development and Innovations (ADEI)	Under the Ministry of Tourism, Industry and Energy, whose mission is to promote the competitiveness and development of micro, small and medium enterprises in all relevant matters in accordance with the Government policies, working closely with national and international partners linked to the sector ¹³⁴ .
Enapor - National Port Agency	State company responsible for managing the ports of Cape Verde. Its mission, among others are: (i) to create a healthy, competitive, diversified and growing context of port business within a framework of partnership and cooperation, with commitment of all employees of the company, and (ii) to build appropriate infrastructure, to equip itself with the necessary super-structures and adopt new technologies to serve at, a level of excellence, all port customers ¹³⁵ .
ASA – Airports and Aviation Security Agency	A public company responsible for the management of airports in Cape Verde and the management of air traffic in Oceanic FIR. ASA's main objectives are (i) to ensure entrepreneurial management, exploration and development of air traffic, (ii) to provide public support to civil aviation, regarding departure, overflight and arrivals, (iii) to manage cargo terminals and post offices, (iv) and to provide the activities and services related to aviation infrastructure and air navigation in all public airports and aerodromes of Cape Verde and the Sal Oceanic Flight Information Region, named Sal Oceanic FIR ¹³⁶ .
BCV – Bank of Cape Verde	<p>BCV's main responsibilities are to ensure price stability, to foster liquidity, solvency and proper functioning of a financial system based on market stability consistent with the primary objective. With regard to foreign trade, as the country's foreign exchange authority, the bank is responsible for the¹³⁷:</p> <ul style="list-style-type: none"> • Supervision and inspection of external payments, defining the principles governing transactions in gold and foreign exchange and allowing foreign payments as necessary; • Signature of clearing and payment agreements, or any other contracts with the same purposes, with similar public or private entities domiciled abroad, on its own behalf or on behalf of the State of Cape Verde.

¹³⁴ Source: <http://www.adei.cv/>, retrieved 30 Jan 2013.

¹³⁵ Source: <http://www.enapor.cv/>, retrieved 30 Jan 2013.

¹³⁶ Source: <http://www.asa.cv/>, retrieved 30 Jan 2013.

¹³⁷ Source: <http://www.bcv.cv/>, retrieved 30 Jan 2013.

Despite this structure, inefficiency of government bureaucracy has been identified by successive studies¹³⁸ as one of the major constraints to the business environment and investment in Cape Verde.

The lengthy time for decision-making and the complex processes penalize the country's business environment and competitiveness - including in the area of foreign trade (with various institutions intervening in the processes of import and export of goods).

However, processes tend to move towards a holistic and integrated Public Administration (as reflected, for example, in projects under development or recently launched, such as the *Janela Única do Investidor* (Investor Single Window) and the *Janela Única do Comércio Externo* (Foreign Trade Single Window). Therefore, a substantial improvement in the efficiency of the State apparatus is expected, which may simplify investment and foreign trade.

¹³⁸ As an example, the Global Competitiveness Index 2012-2013 identifies the inefficiency of the state bureaucracy as the 2nd biggest constraint in Cape Verde, after access to funding. (<http://www3.weforum.org/docs/CSI/2012-13/CapeVerde.pdf>).

Notes from a Business Developer in Cape Verde

"*Cabu Verdi sta na moda*" (*Cape Verde is trendy*) - says a verse of a song much played in the country during the last edition of the African Cup of Nations, to celebrate the good performance of its team in this championship.

While safeguarding the proper proportions inherent to sport and patriotic euphoria, there is not much exaggeration in this Statement. Cape Verde is in fashion. Its successful journey in terms of development along almost 38 years of independence, the external recognition as one of the most stable and well-governed African country (culminating in the award of the Mo Ibrahim Good Governance to its former President Pedro Pires, in 2011), its "discovery" in the last decade as the new tourist hot spot of European tourism, the wide dissemination of the country in the four corners of the world by the voice of Cesária Évora - Cape Verdean singer of international repute, winning a Grammy in 2003, who died in 2011 – all this together recently gave a wide publicity to the country in various dimensions. Even though this prestige has not yet been efficiently used to leverage accelerated and sustainable economic growth - growth rates of GDP recorded in recent years were mainly due to a combination of good performance of the tourism sector, public investment, official aid to development (APD) and remittances from emigrants.

Not everything is rosy, of course. Unemployment is a concern, especially youth unemployment. The remittances - a key pillar of financing the economy - tend to decrease. The APD was reduced drastically, either due to the rise of Cape Verde to the category of Middle Income Country, either due to the crisis affecting its main partners. Foreign direct investment declined after a boom in 2006-2007. The GDP has been growing at more modest rates and lower than what would be necessary to create enough jobs for the increased labor force. The country needs to reorient its growth paradigm. From a growth mainly led by public investment - being exhausted due to the public debt levels already achieved, among other factors – one becomes increasingly aware that private investment must now assume the role as the main lever of economic growth. There is, theoretically, a broad national consensus on this issue. Reforms are announced, processes are redesigned and new structures are implemented - in order to ultimately improve the business environment. A slight impact can already be noticed: higher efficiency of regulation in some sectors (energy and water, telecommunications, transport, civil aviation, medicine and food), more celerity in starting a business, greater transparency of governance, more and better access to information, etc.

Nevertheless much remains to be done to promote greater efficiency in private investment (both domestic and international). The registration procedures requires companies to be consolidated and strengthened to preserve the gains obtained in this area, to integrate with other bureaucratic procedures (eg, at the level of municipalities), but also to ensure that the facilities will not eventually encourage the establishment of a business as a mere gate to tax evasion. The relationship between the State and the taxpayer requires urgent improvements. Besides the most common issues regarding tax policy, fiscal burden and time spent on tax settlement, another very relevant aspect is the proper "balance" of rights and duties of either party. While the State is unrelenting in penalizing late payments by taxpayers, the State itself does not comply with the law when it delays the fulfillment of its duties. Only now (early 2013) did taxes overpaid in 2008 start to be return. No one talks about default interest payable by the State or other forms of compensation provided for by Law. The impact is onerous particularly for SMEs, which are financially unable to afford such delays.

Even the institutional structure for public support to the private sector still needs tuning: Cape Verde Investments, ADEI, IEF, DGCI, DGA, DG Environment, NOSI, FIC, etc). The prevailing logic in its performance still sounds too departmentalized and without a level of coordination that would impart greater efficiency (and lower costs to the private sector!). Very frequently, the action is more oriented from the point of view of institutional needs of the agency than properly focused on the intrinsic needs of the user.

Still in the scope of public responsibilities towards business environment, labor law is comparatively rigid, outdated and designed to protect work (and workers) more than productivity. The impact on companies'

productivity is enormous as well as in their competitiveness. The judicial system is too slow, bureaucratic and discourages investment. Lawsuits often take many years to be conducted at the Courts. This slowness is inconsistent with an attractive and agile business environment. Besides this slowness / inefficiency, high cost of justice is extremely disadvantageous especially for SMEs, with an impact on confidence levels and the risks associated with investment.

We need a change in mindset and attitudes of the public administration (PA) in relation to the private sector. This change, despite the "official" speeches, has not yet taken place effectively within the "mass" of PA in their role as primary agent of economic growth. There is no doubt that administrative procedures are still very bureaucratic, but they cannot be improved while a certain mentality "against private sector" still persists in some State departments. Late payments for goods and services purchased by the State are an illustration of this situation, and have a highly negative impact on the treasury of the companies (especially SMEs). This factor and the difficulties of access to finance are a significant barrier to their growth – and sometimes contribute to their decay and death.

Infrastructure also requires adjustments and improvements. The cost of major inputs - such as electricity, water and telecommunications - is too high and has a negative impact on the competitiveness of enterprises operating in or from Cape Verde. Besides the cost of electricity and water, poor quality of supply (cuts) is another factor to be mentioned. Although telecommunications services are modern, the cost is still high. However, increased competition in the industry has had a positive impact in reducing the average cost. There is, though, a need for a renegotiation of the concession contract for wireline infrastructure so that competition can become even greater. With regard to transport infrastructure, despite the investments made in recent years in ports, airports and roads, these are not yet satisfactory in terms of availability, quality and cost of inter-island connections. It is easier (and cheaper!) to bring a container from Lisbon to Praia than from Praia to the neighboring island of Fogo. The poor transport service between consumer islands and producer islands has a very limited impact on potential growth and the trade balance (more imports).

We also need more and better qualified manpower able to respond to the growth needs of the companies. We need more productivity and competitiveness, skills that enable the companies operating in or from Cape Verde to be competitive not only in the country but also in regional and global markets. We need to improve our standard of service, if we want to continue to grow steadily "driven" by the services sector.

But I am optimistic. As a "Business Developer" holding the responsibility for identifying business opportunities in Cape Verde and structuring investment projects, I can still see good opportunities for private investment, especially in tourism segments and their value chain, such as inter-island transport, IT, small industry for export, tourism oriented agro-industry, etc.. But to maximize the potential of these segments, we need faster and more effective reforms to improve the business environment, so that Cape Verde may also *be trendy* as an investment destination..."

3.4 Key Global Competitiveness Issues and Findings

To identify the main constraints in terms of business environment, we used the analysis of previous studies and interviews with relevant *players* in this issue. In terms of documentation, we selected the following references that summarize the main findings related to the competitiveness of Cape Verde:

(I) ***Cape Verde: Constraints to Growth, Transformation and Poverty Alleviation***. This document, produced by the Ministry of Finance and Planning in 2010, while preparing the application for the second MCA package, identified seven major factors limiting growth, namely:

1. *Access to finance* - although the country has a good level of financial intermediation, companies' access to capital is still a constraint, either because of the low diversification of financial products and their poor suitability to the needs of foreign trade, or because of the costs involved;
2. *Human capital* - despite the excellent indicators of literacy, education expansion (especially higher education in the last decade), vocational education, just to mention some, there is a mismatch between supply and requirements of skilled manpower, both in quantitative terms (for certain sectors) and in qualitative terms. This aspect limits innovation, productivity and competitiveness in sectors with high export potential and can be a discouraging factor for export-oriented FDI;
3. *Telecommunications* - the standard of telecommunications infrastructure in Cape Verde is quite satisfactory. However, the comparatively high cost (still motivated by low competitive market, the smallness and fragmentation of the market, among other factors) is a constraint that limits the attraction of investment in sectors with high export potential but high consumption of telecommunications services, for example, in the area of Business Process Outsourcing (BPO) where Cape Verde could take better advantage of its location as a service platform to West Africa;
4. *Geography* - the geography of the country has been identified as a serious constraint to economic growth, given its impact on agriculture, transport between islands, the fragmented structure of the internal market, the overall cost of energy, among others. The archipelagic nature of Cape Verde limits the export potential of the country either through the difficulties it imposes in terms of competitive production scale (eg in agriculture), or through the costs associated with primary transportation (eg, between the producer centers and the ports of exports);
5. *Innovation* - the lack of an eco-system itself accounts for the low standard of innovation in the Cape Verdean economy and, as a result, exports are concentrated in low-technology products;
6. *Poor inter-island and international transport service* (whether maritime or air), poses serious barriers to foreign trade. Besides the irregularity of the routes (with important impact in terms of planning and predictability) – that are crucial for competitiveness - high cost, complex bureaucracy especially in ports and airports and poor adequacy of logistic solutions to the characteristics and needs of the country limit the movement of goods not only between the islands but also and between the country and the outside world;
7. *Energy, water and sanitation* - these interconnected infrastructures face some problems related with inadequate systems and networks, high costs and volatility, supply instability, high technical losses in production and distribution and poor institutional framework. These

factors have a considerable impact on context cost and, therefore, on the country's competitiveness in terms of foreign trade.

(ii) Study on improvement of the business environment in Cape Verde (UCRE / UN, 2011). In the same line as the previous document, almost all the entrepreneurs interviewed in this study identified, among others, the following constraints (with an impact on economic activities as a whole):

8. *Infrastructures / Transport:* The Government's investment in the country's infrastructure has been strong but this effort has not been accompanied by enhanced connectivity between the islands. Thus, entrepreneurs have identified the following as the major constraint to business: transport with a negative impact on market unification and movement of goods and people between islands. In this context, we can mention: (i) No roll-on/roll-off system at national level, (ii) Lack of ability to load and unload large quantities of goods, (iii) Inadequate port dimensions to dock several vessels simultaneously, (iv) deficient inter-island shipping services, and (v) No cold storage infrastructure as well as lack of specialized laboratories for analysis of technical parameters and product quality.
9. *Electricity:* The problem regarding electricity has been identified and the Government has drawn up a plan for its resolution. The main strategic lines are the following: (i) Investing in Renewable Energies, aiming to reach a production of at least 50% through renewable energy and reduce the emission of CO₂ gases and oil dependency. (ii) Restructuring plan for Electra with the aim of reducing operational inefficiencies, commercial and distribution losses (theft of electricity and non-collection of bills) and even revision of tariffs. (iii) Investment Plan to increase power and water supply with support from various donors. Note that regarding water and sanitation an intervention through MCA Compact II is planned, which should resolve the situation in this sector in the coming years.
10. *Access to Credit:* Access to credit is a cross-sectoral constraint at national level, of which the following factors can be highlighted: (i) Rigid risk averse guarantee system requiring above 100% guarantees of the requested amount, (ii) Not innovative and very conservative, financial market featuring only traditional products and high interest rates, (iii) Oligopolistic concentration of the sector, and (iv) Demand market with very few requirements. In terms of projects promoted by the Government, the following can be highlighted: *Stock Exchange, Novo Banco, Garantia Mútua and Private Credit Bureau*. Another important project is the resolution of uncertainty in property rights: the Government has defined this issue as a priority to be thoroughly revised in a project for the cadastre of the entire territory of Cape Verde under MCA II.
11. *Policies and Programs to Support Private Sector:* It is important to highlight the vagueness, multiplicity and disorganization among public and private agencies for the support to the private sector and the failure and/or lack of programs for the development of the private sector and support for vocational/professional training / according to companies' needs. We also noted a lack of business parks and inadequate industries that provide unnecessary services. Currently there is no system or company recovery instrument in Cape Verde.
12. *Taxes:* Regarding taxes we noticed an excessive tax burden (the total tax rate varies on average from 35% to 50% of profit and is intended for the payment of various taxes and social contributions). On the other hand, the law is obsolete, not responding to the current

context, both from the point of view of economic integration and globalization and of alignment to national socio-economic development strategies.

13. *Labour Law*: Another factor identified by businessmen concerns the rigidity of employment law, namely the high cost of dismissals, bureaucratic complexity of dismissal procedures, the fact that employment contracts are understood by default as being indefinite (unless otherwise provided for in the Labour Code) and the lack of national jurisprudence in order to accelerate employment procedures.

(iii) ***Competitiveness Report World Economic Forum (2012-2013)***. The latest report ranked Cape Verde on the 122nd position, a loss of 3 positions compared to the previous evaluation. According to this report, the competitiveness of Cape Verde is strongly affected by the small size of its market (143rd), poor efficiency of the labor market (126th), uncompetitive macroeconomic environment (121st), weak development of the financial market (121st) low rate of innovation (120th), reduced levels of business sophistication (118th) and inadequacy of infrastructure (114th). The report, however, shows more favorable results in terms of institutions quality (57th), health and primary education (71th), and technological availability (90th). Report data also show deterioration in competitiveness of Cape Verde in the last three years in some of the relevant indicators. In terms of basic requirements (institutions, infrastructure, macroeconomic environment, health and primary education), Cape Verde moved from 96th place in 2010/11 to the 100th position in 2012/13. However, regarding indicators of efficiency - generating factors, the country had small advance in the same period (from 129th to 128th position, but this was mainly due to positive developments in the indicators "Higher education and training" and "Efficiency of market of goods". In all the other indicators of this group the competitiveness Cape Verde regressed. Concerning sophistication and innovation the country's performance improved (from 128th to 119th in the same period), due to the improvement in the indicator "Business Sophistication".

(iv) ***Report on Industrial Competitiveness of Cape Verde (CPE / UNIDO, 2012)***. This document highlights poor performance of the country with regard to various indicators of industrial competitiveness. Among 11 African countries analyzed (Senegal, Morocco, Tunisia, Algeria, Mauritius, Malta, Ivory Coast, Ghana, Niger and Nigeria), Cape Verde was ranked in 7th place with a performance index of industrial competitiveness of 20.8. The industrial base of the country is very limited and focused mainly on fish processing, with manufactured value-added (VAM) in 2009 of only USD 75.84 million (USD 49.35 million in 2000). Similarly, manufacturing exports per capita did not exceed USD 42 in 2009 (despite an increase of USD 23 in 2000), which ranks the country among the last positions in this regard. Even in the most dynamic sector of the economy (tourism, with estimated 20% contribution to GDP), the performance of Cape Verde in terms of competitiveness is not very comfortable. The country is 89th in the ranking (among 139 countries benchmarked), far below the position of its main competitors in the industry.

3.4.1 Key Constraints and Barriers to Exports

With regard particularly to foreign trade (especially exports), we can summarize the main constraints in five dimensions: (i) State Efficiency, (ii) Scale, (iii) Financing, (iv) Logistics and (v) Information. The table below summarizes key findings in each of these dimensions.

Table 11 Key Findings on the Five Dimensions

KEY FINDINGS ON THE FIVE DIMENSIONS		
DIMENSION	CONSTRAINTS	IMPACT ON EXPORTS
State Efficiency	<p><i>Despite the progress made in this field in recent years, the State bureaucracy is still complex, "time consuming", slow in decision making, often departmentalized and not "user friendly."</i></p> <p><i>As regards economic policy for exports, despite the publication of a legislative package to encourage exports of goods and services¹³⁹, these have not yet been regulated and are not valid instruments to promote exports.</i></p> <p><i>Similarly, regarding the fiscal front, the systematic delays in State tax rebates to companies (mainly VAT) in recent years have affected the competitiveness of established companies including the import and export-related ones.</i></p> <p><i>The network of diplomatic representations has also failed to adapt to the changing needs of the country in terms of attracting investment and opening markets at the desirable pace</i></p> <p><i>Another constraint related to State efficiency is the fact that a national system of quality has not yet been effectively implemented. Although the system general basis has already been approved, the implementation / management agencies are not yet operating. This constraint prevents the</i></p>	<ul style="list-style-type: none"> • It penalizes the business environment and does not attract export investment; • It reduces country's competitiveness (cost / efficiency); • More expensive exports; • There are practically no incentives for the promotion of exports; • The incentives contained in DL paragraphs 01 and 02/2011 which aimed to promote exports were eventually repealed and integrated into the new Fiscal Benefits Code, in force since January/2013; • It does not promote competitiveness of Cape Verde and the attractiveness of FDI for exports; • It reduces the company's financial capacity to afford import / export undertakings • It reduces companies' potential for growth / expansion to overseas markets; • Insufficient political and diplomatic support to the internationalization of companies / export; • Lack of information about foreign markets. • The absence of a national quality system poses significant barriers to

¹³⁹ Decree-Law No 01/2011 of 31 January (establishing the International Business Center of Cape Verde) and Legislative Decree n° 02/2011 of 21 February (which regulates the granting of fiscal and financial, conditioners and temporary incentives to investment projects for the internationalization of Cape Verdean companies) http://www.cvinvest.cv/index.php?option=com_content&view=article&id=14&Itemid=16&lang=pt

KEY FINDINGS ON THE FIVE DIMENSIONS

DIMENSION	CONSTRAINTS	IMPACT ON EXPORTS
	<p><i>promotion of sectors like agribusiness for domestic tourism market, for example (fresh vegetables, legumes, fish, meat and eggs, etc.) as well as for export (e.g. grog and other sugarcane derivatives coffee, cheese, etc..) – because they have not met the technical and quality requirements in these markets.</i></p>	<p>exports, preventing host markets from overcoming trade technical barriers¹⁴⁰, or rather, it means a surcharge on export companies, which have to rely on external certification systems</p>
<p>Scale</p>	<p><i>The country is an archipelago with a small fragmented area (4.033km²). This fact, coupled with small market size (half a million consumers) is a major constraint in terms of business environment, attracting investment and export competitiveness. An alternative to this situation would be the investment in niche products with high added value.</i></p>	<ul style="list-style-type: none"> • Fragmented dispersed production does not allow sufficient scale to export in an efficient competitive way (cost-cutting) • The lack of export-oriented consolidation agencies, particularly in agriculture limits the export potential from these segments.
<p>Financing</p>	<p><i>The banking market is still basically limited to "classic." products and services Although 5 on-shore banks are operating in the country, products specifically aiming at financing export and other forms of internationalization of Cape Verdean companies are incipient or nonexistent. The products available consist mostly of traditional treasury credits, which are not always adequate to finance export transactions and / or market survey.</i></p> <p><i>The export incentive instruments (DLs paragraphs 01 and 02/2011) included tax mechanisms of partial compensation for costs associated with market surveys / export. However, they were partially repealed and incorporated in the Code of</i></p>	<ul style="list-style-type: none"> • It limits the financial capacity of national companies (especially SMEs) to invest in market surveys and carry out export operations; • It reduces the competitiveness of exporting companies that cannot design more attractive payment terms; • Deficient or nonexistent protection against financial risks (currency, credit, etc.) associated with export operations. • It hinders market surveys /render them more expensive; • It increases the cost of exports and reduces competitiveness;

¹⁴⁰ Grog (Cape Verdean rum) is an example. Although this is a strong export potential (mainly for the nostalgia market, where the price can reach 5 times the average domestic price), its "entry" into the U.S. market is only allowed if "disguised" with the label of *Rum*. This is due to the fact that the Cape Verdean rum still not yet on the list of products approved by the U.S. regulator.'

KEY FINDINGS ON THE FIVE DIMENSIONS

DIMENSION	CONSTRAINTS	IMPACT ON EXPORTS
	<p><i>Tax Benefits (see Table No. ...).</i></p> <p><i>Other ad hoc instruments ¹⁴¹ have been adopted, with the aim of improving the competitiveness of companies with potential impact on their capacity for export / internationalization. However, because of excessive bureaucracy associated with these instruments, they are not effective as potential export promoters</i></p>	<ul style="list-style-type: none"> • It discourages their use by companies with export potential, affecting particularly SMEs
Logistics	<p><i>In recent years significant investments have been made in ports, airports, roads, etc. However, poor inter-island transport service (sea and air), scarcity of sea links with the ECOWAS¹⁴² region and often inadequate or nonexistent direct shipping links with Europe, the Americas and Asia, are a major constraint on exports.</i></p> <p>Similarly, the lack or inadequacy of specialized logistic solutions (cold storage, perishable goods, cargo consolidation, support services, online tracking, etc.) limit export potential, particularly of fresh and / or small produce. Even air transport- which had a sharp increase after the construction of three international airports (Praia, Sao Vicente and Boavista) has not been enhanced as a logistic solution to boost exports. Almost all international traffic has been for passengers and cargo transportation is still incipient¹⁴³.</p>	<ul style="list-style-type: none"> • Insufficient / lack of maritime links with strategic markets renders export operations from Cape Verde difficult and costly and make export-oriented FDI less attractive. • It makes perishable products more expensive or hinders their exportation

¹⁴¹ The Fund for Growth and Competitiveness, funded by the World Bank to assist in improving the competitiveness of SMEs is an example.

¹⁴² In late 2011 the start of operations of the mixed ship, "Nossa Senhora da Graça", was announced. It was intended to operate on the shipping routes between Cape Verde and the continental countries of the region, but the process failed after the first connection. (Jornal A Semana: <http://www.asemana.publ.cv/spip.php?article68882> and <http://www.asemana.publ.cv/spip.php?article75664>).

¹⁴³ A substantial part of traffic is charter flights for tourism. Often these flights are used by hotel operators to import products for their hotels, but they should as well be used to export Cape Verdean products on the return legs.

KEY FINDINGS ON THE FIVE DIMENSIONS

DIMENSION	CONSTRAINTS	IMPACT ON EXPORTS
Information	<p><i>Despite an increasing penetration of information and communication technology (particularly the Internet), there is no formal system of "market intelligence" for the promotion of export and other forms of internationalization of Cape Verdean companies. Information is collected after the companies' own decision and it is often sparse without adequate thorough analysis to identify trends and opportunities.</i></p> <p><i>The network of embassies and consulates, Cabo Verde Investments and the General Directorate of Commerce could play a more effective role in this area, collecting, analyzing and sharing with the private sector specific information on strategic markets for Cape Verdean export.</i></p>	<ul style="list-style-type: none"> • The lack or insufficiency of information - the right information at the right time, at the right cost and by the right means - does not allow Cape Verdean companies to identify and seize export opportunities in due time.

3.5 Key Opportunities And Recommendations

An analysis at the national, regional and global levels allows us to identify the following macro-trends with potential impact on the business environment and particularly exports from Cape Verde (in terms of opportunities):

Table 12 Key Opportunities & Recommendations

KEY OPPORTUNITIES AND RECOMMENDATIONS			
RELEVANT TRENDS	AREAS OF IMPACT	EXPORTABLE PRODUCTS/SERVICES	ESPECIFIC RECOMENDATIONS
1. Accelerated growth of the tourism sector in Cape Verde (above 23% in the last two year; it is estimated that it can exceed 01 million tourists / year within five years)	Export “inward”: agriculture, fisheries, livestock, small industry, handicrafts, cultural industry services.	<ul style="list-style-type: none"> • Horticulture; • Fish and shellfish; • Livestock : (meat, eggs, poultry); • Food Processing; • Hygiene and cleaning; • Hotel/ catering Miscellaneous services; • BPO. 	<p>(I) Accelerate effective implementation of the National Quality System to ensure regulatory convergence with quality standards required by industry;</p> <p>(II) Capacity building of national companies to provide products and services for the sector;</p> <p>(III) Improve the supply chain between production centers and the islands with the largest concentration of tourist (Sal, Boa vista, Santiago and São Vicente);</p> <p>(IV) Implement incentive policy for operators in the hotel/ tourism industry to purchase local products and services.</p>
2. Africa economic growth +→ increase in consumption + middle class expansion	Agro-food Industry Services	<ul style="list-style-type: none"> • Food Processing; • Hygiene and cleaning; • Small industry; • BPO; • IT 	<p>V) Promote the removal of legal / administrative barriers to trade in ECOWAS region in order to shape the free trade agreements;</p> <p>(VI) Attract operating shipping companies for connections between Cape Verde and the countries of the West African coast;</p> <p>(VII) Implement system of collecting, analyzing and disseminating information on export potential all over the countries in the region;</p> <p>(VIII) Encourage business missions from Cape Verde to</p>

KEY OPPORTUNITIES AND RECOMMENDATIONS

RELEVANT TRENDS	AREAS OF IMPACT	EXPORTABLE PRODUCTS/SERVICES	ESPECIFIC RECOMENDATIONS
			<i>countries of the continent;</i>
3. Consolidated markets tend to increasingly adopt policies to encourage trade with Africa (USA, China, EU, Brazil, India ...)	Agro-food (niche products) Small industry	<ul style="list-style-type: none"> • Niche Food industry / high value added (cheese, wine, spirits, etc.). • Export / light industry; • Footwear production; • BPO • IT 	<p>(IX) Greater information about facilities granted to export towards strategic markets</p> <p>(X) Training and capacity building of the Cape Verdean companies about procedures of export to relevant markets;</p> <p>(XI) Promote trade missions and participation in fairs in the identified markets;</p> <p>(XII) Attract operators for direct shipping services between Cape Verde and the identified markets;</p> <p>(XIII) Accelerate normative and technical harmonization of quality between Cape Verde and potential export host markets;</p>
4. Trends for expansion of conscious consumption (like slow food¹⁴⁴ and fair trade¹⁴⁵)	Agro-food Handicraft	<ul style="list-style-type: none"> • Niche food industry (cheese, wine, spirits, confectionery, coffee, etc.). • Handicraft 	<p>(XIV) Design and implement a marketing strategy aimed at specific products within the framework of these activities;</p> <p>(XV) Implement programs to encourage partnerships between domestic producers and the Cape Verdean diaspora to facilitate the promotion / distribution of niche products "made in Cape Verde."</p>

¹⁴⁴ <http://www.slowfood.com/>.

¹⁴⁵ <http://www.fairtrade.net/>.

Annex 1: What Policies For A More Competitive Cape Verde?¹⁴⁶

Regarding Basic Requirements

Public policies to be implemented in this area must have as main strategic objectives the improvement of the basic requirements of competitiveness (as described in the *World Economic Forum*), namely institutions, infrastructure, macroeconomic environment, health and primary education.

In this regard, we recommend the following priority policies:

I. **"Shock" of Institutional Adjustment for Competitiveness** - Cape Verde should enhance / accelerate the implementation of bold and ambitious policies to improve State efficiency (legislative, executive and judicial), in 04 key areas:

- The functioning of the judicial system and the mechanisms for rights registration and protection and conflict resolution;
- Procedures for development, implementation and monitoring of national medium-long term governance programs, of sectoral strategies and State budgets;
- Institutional structure, public administration bureaucracy and evaluation and accountability mechanisms.
- Institutional management of strategic sectors for competitiveness ("*clusters*").

II. **Policy for Adequacy of Infrastructure to Competitiveness** - despite the investments made in the last decade in infrastructure (estimated 15% of GDP in recent years), several challenges still persist and limit the country's competitiveness. Thus, it is recommended that clear policies are implemented, especially in the following priority areas;

- *Maritime transport* between islands and between Cape Verde and the outside world (ECOWAS, the Americas and Europe) – with a view to increasing not only availability and service standards (in terms of planning, scheduling stability, safety, etc.) but also substantially by reducing associated costs;
- *Air transport* (inter-island and between Cape Verde and regions such as ECOWAS, the Americas, Europe and Asia) - (i) to facilitate tourist traffic to Cape Verde, (ii) to place the country as a hub between West Africa and other world regions, (iii) to permit the flow of cargo (exports) and by air (iv) to maximize earnings from air traffic management;
- *Electricity and Water* (production & distribution) - not only to increase availability and confidence in stability of supply but also to reduce, in a long-term perspective, energy costs in Cape Verde, and reduce dependence on outside supply;
- *Telecommunications* - policies in this area should aim at (i) population massive access to NCIT's, (ii) cost reduction of related services, and (iii) creation of competitive advantages to attract big *players*, not only providers of associated services but also intensive users of telecommunications in their production chain.

¹⁴⁶ Extracts from the paper "*Competitividade e Transformação – propostas de políticas*", prepared by CPE in the Framework of the 'Strategic Dialogues' (Paulino Dias, 2012).

III. Policy for Macroeconomic Stability for Competitiveness - the uncertainty surrounding the global economic social environment demand - especially in small countries heavily dependent on the outside world - more and more sound policies that convey confidence to investors, suppliers and buyers of goods and services. In the case of Cape Verde, this variable is extremely important in view of the structural dependence of foreign capital flows (FDI, remittances, ODA, and loans) and also of the structural deficit of the trade balance. Thus, we recommend the following priority initiatives:

- *Project for risk-country mitigation* - to establish a task force to monitor and reduce country risk, with clearly defined goals and strong government involvement;
- Improving the efficiency of development, monitoring of implementation of the State Budget, with greater involvement of the private sector and civil society;
- Promoting increased domestic savings as % of GDP, coupled with improved efficiency of the domestic financial sector.

Regarding Efficiency Generators

In this regard, public policies to be implemented should aim to substantially improve strategic performance of Cape Verde in the evaluation criteria of competitiveness by the World Economic Forum, prioritizing market size, availability of technology, efficiency of financial, labor markets and markets of goods and services, higher education and training.

IV. Policy for widening potential market - Given the small fragmented domestic market, this only can be "extended" in three directions:

- *Unification of the internal market* by improving transport within and between islands and,
- "Inward" Export - especially in the tourism sectors, *bunker* and support to air transport (fuel, ground service, air traffic management) - by raising the standards of quality, by improving efficiency and competitiveness in the provision of goods and services in specific sectors, and through administrative simplification and capacity building of supply channels;
- *Expansion of exports*, by (i) improving international competitiveness (not just in terms of cost but also in terms of innovation / value / differentiation), (ii) attracting export-oriented FDI, (iii) better use of preferential access markets (ECOWAS, U.S. / AGOA, EU), (iv) clearing of new markets, especially for high value-added products made in Cape Verde (BRICs, "nostalgia market" ...), and (v) adjustment of Cape Verde's diplomatic network to increase exports.

V. Policy for Improving Efficiency of Internal Markets (financial, labor, goods and services) - Cape Verde has advanced greatly in terms of operation of these three key markets. However, policies should be implemented to increase the country's performance in these areas in terms of competitiveness. We suggest the following priorities:

- *To encourage modernization of the financial sector*, by (i) adjusting the instruments of regulation and control of the sector, (ii) encouraging competition and improving service quality to attract new *players*, especially in terms of more sophisticated financial products (investment funds, venture capital, *business angels*, etc..), (iii) accelerating the implementation of the Mutual Guarantee Fund, and (iv) encouraging greater allocation of credit to SMEs within the total credit allocated to private sector.
- *To revise labor laws* to ensure greater flexibility of labor-work market and increase labor productivity and competitiveness;

- *To improve / strengthen regulation of markets for goods and services*, focusing on the areas of transport, telecommunications, energy and water, ICT, goods and services in the tourism value chain, etc.

VI. Policy for Massification of Access to Relevant Technologies for Competitiveness - Cape Verde has had a very positive performance in recent years with regard to the penetration of technology such as internet and mobile communications. However, public policies should be implemented to accelerate the penetration of new technology as a competitive factor, both in terms of horizontal expansion (increase in the number of people with access to a particular type of technology) in terms of vertical expansion (increase in the number of technology types available):

- Increase in the number of people with access to relevant technology, through (i) expansion of the necessary infrastructure of support, with the involvement of *players*, public-private partnerships, tax or financial incentives, (ii) implementation of fiscal policy to facilitate procurement of relevant technological goods and services, (iii) implementation of a policy to attract business providers / suppliers of technologically relevant goods and services.
- Expansion of quantity / variety of technology available, through (i) incentives to companies for technological diversification, (ii) State as "leader" in experimentation / disclosure of relevant technology, (iii) attraction of developers / innovators / suppliers of technological solutions.

VII. Policy for Human Capital Adequacy - both in quantitative and qualitative terms. Human capital is a critical factor for the competitiveness of a small island country with no national resources such as Cape Verde, so the following three priorities are recommended, under a properly structured Policy:

- *Strategic management* of necessary national skills in a long-term perspective: defining goals and desired position → skills mapping & needed attitudes in terms of HR → implementation of influencing policies / tailored training offers & monitoring & evaluation;
- Enhanced mechanisms to encourage *quality* in education, in order to respond to the needs of the country, increase productivity and competitiveness, promote creativity, innovation and entrepreneurship in global perspective;
- *International training* of qualified Cape Verdeans, through negotiation of internships in reputed multinationals, qualified temporary labor agreements, inter alia.

Regarding Sophistication and Innovation Generators?

The *World Economic Forum* uses two criteria to evaluate the competitiveness of countries in this dimension: *Business sophistication* and *Innovation*. Cape Verde is fairly poor in these two criteria, ranking always above the 100th position, except in relation to acquisition of advanced technology products by the Government (42nd) and the nature of comparative advantages (53rd). To increase the competitiveness of Cape Verde 03 priority policies are recommended in this area:

VIII. Incentive Policy for Research & Innovation - promoting research, innovation and entrepreneurship, which should include partnerships and structured relations between the State, education institutions, research centers (public and private) and the private sector to increase employability of qualified labor force and to promote innovation and R & D.

IX. Policy for Protection of Patents and Intellectual Property - to encourage creativity, research and innovation, as well as the transformation of innovation into competitive businesses from Cape Verde.

X. Policy for Benchmarking and Monitoring of Global Innovations that can be adopted by Cape Verde to enhance its competitiveness. Cape Verde does not have enough resources to immediately become an important center of R & D, so it is recommended that policies and mechanisms should be adopted to monitor and benchmark technological advances that can leverage competitiveness and economic growth.

■ CHAPTER 4: SMALL AND MEDIUM ENTERPRISES FOR EXPORT

4.1 Executive Summary: SME Preparedness for Exports

With an unemployment rate of 16.8%¹⁴⁷ in 2012, especially among the educated youth, Cape Verde is in dire need of an effective solution to the unemployment problem. However, firms of all sizes operating in the country are severely constrained in how much they can grow, and thus how much manpower they can employ, by the extremely small size of the local market and by its limited consumption power. Fragile and inefficient domestic infrastructure, inadequate production bases, insufficient qualified personnel, scarce access to finance and many other binding constraints further challenge the private sector and, in particular, SMEs. In order for SMEs to reach the growth scales required to close the employment gap, it is imperative that operators of this sector consider internationalization and expansion into foreign markets.

Between 2009 and 2011, only 61 national entities utilized their export licenses, representing a mere fraction of the companies who have been approved to export.¹⁴⁸ The gap between those with a license and those actually achieving any export suggests that existing export support programs are largely failing. What must be done to ensure that this export gap is closed and that the volume of exports increases in the near future?

Pertinently, the emergence and success of the “Born Global” firm, a term coined in 1993, suggests that firms do not necessarily have to build a strong domestic base before launching their operations globally. This concept is especially significant for SMEs operating in economies such as that of Cape Verde, where a strong domestic base is extremely difficult to build.

This mission carried out a host of in-depth interviews with SMEs that have been able to export at least once between 2009 and 2011. The interviews reveal some important insights into the current stage of SME exports in terms of **market selection, entry mode, information needs and acquisition, the efficacy of export support programs, the importance of management styles and organizational resources.** These salient conclusions are further detailed in the document.

Importantly for SMEs with export potential, the entity responsible for conceding the benefits of internationalizing and assisting export-interested companies has no staff specifically for Export Promotion, among other weaknesses. Further, access to finance continues to be a key issue among broader constraints affecting SMEs with export potential. The document thus considers some of the inadequacies of the various programs designed to address this constraint, including: 1) **Lack of knowledge about the existence of relevant programs**, 2) **High fragmentation of the funds**, 3) **Inadequate follow-up technical assistance**, and 4) **Internal inadequacies characteristic of the Cape Verdean SME.** These points are of paramount importance to the ongoing development of mechanisms to finance for SMEs, namely, a Venture Capital firm as well as the national Mutual Guarantee Fund.

There is room for optimism in terms of export competitiveness in the short term; the limitations facing agricultural, industrial and other products in Cape Verde do not necessarily evenly cover all of the

¹⁴⁷ <http://www.asemana.publ.cv/spip.php?article87404&ak=1>

¹⁴⁸ Cape Verde General Directorate of Customs, List of Exporting Entities and product type, volume 2009-2011

sectors in the country. Much has been discussed about the potential for developing a strong local services economy, especially in information technology, for export purposes. The Chapter explores some of the more successful actors in that sector, along with their opportunities for competitiveness, the constraints that threaten their existence and, with it, the potential for developing a balanced and profitable technological services-oriented economy in Cape Verde as the basis for a revolution of home-grown Born Global SMEs.

4.2 Introduction

Small and medium enterprises are a major source of job creation for many countries in the world, and nowhere would the benefits of this job creation be better served than in Cape Verde. With a structural unemployment rate of 16.8% in 2012¹⁴⁹, especially among the educated youth, the country is in dire need of an effective solution that directly tackles this problem if it is to continue to benefit from the political stability that has long made it a benchmark among Sub-Saharan African nations. However, small and medium enterprises in the country, along with larger firms, are severely constrained in how much they can grow, and thus how much manpower they can employ, by the extremely small size of the local market and its limited consumption power. The local market is plagued by fragile and inefficient domestic infrastructure, inadequate production bases, insufficient qualified personnel, scarce access to finance and many other binding constraints. If this sector is to continue to survive and reach the growth scales required to close the employment gap left behind by larger firms, it is imperative that operators of this sector more frequently consider and successfully implement projects to internationalize and expand into foreign markets.

This Chapter tackles the question of how to prepare SMEs from Cape Verde to export products to international markets in the near term, which is the least risky method of internationalization possible. It evaluates the current policy, legislation, existing institutions designed to support these SMEs, and key binding constraints for SMEs operating in the country. It further attempts to identify recommendations for creating new “outward” focused initiatives within the country that promote the internationalization of Cape Verdean SMEs through exports, while suggesting methods for streamlining and optimizing existing structures that can be useful in this initiative. Throughout, it addresses the implications for government and for export promotion agencies as to how the Cape Verdean “Born Global” SME can be made possible (and soon) and what policy need to be considered and implemented to that end.

4.2.1 Born-Global SMEs: Born in CV?

In November of 1993, an article by Michael Rennie in the McKinsey Quarterly pointed to a remarkable development first identified in the Australian manufacturing sector: the Born Global firm.¹⁵⁰ This term was applied to what Rennie called, “the most extreme example of the potential significance of small and medium enterprises for a nation’s export growth.” As described by Rennie, the Born Global firm is characterized by its ability to begin exporting an average of only two years after being established and soon after achieve more than 75% of its sales through exports. Further definitions have been added to the literature since, but the most basic is the idea of a new firm that makes one international sale within two years to any new market.^{151,152} As the model on the following page demonstrates, Born Global firms contrast starkly with traditional firms; they owe their rise in large part to the increasing competitiveness of SMEs on a global scale due to changes in consumer behavior and market trends, especially:

1. Niche markets have become an important source of opportunity, allowing for competition on cost quality in a way that was unimaginable before;

¹⁴⁹ <http://www.asemana.publ.cv/spip.php?article87404&ak=1>

¹⁵⁰ Rennie, Michael W. “Born Global”, the McKinsey Quarterly, November 1993

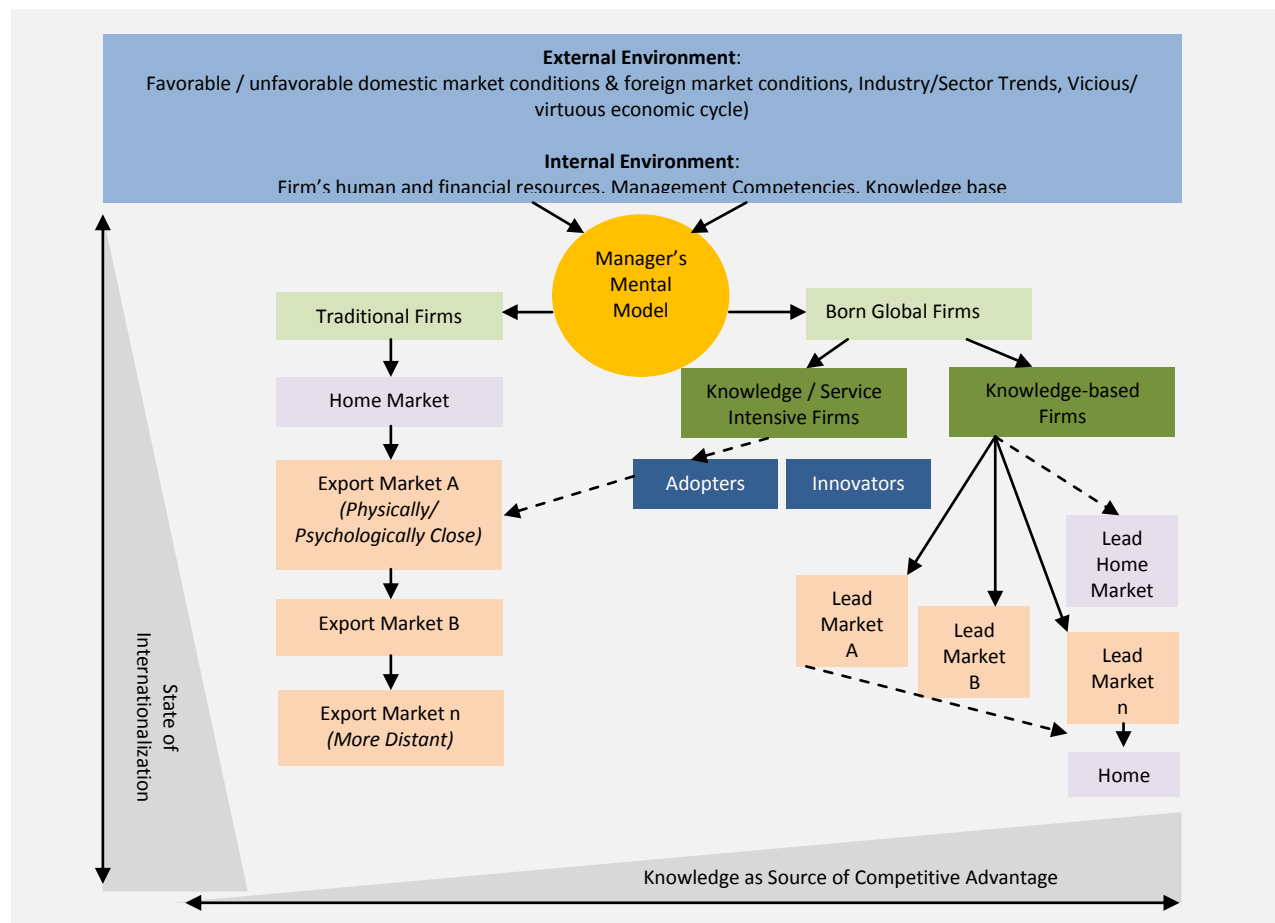
¹⁵¹ “Defining the Born Global Firm: A Review of the Literature,” 23rd Annual Australian and New Zealand Academy of Management Conference

¹⁵² The Born Global Concept, EIBA Conference, December 2002

2. With the rise of electronic technologies, SMEs are no longer at such a disadvantage when competing with larger more consolidated firms in terms of their access to information. Telecommunications allows even the smallest firms the opportunity to access information that is beyond its own boundaries at zero to low cost. Rennie's article was written when the information technology referred to by the author was, at its most innovative, embodied by the fax machine. Today, electronic technologies provide unimaginable opportunities for small firms to gain access to information through the internet, email, social networking and many other applications.
3. Finally, as consumer tastes begin to change more frequently, with an impact on the length of product life cycles, the smaller more flexible size of SMEs can actually become an advantage as it facilitates their quick adaptation and cost efficiency.

The following model¹⁵³ illustrates the primary differences between the trajectory of traditional firms and born global firms:

Figure 23 Trajectory of Traditional and Born Global Firms



153 Recreated from Bell & McNaughton (1999)

Born global firms compete on quality and value, where price competitiveness is taken for granted. They seek to meet the needs of particular market segments better than any other entity in the world and are able to create, through a combination of their flexibility, fast movement, technological innovation and capacity, and competition in niche markets, a market where they essentially have no competition. The emergence and success of the Born Global firm suggests that, in fact, firms do not necessarily have to build a strong domestic base before launching their operations on a global scale. This concept is especially pertinent to SMEs operating in the local economy of Cape Verde, where a strong domestic base is extremely difficult to build.

The important questions then become:

1. Is it possible to promote the development of Cape Verdean Born Global SMEs?
2. If so, then how?

In “The Born Global Entrepreneur in Emerging Economies,” Persinger et. al. set out a group of characteristics that must be in place to support the materialization of Born Global Firms. The list is recreated below, along with the implications for government, and especially exports promotion programs, in fomenting an environment that is more conducive to the growth and success of the Born Global SME in Cape Verde:¹⁵⁴

1. **A global vision exists from the beginning that is easily communicated to others in the firm. Before a firm can be global it must think global.** Likely the single most important change necessary to promote the possibility of SME exports is a strategic and visionary shift at the national level that accepts that the country can and should in fact export. For this, it will be important for existing and new export support programs to develop a broad awareness of export opportunities and actively stimulate interest among the private sector.
2. **Managers have prior international experience. Understanding of letters of credit, exchange rate risks and communication and cultural difficulties are necessary.** Export Promotion programs need to be more practical and direct in their approach to assisting firms in the planning and preparation for export market involvement. Financial and marketing management issues need to be addressed globally. Cost-sharing programs that assist firms in gaining this international experience and making the necessary contacts should be considered and implemented.
3. **Strong international business networks. The network identifies opportunities, gives advice and assists in negotiations.** One of the fundamental ways in which export promotion programs can assist firms is by creating a network system for actively monitoring, collecting information on and analyzing markets, their opportunities and their barriers.
4. **Preemptive technology or marketing is exploited. Born Global firms overcome economies of scale handicaps by having a distinctively valuable product or service.** More focus should be placed on creating and marketing value-added products. Investment should be prioritized in sectors where Cape Verde stands to gain a comparative advantage and where internal barriers do not have as much of an impact on creating a quality product.

154 Persinger et al, “The Born Global Entrepreneur in Emerging Economies,” International Business & Economics Research Journal, March 2007, Volume 6, Number 3.

5. **A unique intangible asset is present. Sustaining the uniqueness of the product or service, usually through special knowledge or know-how, is important.** Quality systems should focus on maintaining the uniqueness of the story and individual characteristics of local products, rather than on standardization with international quality values.
6. **Product or service extensions are closely linked. Continual innovation allows the small firm to continue to exploit its niche market.**
7. **The organization is closely coordinated worldwide. A strong top management team ensures that R&D, procurement, production, marketing, distribution and sales are coordinated no matter how distant their physical locations.**

For these last two characteristics, the chapter will examine the special case of the ITC sector in Cape Verde, as Born Global Firms are frequently knowledge/service intensive firms. These SMEs are especially prone to innovation and are less limited by physical, infrastructural barriers and geographical distances.

Specific recommendations for how to address these broad implications follow in the remaining sections of this Chapter after a brief discussion of the sector and its constraints.

4.3 What is an SME?

In order to begin our discussion of how to improve the prospects for creating small and medium enterprises in Cape Verde that are robust enough to provide products and services to the domestic market as well as to international markets, we begin with a review of the concept of an SME.

Cape Verdean law defines Small and Medium Enterprise to include “all companies which have the following characteristics: more than 5 but fewer than 50 full-time employees; annual revenues not surpassing 200 million escudos; more than 75% of its capital held by investors of Cape Verdean nationality; no investments in any other company that is a domestic SME.”¹⁵⁵

As is the case in most countries, some discussion still exists as to what exactly constitutes an SME. This discussion becomes particularly important when the issue at hand is creating conditions for internationalizing the country’s SMEs, as they will begin competing with other internationalized SMEs from countries whose demographics make the relative terms “small and medium” very different concepts. The definition of an SME depends heavily on factors such as the size of a country’s population, business culture, industry, internationalization, etc. The European Commission, for example, defines SMEs as “enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro (67mm USD), and/or an annual balance sheet total not exceeding 43 million euro (~57mm USD).” Meanwhile, China defines an SME based on several factors, including sector. For example, an industrial SME employs up to 2000 people, or has annual revenues of less than RMB 300 million (~47mm USD), or with total assets of less than RMB 400 million (~64mm USD).¹⁵⁶ What these two bodies have in common, however, is the use of an updated and consistent definition for who qualifies as an SME and who qualifies for related export-promotion related programs.

¹⁵⁵ (Law-Decree no. 50/90, June 6).

¹⁵⁶ Hall, Chris. “When the Dragon Awakes: Internationalization of SMEs in China and Implications for Europe.” CEDifo Forum, 2/2007 pg 29-34.

In Cape Verde, most domestic studies addressing the SME sector use only the employment factor to define the target pool. The system most often applied by private sector actors themselves is borrowed from the World Bank¹⁵⁷:

- a. Micro – Up to 5 Employees
- b. Small – Between 5 and 10 Employees
- c. Medium – Between 10 and 50 Employees
- d. Large – More than 50 Employees

A recent initiative launched by ADEI in partnership with the Association of Young Entrepreneurs of Cape Verde (AJEC), beginning in January of 2013, proposes to create a tax regime specifically for the MSMEs and, as part of the process, to define what constitutes an MSME.¹⁵⁸ The objective of the study is to address the issue in the areas of Social Security, Taxes, Labor Code, Production Incentives, and Property Registration. The Regime should further define a viable means of stimulating the participation of SMEs in public bids, incentives to develop internal human capital, and incentives for domestic and international investment. The study is currently under way; it is noteworthy because it is a first attempt at reforming administrative and legal institutions so as to guarantee SMEs a stable legal framework in which to operate.

Box 10 Special Regime for Cape Verdean MSMEs

Part of the responsibilities of the ADEI-AJEC task force includes making a proposal for the definition of SMEs in a Cape Verdean context. It is imperative, for the purposes of exporting and designing export support and promotion programs for these members of the private sector, that Cape Verdean policymakers update the legal definition of what constitutes a Micro, Small or Medium Enterprise. It is especially important that the definition be dynamic and based on a combination of the following factors:

- a. Number of Employees
- b. Annual Turnover
- c. Industry/Activity Sector
- d. Destination of product/service (domestic/international)

Additionally, small and medium enterprises will initially lack the capacity to submit candidacies for the more rigorous public bids. But as domestic work is a key aspect of improving potential to operate internationally, the team should study methods and integrate measures that strengthen incentives for larger enterprises and TNCs to sub-contract to SMEs when they win public bids.

Note: As of the validation of this document, the Regime has been finalized and launched.

4.3.1 The Cape Verdean SME

The National Statistics Institute's (INE) studies regarding the population of firms in Cape Verde consistently show it to be a highly fragmented sector. As in most countries in the world, a majority of firms (more than 97%) qualify as SMEs by any definition of the designation. The Chart below presents the number of enterprises by type, including information on annual revenues and total employment. On average, in 2010, the last year for which a complete Survey of the Enterprises is available, medium firms

¹⁵⁷ Data offered by the Chambers of Commerce.

¹⁵⁸ Terms of Reference, Special Regime for MPMEs in Cape Verde

in the country employed 13 people, small firms employed an average of 7 people and micro-firms, which play a role in this study insofar as policies should be developed to support micro-enterprise evolution to SME, employed an average of 1.9 persons.

Table 13 Size of Cape Verdean Firms, Revenues and Share of Employment

Enterprise Size ¹⁵⁹	# of Enterprises	% of Total	Total Employment	% of Total
Large	289	3%	29 617	52%
Medium	385	4%	5 029	9%
Small	867	9%	6 147	11%
Micro	8091	84%	15 647	28%
Totals	9632	100%	56 440	100%

From this chart we can further see that micro-enterprises in Cape Verde have, on average, annual revenues of 4.6 million Escudos (~50,000 USD). Thus, the focus of this chapter is limited to issues concerning small and medium enterprises when they can be isolated, and does not fully consider the special case of the micro-enterprise. While not impossible, it is important to be practical and really consider what a company with 50.000 USD in annual revenues could successfully export. Small enterprises in Cape Verde, however, have annual revenues of 15 million escudos (~180,000 USD) and medium enterprises have average annual revenues of 60 million CVE (~700,000 USD). Small and Medium companies make up a combined 13% of the number of companies and together employ about 20% of the economy. Unlike in many other economies where SMEs employ the large bulk of the employment force, it is interesting to note that employment in Cape Verde largely falls into large and micro enterprises, respectively. However, the impact of strengthening the SMEs' ability to export and thus increase their ability to hire staff stands to greatly influence employment rate statistics in the country, though with some detractors for decreasing productivity inefficiencies with existing staff.

4.3.2 SMEs and Exporting

As with any other enterprise that wishes to do so, the first step for an SME to become an exporting company in Cape Verde is to obtain an Exporting License from the local Chamber of Commerce, of which there are two (the Câmara de Comércio do Barlavento and the Câmara de Comércio do Sotavento). A company must fill out two forms, submit fourteen different documents, and pay the 20.000 CVE export fee. Upon approval, the company receives its license.¹⁶⁰ Once it has its Export License, in order to actually effect an export-related activity, it must combine this document with a valid License Certificate, the contract detailing the sale of products or services, and all documents that accompany the product (such as the Bill of Lading, the certificate of origin, and necessary public health documents and certifications, credit letter, insurance policy, etc.) and the customs clearance.¹⁶¹

¹⁵⁹ ADEI, INE

¹⁶⁰ Portaria nº 44/2008 fixa os montantes das taxas a pagar pela vistoria (Article 3º., Decreto-Lei nº 30/2009, "estabelece o regime de vistoria a estabelecimentos(artigo 5º); caboverde.eregulations.org.

¹⁶¹ portondinosilha.cv

As of the end of 2012, there were 129 companies with exporting licenses from the Chamber of Commerce in the Sotavento and 231 from the CC-Barlavento, for a total of 360 companies.¹⁶² Of these, in 2009, 36 entities utilized their exporting licenses to send merchandise abroad. In 2010, this number remained the same (though not necessarily the same entities as 2009) and it increased to 48 entities in 2011. Overall, between 2009 and 2011, 77 individual entities utilized their export licenses.¹⁶³ This number decreases to 61 (just over 10% of all companies holding an export license) if you remove all the public entities on the list and any instances where the exported escudo amount is so low as to suggest not a case of exporting, but instead, potential gift-giving situations which were miscounted as exports (less than 1,000 USD in value), as well as combining duplications from companies that are obviously the same entity but appear with slightly different names.

A conversation with the Sotavento Chamber of Commerce reveals that many companies that apply for the export license do so along with the import license as the process is facilitated when done in conjunction. Still, given the fact that the license does have an attached monetary and bureaucratic cost, it would stand to reason that a majority of these companies have some ambition to export. The gap between those with a license and those actually achieving any export numbers suggests that existing export support programs are largely failing their target group. In order to close this gap, it will be important to undertake a project towards the simplification of import-export related policies and procedures, benchmarking with the most effective international procedures especially as they relate to exit certifications. More important even than any sort of simplification of export procedures, it is imperative that any red tape that hinders the efficient implementation of existing and new policies should be targeted as part of the general state reform agenda. (UCRE)

This study inherently suffers from a lack of information for a comprehensive sector analysis. Exporting in Cape Verde is as yet an activity that is minimally applied and among small and medium enterprises, it is even more of a novelty. In fact, a review of the export numbers from the past three years shows, as expected, rather unimpressive numbers. The top 30 exporters in 2011 were responsible for 99.99% of exports in that year, with the top exporter, Frescomar, being responsible for 42% of that total and the top two exporters contribute more than 75% of total exports. Over the past three years, the percent of exports centralized in the top 30 exporters has increased, as Frescomar and Calvopesca have continued to see larger sales numbers. Smaller exporters are not able to maintain their share of exports, suggesting stagnation, scaling down of exports, or ending exporting activities altogether. Frescomar and Calvopesca's domination of the export markets is also reflected in the top products that have been exported in recent years, on the next page.

¹⁶² List of companies with exporting licenses from respective Chambers of Commerce

¹⁶³ Cape Verde General Directorate of Customs, List of Exporting Entities and product type, volume 2009-2011

Table 14 Top 30 Exporters 2011-2009

Top 30 Exporters 2011-2009 ¹⁶⁴							
Ref	Entity Name	2011		2010		2009	
		Value	Weight	Value	Weight	Value	Weight
1	FRESCOMAR, SARL	2.418.149	4.279.263	1.528.113.	2.859.485	929.562.5	1.936.999
2	CALVOPESCA ATLANTICO, SA	1.914.239	13.529.87	1.229.794.	9.250.557	883.977.8	8.043.668
3	ICCO - INDUSTRIA DE	380.139.5	67.168	350.207.79	55.503	248.746.3	38.938
4	CIC - COMPANHIA DE	323.627.7	4.850.000				
5	VERDEVESTE - INDUSTRIA DE	256.768.7	107.919	199.606.59	94.717	209.188.2	101.425
6	EUROAFRICA, LDA.	207.262.4	109.863	212.156.65	112.742	240.236.7	182.639
7	SALPESCA, LDA	53.697.95	12.480	10.066.753	1.902		
8	INDUPESCA, LDA	39.942.77	71.332	54.045.888	81.522	13.341.44	3.042
9	LABORATORIOS INPHARMA -	34.673.10	17.785			213.304	157
10	Oliveira & Oliveira, Lda	18.129.54	55.677	19.817.900	59.030	14.065.04	44.857
11	Padaria Victoria	12.430.01	67.399	2.957.998	16.360	6.590.412	36.221
12	CABO VERDIAN - SCANDINAVIAN	12.016.68	24.335				
13	PALMEIRA PESCA, LDA	11.481.40	98.524				
14	PIMENTA E LOPES, LIMITADA	6.812.503	23.872	7.006.900	26.792	7.709.130	35.139
15	JOAO MONTEIRO E FILHOS, LDA	5.960.560	10.462	7.372.336	15.150	16.427.74	31.644
16	GREENFISH - IMPORTAC?O E	5.899.178	2.347				
17	CASA NHA TERRA - IMPORTACAO E	4.647.536	17.452	4.126.368	18.636	1.931.728	8.344
18	ALCANE, LDA - SOCIEDADE	4.317.681	12.522				
19	CAVIBEL - INDUSTRIA DE BEBIDAS/	3.938.750	71.288	20.005.100	200.965	2.341.368	51.000
20	MOURA COMPANY - IMPORTACAO	2.800.000	3.200.000				
21	DOM PINA SOCIEDADE	2.559.802	6.680	3.640.068	9.880	3.640.068	10.673
22	SOCOMIMO - SOCIEDADE	2.500.227	12.500	520.047	2.600	5.132.466	25.660
23	GOMES E GOMES, IMPORTAC?O E	2.404.108	6.200	1.820.165	9.100		
24	CVCAN - IMPEX, LIMITADA	2.116.603	26.080				
25	GOTAS DE FURNAS - AGUARDENTE	1.955.329	6.239	1.717.223	4.674	2.302.002	3.540
26	BOLHAS AGUA, LDA	1.720.134	4.200				
27	FAMA - FABRICA DE MASSAS	1.680.969	15.320	2.682.276	7.375	196.801	1.500
28	GIMPORT -	1.277.642	9.085				
29	SISA, SARL -SOCIEDADE	1.026.752	1.654				
30	GUIBARRA WINES, SOCIEDADE	922.299	750				
TOTALS (for Top 30)		5.735.099	26.718.26	3.655.658.	12.826.99	2.585.603	10.555.44
Top 30 Percent of Total Annual Exports		100%	100%	99%	99%	93%	98%

¹⁶⁴ G Source: DGALF/Customs Administration

Table 15 Top thirty exported products by customs volume 2009-2011 (CVE)

Top thirty exported products by customs value 2009-2011 (CVE), Source: DGALF/Customs Administration, 2012					
R.	Products	2011		2010	2009
		Value	% TOTAL	Value	Customs Value
1	Albacoras ou atuns-de-barbatanas-amarelas (Thunnus	1.925.869.34	35,70%	1.256.020.66	906.508.885
2	Preparações e conservas : Cavalas,cavalinhas e sardas	1.756.461.35	32,56%	997.527.060	405.018.640
3	Preparações e conservas :Outros peixes inteiros ou em	634.066.750	11,75%	509.925.926	463.783.274
4	Partes sup. de calçado e seus compon., excepto...e	369.308.898	6,85%	350.540.242	306.039.788
5	Calças, jardineiras...de algodão	156.861.058	2,91%	130.805.188	278.417.207
6	Tshirt e camisola de algodão	87.022.380	1,61%	50.289.338	56.185.620
7	Cuecas e ceroulas, de algodão	77.739.109	1,44%	57.928.152	53.001.551
8	Lagostas (Palinurus spp.. Panulirus spp. Jasus spp.),	70.014.421	1,30%	36.420.089	34.330.171
9	Tshirt e camisolas de outras matérias têxteis	50.550.459	0,94%	50.707.225	43.232.185
10	Aguardente de cana-de-açúcar	43.936.137	0,81%	44.869.335	50.298.857
11	Desperdícios, resíduos e sucatas de ferro fundido	38.603.858	0,72%	27.699.900	11.363.371
12	Outros, medicamentos constituídos por produtos	31.134.647	0,58%	0	272.954
13	Cuecas e ceroulas de outras matérias têxteis	25.110.479	0,47%	17.530.529	0
14	Cuecas e ceroulas de fibras sintéticas ou artificiais	16.135.493	0,30%	14.635.279	46.774.314
15	Bolachas e biscoitos adicionados de edulcorantes	14.621.634	0,27%	4.407.189	11.283.885
16	Outros peixes frescos ou refrigerados, excepto fígados,	10.928.818	0,20%	249.640	174.439
17	Outros peixes congelados, excepto fígados, ovas e	10.543.496	0,20%	234.186.454	192.656.655
18	Outras preparações e conservas de peixes	9.100.027	0,17%	8.355.220	18.800
19	Licores	8.489.512	0,16%	9.526.663	12.870.717
20	Atuns patudos (albacoras bandolim) (Thunnus obesus)	6.417.423	0,12%	0	0
21	Outros peixes salgados, não secos nem defumados	5.513.250	0,10%	0	0
22	Medicamentos, contendo outros antibióticos	4.966.250	0,09%	0	0
23	Outros desperdícios resíduos e sucatas	3.963.250	0,07%	6.365.372	7.631.582
24	Outros couros e peles no estado seco	3.609.635	0,07%	0	0
25	Desperdícios, resíduos e sucata de cobre	3.602.036	0,07%	551.325	275.663
26	Outros salmonídeos, excepto fígados, ovas e sémen,	3.599.091	0,07%	0	0
27	Calhaus, cascalhos, pedras britadas, dos tipos geralm/	2.842.783	0,05%	0	0
28	Cavalas, cavalinhas/sardas congeladas	2.627.279	0,05%	21.041.278	18.570.716
29	Outras incluídas as águas minerais e gaseificadas	2.091.962	0,04%	3.234.419	1.012.233

Cape Verde: Top 30 Exports

This chart shows the top thirty products that have been exported over the past three years, since the last DTIS was produced. The top exported products continue to originate in the fisheries sector with more than 80% of total products exported, followed by manufactured clothing and shoes.

Grogue and its derivatives show up in the exported products, but these are particularly small numbers. They are interesting for the purpose of this project because they tend to be promoted by SMEs in our target group.

Pharmaceuticals show up in as yet small amounts, given InPharma's only recent launch of exports to West Africa. Wine, which is a target agro-business product; does not show up on the list of top 30, but makes the top 40 list with a value of 922.299 CVE exported in 2011.

In-depth interviews with the exporting managers of a number of the SMEs that are on the list of exporters, offers some insight into the organization level of these promoters.

30	Melaços de cana	2.008.378	0,04%	1.269.175	2.084.929
	Totals	5.377.739.20	99,68%	3.834.085.66	2.901.806.436

SME Exporter	SME Information				Table 16 Cape Verde SME Profile (Selected Firms) International Activities						
	Core Business	Employees	Employees w University Degree	Nationality	What is the history of exports in your company?	On average, what is the percentage of int'l sales versus domestic sales?	Principal products?	Principal Markets?	Any assistance from agents or alliances?	Existing market information gathering system?	Knowledge of Existing national or International Support Programs
1 CASA NHA TERRA - IMPORTACAO E EXPOR <i>Manager</i>	Import/Export	7	1	Cape Verde	We began exporting around 2004 to Portugal, to different clients who would then sell to other parts of the European Union.	No Answer	Firewater (grogue) and derivative products, baked goods, coffee, yuca flour, corn and its derivatives.	Portugal	None.	None.	None
2 Celso Leão e Filhos <i>Manager</i>	Production of Baked Goods	37	0	Cape Verde	We began exporting in 1990s, when exporting was considered a real innovation. I just basically started supplying a couple of Cape Verdean-owned stores in the United States and then followed up with Cape Verdean-owned stores in other countries.	95% Domestic 5% International	Biscuits	Netherlands, Holland, Portugal, United States, Guinea-Bissau, France	None - we mostly export to Cape Verdean business owners that are resident in those countries, and have direct contact with the buyers.	Yes, we do some information gathering.	AGOA
3 FAMA - FABRICA DE MASSAS ALIMENTICI <i>Executive Director</i>	Production of Pastas, coffee, yuca-based products	23	4	Cape Verde	We began exporting yuca flour (camoca) and coffee 10 years ago in 2002 to Portugal. About two years ago, we began exporting pastas and coffee to the United States.	98% Domestic 2% International	Pastas, coffee and yuca-flour (camoca)	European Union, United States	Direct contact with the buyers, some assistance from AGOA program.	None.	AGOA
4 JOAO DE DEUS LIMA E FILHOS LDA <i>Manager</i>	Production of Bottled grogue, pontche	2	0	Cape Verde	We began exporting to the United States in 2009, because we have family members that live there. We decided to continue investing on that and our family members there can continue to take care of the sales.	20% Domestic 80% International	Bottled firewater (grogue) and pontche	United States	None.	No, but we try to use the internet to do some information gathering.	None
5 JOAO MONTEIRO E FILHOS, LDA <i>Manager</i>	Production of bottled grogue, pontche, cane honey, liquores	4	2	Cape Verde	We began exporting in 1992 due to what seemed like demand from Cape Verdeans living abroad for these products.	25% Domestic 75% International	Bottled firewater and its derivatives	United States, France, Portugal, Netherlands	None.	No.	AGOA
6 LABORATORIOS INPHARMA - INDUSTRIA F <i>Executive Director</i>	Production of Pharmaceuticals	54	?	Cape Verde	We decided that it would be necessary to invest in exports because we have excess production, and there is insufficient demand at the national level. We therefore decided to carry out a market study to determine which markets would be most profitable, and we found that São Tomé and Guinea Bissau has a lot of need for these products. We started investing in these two markets in 2011.	70% Domestic 30% International	65 types of medication	São Tome, Guinea-Bissau	Yes, we have established partnerships with the governments of the two countries we are expanding to (São Tomé and Guinea-Bissau).	We carried out a market study before carrying out the investment, but do not have a regular information gathering system.	I know that some programs exist, such as Cape Verde Investments. But those programs do not work in practice, they only work on paper. They have had no intervention with us.

SME Exporter	SME Information				Table 16 Cape Verde SME Profile (Selected Firms) International Activities						
	Core Business	Employees	Employees w University Degree	Nationality	What is the history of exports in your company?	On average, what is the percentage of int'l sales versus domestic sales?	Principal products?	Principal Markets?	Any assistance from agents or alliances?	Existing market information gathering system?	Knowledge of Existing national or International Support Programs
7 MOURA COMPANY - IMPORTACAO AREIA, L <i>Commercial Director</i>	Gravel	5	1	Cape Verde	We have a vessel that carries gravel and while traveling through certain countries, we noticed that these countries had a need for gravel and so we began exporting gravel at the very end of 2011.	100% International	Gravel	Gambia, Guinea-Bissau	No, we made direct contact with the buyers.	None.	Yes, we know that some programs exist but we have not received any support from them.
8 OAJO - OFICINA ANTONIO JOSE OLIVEIR <i>Owner/Manager</i>	Carpentry	18	0	Cape Verde	Some Cape Verdean citizens living in the United States solicited some products in 2007 and so I began exporting and did so until about 2009, when it stopped being profitable.	At most 1% International, Currently 100% Domestic	Doors and windows	United States	None.	None.	None
9 Oliveira & Oliveira, Lda <i>Owner/Manager</i>	Bottled grogue, pontche, biscuits, cane honey	8	1	Cape Verde	The first time that I exported was with the assistance of another company in Portugal, owned by Cape Verdeans.	99% Domestic 1% International	Firewater (grogue), pontche, cane honey and buscuits.	Portugal, Netherlands, United States	None.	None.	None
10 PIMENTA E LOPES, LIMITADA <i>Executive Director</i>	Production of Bottled grogue, aged and otherwise	6	2	Cape Verde	We made some contact with Cape Verdeans in Portugal along with some buyers and began exporting in 2003.	25% Domestic 75% International	Aged grogue, white grogue	Portugal, Holland, France	No, we made direct contact with the buyers.	Yes, we are in frequent communication with Portugal, the National Statistics Center and the local Chambers of Commerce.	None
11 SALPESCA, LDA <i>Manager</i>	Lobster	16	1	Cape Verde	We began exporting in 2010 because two of our partners have already worked with other companies that had some exports to Portugal and they had maintained their contacts to some buyers, we were able to use these to begin exporting. This has worked for us because Cape Verde does not have a sufficient market to purchase our products.	29% Domestic 80% International	Lobster and mackerel	Portugal	We just have two clients in Portugal to whom we send our products; these clients are responsible for all re-sales.	No. We just contact our clients.	Only from European communities.

Though the number of companies' interviewed that were SMEs is a relatively small number, it is possible to draw some salient conclusions about the preparedness of the country's SMEs for any sort of advanced level exporting, given that these do in fact make up a relatively large portion of the number of exporting companies. Importantly, we can draw some conclusions about the current stage of SMEs relative to exports in terms of market selection, entry mode, information needs and acquisition, the efficacy of export support programs, the importance of management styles and organizational resources.

Market Selection – From the history of how these firms first began exporting, it is evident that they all began exporting by selecting a few countries that were psychologically close to their domestic business. This makes sense in the initial stages of exporting; these markets are easier and less costly to penetrate. However, the expectation is that these firms should gradually expand their foreign operations to a greater number of host countries, including those that may be more psychologically distant, but who still provide a consumer for various niche products.

Entry mode – These phone interviews show that none of the firms distribute their products to external markets by utilizing direct export methods such as agents, distributors and sales branches. Instead, these firms are clearly in a less advanced stage where they use indirect methods, in most cases resident buyers who are themselves psychologically close to the domestic market. InPharma's more direct approach in establishing partnerships with the local governments of the target markets is particularly interesting to note. This works particularly well for pharmaceutical projects which can be a matter of public health, but it would be important to consider other products for which this strategy could be effective.

Information Needs / Acquisition – Of the eleven companies SMEs that were interviewed, eight did not have any sort of market information gathering system nor do they seem to be preoccupied with the need for establishing one. Only two of the companies seem to have attempted to gather information before launching into new markets, and of these, only one actually carried out a market study, suggesting a lack of understanding about the need for gathering information in order to reduce levels of uncertainty related to external markets compared with the domestic market. The ideal in this situation is for firms to reach an advanced stage where they actively seek out and obtain export-related information, thus reducing their uncertainty and increasing their potential for success in overseas markets.

Efficacy of Export Support Programs – Of the companies interviewed, five of these are completely unaware of the existence of programs designed to support their efforts towards internationalization and exports. Most of those who are aware of existing programs claim knowledge of only AGOA and the two that are aware of the existence of local programs do not believe that it will be helpful to them and had not seen any important intervention at the time of the interviews. The ideal is that all SMEs are at least aware of programs designed to assist them in their export endeavors and believe that if they were to decide to begin exporting, these would be of assistance to them. The consultant contacted Cape Verde Investments regarding these claims and it seems that the institution does have in place a program for intervention with 11 companies, some of which are on the list of those interviewed (João de Deus Lima & Filhos, Padaria Vitoria, FRESCOMAR, Celso Leão & Filhos, FAMA, João Monteiro e Filhos, ProCafe, Chã das Caldeiras, Sodade, Cavibel, Tecnicil, Cafes de Cabo Verde, Sonia Delgado).

Management Style – In almost all of the cases interviewed, the main contact was the top management level or at least the position most responsible for exports. In all of these cases, the general impression

that the consultant received is that these decision makers approach exporting in an informal, unplanned and rather disjointed manner, usually because buyers approached them. In only one case was an appropriate system implemented for evaluating foreign business and formalizing the decision-making process (inPharma's business plan).

Organizational Resources – Particularly regarding human capacity, which this consultant measured as the number of employees with a university education, most of these firms have extreme limitations in terms of people who could potentially better carry out the different components of a solid export process. The best organized export strategy was carried out by the organization most likely to have the highest percentage of university-trained technicians (InPharma).

4.4 Review of 2008 DTIS and Progress Made on Action Matrix for SME Preparedness for Exports

The 2008 DTIS did not specifically include a section on SME Preparedness for Exports, in all likelihood because it was expected that Sector Specialists would cover the constraints and opportunities of individual SMEs operating in their sector and that broader constraints could be addressed in sections such as “Business Environment and Competitiveness.” Chapter 12 of the report, entitled “Fisheries, Agro Products and Export Oriented Light Industry,” touches upon some of the sectors where Cape Verdean SMEs have some potential for exporting, or at least where interest and motivation for exporting have been identified. These include niche agro-products such as wines from Fogo, grogues, liquors and pontches and coffee. The chapter also briefly mentions the possibility of exploring the promotion of SMEs involved in the BPO sector specifically for exporting services. Still, no section specifically discusses the concept of preparing an SME with an exportable product for that task.

It is fitting and important for the DTIS Update to have a section specifically focusing on SMEs. The private sector is the engine for growth in Cape Verde, as in many economies, and SMEs drive that growth, along with the creation of new businesses, innovation and employment. Large firms will always exist and will always have their place in maintaining a stable economic environment, but much of the growth of new business activity, both on domestic and international scales, is increasingly likely to occur among innovative SMEs. As such, supporting a dynamic and robust SME sector is not only critical to income growth and poverty reduction, but also for the country's further integration into the global economy.

The Action Matrix is similarly scant in terms of recommendations that are directly and specifically related to promoting policy tools to improve the chances of SMEs exporting. A few measures indirectly address SMEs or involve entities that have at least one primary function involving assistance to SMEs (ADEI and Chambers of Commerce, for example). Some of these measures are listed below, but a review with the various agencies involved shows that many of the measures have either received no or only some attention and action by those institutions and the government. In fact, none of the measures suggested in the Action Matrix has been completed to a satisfactory level.

The table below lists a few of the more direct action recommendations from the 2008 Action Matrix along with a designation on whether the action 1) has seen no progress, 2) has seen some progress, or 3) can be considered complete. Of course, there is an added difficulty in measuring the completeness of these actions as many of them are rather vague and lack solid indicators. This fact leads to the first

recommendation, which is that in order for any of the recommendations in this report to see a higher implementation rate than the ones prepared in 2008, it is critical that there exist a strong lobby of interests and institutions to consistently and regularly monitor the implementation of any actions approved by the Enhanced Integrated Framework.

Table 17 Extractions from the 3008 DTIS Action Matrix, Relating to SMEs for Export

Table X.X Extractions from the 3008 DTIS Action Matrix, Relating to SMEs for Export					
No.	Action Recommended	Priority	Agencies Involved	Time Frame	Progress
5.4	Refocus CI as one stop window to promote Cape Verde to the World	Very High	MECC, CI	2009	No
5.5	Support to ADEI	High	ADEI, MECC	2009	Some
5.7	Strengthen the Chambers of Commerce	High	Chambers of Com.	2009-2011	Some
6.9	Review Export and Import Licenses	Medium	MECC, Customs, CC	2009-2010	No
11.1	Study models and best practices to link microfinance and remittances	High	BCV, IC, ADEI	2009	No
12.7	Promote light industry sub-contracting and assembly for exports	High	CI, ADEI, MECC	Cont.	No

4.5 Sector Analysis

The section discusses the policy related to SMEs through a discussion of their appearances in major government planning documents. It then discusses legislation that is particularly relevant to SMEs for the purpose of exporting and reviews some of the existing institutions whose role it is to assist SMEs in tackling the constraints of the sector as well as those that have competencies specifically designed for export promotion. Finally, it addresses some of the binding constraints that SMEs in Cape Verde tackle on a daily basis and which limit their growth and export potential.

4.5.1 SMEs in National Planning

While the topic of SMEs for exports is not directly addressed in the 2008 DTIS, it has received increasing attention from policy makers in the years since 2008. This is reflected in the following broad strategic documents in government policy:

GPRSP II

The measures addressed in the Second GPRSP focus on introducing new bodies to address the questions of access to finance and technical assistance for MSMEs, including:

- Creating ADEI – the Agency for Entrepreneurial Development and Innovation – to promote the government’s policy toward the private sector; ADEI should assist with credit

lines, financing, developing the capacities of the private sector in areas such as management, leadership, finances and strategy;

- Transforming and reinforcing the “Fundo de Crescimento e Competitividade” to allow MSMEs the opportunity to contract technical assistance needed for project negotiation and organizational restructuring (through directing funds generated by privatizations of SOEs to more competitive sectors of the economy);
- Improving communication and coherency between Cape Verde Investments and other actors such as Sociedade de Desenvolvimento Empresarial (Business Development Society), or SDE;
- Restructuring the Sociedade de Desenvolvimento Empresarial (SDE) to be a better alternative for financing for SMEs, especially by promoting venture capital and improving the institution’s ability to supervise investment projects.
- Introducing fiscal incentives to promote domestic enterprise development and expansion

Current Government Plan 2011-2016

In fact, one of the key stated objectives of the current government is to establish, between 2011 and 2016, a private sector that easily foments and generates new enterprises, especially to employ individuals with high qualifications and high wages. The main points in this objective that deal specifically with PME’s include the following, among others:

- Introduce new mechanisms to improve the private sector’s access to finance, a constraint which greatly affects SMEs
- Promote and develop a culture that glorifies entrepreneurship, initiate and support annual entrepreneurship and innovation prizes
- Support the development of entrepreneurial associations in the various sectors
- Reform and improve institutions responsible for promoting the development of the private sector

GPRSP III

While the consultant did not have access to the full GPRSP at the time of reporting, a review of the logic framework for this document reveals a notable absence of finances spent specifically and directly on promoting the interests of MSMEs and of the structures in place for this purpose. Some indicators include stimulating the creation of a certain number of SMEs to take on larger projects financed by the GPRSP, namely in terms of the number of sanitation companies created to promote the basic sanitation goals of the government.

The GPRSP III and the current government plan will cover most of the same timeline. The lack of funds budgeted for SME promotion initiatives (at least as is evident in the logic framework) reflects a certain disconnect between the importance placed on promoting the development of the private sector in terms of policy and rhetoric and the resources actually allocated to the various outlined actions. In the table below, the 2008-2011 GPRSP II also shows a similar disconnect between the stated priority and the spending allocated directly to promoting the competitiveness of the private sector, granted that

spending in several of the other sectors also promotes the health and robustness of the private sector, though not in the programs defined for that purpose. This may point us in the direction of the reasons behind the relative lack of success of the programs that have been specifically designed to promote the development of the SMEs in the private sector. This is, of course, a difficult balance to reach. One cannot invest in competitiveness at certain levels without having the infrastructural frameworks to sustain the resulting trade levels.

Table 18 GPRSP II Government Budget Breakdown

Priority	Budget (Millions of CVE)	%
Transverse Issues (Gender, Youth, Demographics, Environment, Research, Citizenship)	1.971	5%
Governance	4.537	10%
Human Capital	6.481	15%
Infrastructure	25.485	58%
Social Cohesion	1.750	4%
Competitiveness	3.576	8%
	43.800	

This is assuming that funds spent for competitiveness are channeled into programs that directly impact the ability of Cape Verdean firms to compete domestically and internationally, such as financing, support and training programs, etc.

4.5.2 Relevant Legislation

This section discusses recent legislation that is most relevant and important for any Cape Verdean SME that wishes to attempt to embark upon the mission of exporting to foreign markets, especially as it relates to the investments that must be made to achieve that goal.

1. Legislative Decree No. 13/2010

Combines previously detached regulations into one new Industrial Activity Law by defining industrial activity and clarifying earlier unclear concepts from the various pieces of legislation related to industrial production in Cape Verde; Decree is primarily relevant because most current exporters fall into the industrial category.

2. Legislative Decree No. 1/2011

Updates the law regulating the Cape Verde International Business Center, defines the rules by which industrial, commercial and service-based firms can operate in the IBC and establishes some fiscal and other benefits related to their international activity. IBC has not seen a significant number of success cases and incentives do not seem to be sufficient for surpassing the structural barriers to setting up local business with export goals.

Box 11 The International Business Center, created in 2011, Decree Law No. 1/2011

The International Business Center (IBC, or CIN in Portuguese) includes limited geographic areas where economic operators can develop industrial, commercial, or service-based activities with non-resident entities or with other entities that are domiciled in the Center. With this legislation, the country's regulatory framework introduced an incentive regime to cover an important legislation gap – that for internationalized services and commerce. While the legislation exists, it has not yet been implemented and has been undergoing revisions in recent months.

By internationalized services, the legislation refers to activities such as registrations and business management, holding companies, trading companies, shipping management and registration services, information and community technology, back-up services, e-commerce, non-banking financial services, etc. Internationalized commerce is particularly related to assembly and re-export operations, industry for exporting, clothing and shoes, pharmaceuticals, electronics, etc. The IBC arises from the need to diversify the economy beyond tourism and the real estate/construction sector; its aim is to strengthen the services sector, where there may exist competitive advantages. For Cape Verde, it is hoped that the IBC will be fundamental in creating an international fishing center, transshipment and logistics services, technological services and increasing the number of exporting companies. Among medium-income Small Island Developing States, Cape Verde is the only one that does not have a functioning IBC.

Law Decrees 1 and 2 of 2011 introduced incentives that placed corporate tax for entities based in the IBC between 2.5 and 3.5% and 12.5% for companies that were internationalized, along with various other customs incentives, VAT exemption, and others.

The most recent fiscal benefits code (Law Decree 26/VIII/2013) reduces these incentives for IBC-based companies and these no longer clearly benefit from VAT exemption, from the stamp duty exemptions, nor from exemptions on certain dividends. Further, their exemption on corporate income becomes tied to the number of employment posts created. In general, the IBC structure is less competitive than most regional

3. Legislative-Decree No. 2/2011

This is an important one: Grants fiscal and financial incentives to projects with the objective of internationalizing. It grants Cape Verde Investments competence in managing these concessions. Benefits include reductions in taxes for employment creation and training youth, and establish grants for consultancies, travel, promotion campaigns, certification and licensing costs required to achieve internationalization, among other things. Creates the Fund to Support Internationalization (100.000.000\$CVE), funded by the State, under the management of Cape Verde Investments, and outlines additional benefits for companies in underrepresented municipalities.

4. Law-Decree No. 26/VIII/2013

Updates the fiscal benefits code and its respective concession rules. In particular, updates the fiscal benefits relative to internationalization to include a reduction of up to 50% in the applicable tax rate during the incentive concession contract for qualifying projects, complete IT exemption for income earned by skilled workers, expatriates and members of the diaspora along with further exemptions in VAT, customs duties and taxes, and other charges.

Recent trends in legislation suggest increasing attention on the part of the Cape Verdean government towards incentivizing local firms to internationalize, especially through exports. However, it is to be

noted that the benefits from the International Business Center¹⁶⁵ have been scant at most, thus far, suggesting that the established model has not been as competitive as desired. Further, the entity attributed with the competence of managing the concession of benefits for internationalizing has no staff specifically for the Export Promotion function. As far as LD2-2011 and LD26VIII2013, it is important to note that fiscal and other financial incentives are proven to be much more effective for developing countries than subsidies or funds which then need to be applied by the State agencies.¹⁶⁶ Other challenges related to applying this legislation in an effective manner will be further discussed in the section on Cape Verde Investments.

Recommendation: Further revisions to the code of fiscal benefits should strengthen fiscal incentives and lower limits for obtaining incentives while diminishing focus from subsidies or grants; limitations on the number of employment posts necessary for obtaining benefits should be removed, in order to reach small and medium enterprises and create a more competitive structure in relation to regional competitors.

Recommendation: In the case that it is seen as imperative to maintain subsidies or grants, and given the lack of credibility and visibility of the likely state agencies who would apply these benefits, grant and subsidies processes should be overseen by private sector entities such as the Chambers of Commerce or private firms through open bid, commission-based contracts.

4.5.3 Primary Agencies and Bodies Supporting SMEs

The following is a brief review of the agencies and bodies charged by either the private or the public sector for supporting the development and evolution of MSMEs for domestic and international trade, their current programs, and recommendations for increasing the impact of these programs.

ADEI

ADEI (the Agência para o Desenvolvimento Empresarial e Inovação)¹⁶⁷ is the government's primary agency for promoting competition and development among the country's micro, small and medium enterprises. Published in the official bulletin in 2009, shortly after the last DTIS, ADEI's mission and objective is to implement the government's policy in this sector while managing the various ties to international and domestic partners that interact within it.

ADEI carries out a number of projects under the umbrella of promoting entrepreneurship, especially among the nation's youth. These include projects in the following table, which have also been labeled as to whether they are directed primarily at existing SMEs or promoting entrepreneurship and new SMEs.

¹⁶⁵ Lopes, Jose Luis, "Analysis of New Code of Fiscal Benefits and International Business Center," Executive Director, Business and Projects Promotion

¹⁶⁶ UNCTAD, "Promoting the Export Competitiveness of SMEs," 8-10 December 2004

¹⁶⁷ All notes obtained from ADEI website along with interviews with various coordinators and administrators in the agency.

Table 19 ADEI Entrepreneurship Programs

Ref	Project	Description	SME	ENT.
1	The Entrepreneur's Moment	Promotes youth entrepreneurship by training university students in managing their own business through courses, training and success cases		x
2	Three E's Fair	(Employment, Enterprises, and Entrepreneurship), Annual fair that uses speeches, panels, capacity building courses, thematic ateliers, etc to stimulate new and sustainable businesses.		x
3	Idea contest	Competition for business ideas directed at youth between the ages of 18 and 35, university members, members of Professional Training Centers		x
4	Entrepreneurs hip Office	Support office stemming from cooperation between ADEI, Brazil's SEBRAE and a local chamber of commerce to promote actions that stimulate entrepreneurship, capacity building, credit assistance and coaching in order to develop the competitiveness of SMEs. Five offices across four islands with plans for expansion to Fogo.	x	
5	Start-up University	Business plan contest that is partnership between ADEI and the Ministry of Higher Education, Science and Innovation		x
6	Videoteca	Knowledge-building program through videos destined at MSMEs, potential entrepreneurs, students and unemployed youth	x	x

ADEI has a host of programs designed to revitalize SMEs in Cape Verde. While the organization has received some criticism for providing sub-par technical assistance across all programs, objectively, the agency has been operating for too short a period of time to provide sufficient data required for an assessment of the overall impact on the local SME sector. It is noteworthy, though, that none of the current programs is directed at SMEs with export ambitions.

Recommendation: Further support should be offered to ADEI in order to decentralize from the capital city and to reach municipalities and districts with less representation so as to reach smaller and micro institutions with little current access to ADEI's services.

Recommendation: Recently, ADEI has made a push for working with more non-traditional entities such as cooperatives and associations, especially in terms of agro-products. While this is commendable because of the potential for the development of the agribusiness sector, even at the domestic level, ADEI suffers from a severe lack of know-how and experience in penetrating communities with potential for association or cooperative-based economic activity. Models should be designed to facilitate cooperation and coherency between ADEI and other donors/actors with experience specifically in

community-based organizations. Existing CBO projects can be leveraged to inject entrepreneurial possibilities working with standout performers of the association.

Recommendation: In the same vein as the above recommendation, the case study on Fogo Wine in this report shows that a great deal of the success that wines from Chã have been able to achieve is due to the highly centralized cooperative structure which essentially functions as a social enterprise. In order to facilitate ADEI's (and other institutions) with their work with productive associations, it will be important to develop a special tax regime for social enterprises, which will combine benefits allotted to cooperative-like structures while profiting from the efficiency benefits of a centralized decision-making process. The same process that is being used to create a special regime for small and medium enterprises can be further expanded to include special incentives and treatments, as well as the definitions for social enterprises in the country.

Recommendation: As a rule, institute policies and programs to coach companies through the process of integrating regular use of e-commerce, the internet, and social networks, especially for small companies, as this is positively correlated with being an active exporter/importer and lowers barriers for internationalization. Support for this process can be through specific programs, by fostering the development and use of electronic signatures. An exchange of services can be established between ICT firms with connections to ADEI/the incubator and firms from other sectors in need of ICT assistance for equal incentive packages.

Cape Verde Investments

In the previous DTIS, recommendations were made to transform CI, which is the primary trade and investment promotion agency, into a "one stop window" to the outside world. Immediately in 2009, the World Bank Group benchmarked CI (Global Investment Promotion Benchmarking) and determined the organization's capacity to achieve its purpose as Very Weak.¹⁶⁸ As it relates to exports, and particularly as it relates to promoting exports from SMEs, CI has failed to develop further in its role since 2008. This is extremely troubling because it is the state agency with the most direct mandate as an export promotion agency.

In fact, a review of its most recent business plan, prepared in the ending months of 2012, reveals a worryingly scant section for CI's role in Export Promotion. Not only has the institution spent most of the previous two years with no Director covering its export promotion mandate, but the consultant also identifies the following weaknesses in the CI Business Plan's strategy for developing the exports sector in Cape Verde:

- The strategic focus continues to be on fisheries, which, as the "Fisheries for Exports" chapter shows, has limited potential and is unlikely to achieve the objectives set out in the business plan in the medium term. This sub-section of the chapter on export strategy takes up six pages and includes four specific and concrete recommendations.
- Thought and strategy dedicated to guidelines for working with non-fishing sector SMEs for the purpose of exporting is limited to two pages and two recommendations: One concrete measure to promote pharmaceuticals in African markets (InPharma) and the second promoting price

¹⁶⁸ Cape Verde Investments Strategic Business Plan 2012-2016

competitiveness of all internally produced products with no real concrete action steps for achieving that role.

The following specific measures make up the entire section on support to exporting companies¹⁶⁹:

1. *Support to Frescomar to increase the availability of raw material, support to continue exceptional regime for origination rules from the EU*
2. *Support to SUCLA, increase in production with the implementation of the project for live bait, marketing support to export markets in the United States*
3. *Support fresh fish products with improved areal transport, opening new markets*

This leads the consultant to believe that after its many years of activity, CI's role in promoting exports is still ill-developed and that if the Strategic Business Plan, which is intended to guide the institution into 2016, is implemented, and no other agency is given a stronger mandate and the resources to effectively promote exports, the future will see a continued absence of any dynamism regarding the question of SMEs for export, or any exports for that matter.

In the most recent legislation governing the internationalization process, CI is the competent authority for reviewing Cape Verdean firms for eligibility for fiscal and other benefits. They are further charged with creating and promoting measures designed to support internationalization, namely in terms of modernization of the existing frameworks, administrative streamlining, market studies for certain products and market destinations, and market research trips, etc. As studies show that the proliferation of agencies dedicated to export promotion in a single country tends to hurt exports,¹⁷⁰ it is imperative that CI implement at least the following measures in order gain the ability to launch SMEs seeking the fiscal and other benefits of internationalization into foreign markets.

Recommendation: Staffing & Image

- From top administrators to the technical level, CI suffers from two major staffing problems. The first is the basic issue of not having enough staff to effectively cover its long and growing list of mandates. The second is that existing staff members have high levels of public service experience and minimal private sector experience. It is important that this trend see a dramatic change to allow for building a staff with more private sector experience, with English-speaking abilities as a must. Private sector talent can be attracted by increasing the prestige of these positions and their extensive contact with the business community, along with salaries and bonuses that are closer to private sector standards. Models should be studied and developed for a Public/Private Sector Led Board of Directors that elects the primary administrator, as opposed to the current public-sector appointment model.
- Institute an internal system to provide continuous training and development for staff members, especially on soft skills and technical aspects of working with SMEs and other firms
-

¹⁶⁹ Cape Verde Investments Strategic Business Plan 2012-2016

¹⁷⁰ Lederman, 22.

Recommendation: Knowledge/Market Priorities

- Support must be given to CI to establish a minimum level of in-house research ability. Best practices with investment and trade institutions nationwide show that all that is needed is at least one excellent research individual compiling data and market analysis to dramatically improve the effectiveness of advice offered to clients. Importantly, systems for ensuring the accumulation and distribution of that knowledge to key account managers internally must be promoted and distributed. When combined with consultation with the relevant stakeholders, which being so few, CI should be able to do quite easily, dramatic results are possible.

Recommendation: Facilitating and Promoting SME Exports

- Segmentation: Service packages must be segmented to the unique training, counseling and financing needs of different client types, especially when working with SMEs. Effective segmentation practices should be studied and implemented; these should include client type (new exporter, experienced exporter, potential for exports, no-intention) as well as qualitative measures such as relative international experience of firm representative most responsible for export activities, etc. Needs analyses for each client type should be made and mentorship programs, where possible, should be created between experienced exporters and younger or potential exporters. Packages should be designed to work with SME Express – Born Global to lead clients from preparation to selecting markets, identifying buyers, and closing sales.
- Client-facing work should be a priority, requiring an adequate number of staff to be able to systematically manage clients on a case-by-case basis through the export preparation and export process, guaranteeing the momentum of the process. **Client satisfaction surveys** should be instituted and used for identifying and addressing staff training needs
- Increase professionalism and dynamism of the CI website, which currently ranks extremely low in terms of efficacy by applying best practices as identified in Global Investment Promotion Indices
- Study models for creating incentives through success recognition and export awards
- Compare, for example, cvinvest.cv and investbarbados.org, especially section on investment opportunities and sections on international business.
- Support the creation of an initiative combining elements of the long-term capacity building-coaching program (as seen in ADEI) and the SME Express program to create a program called “SME Express – Born Global CV,” designed to offer similar services, assistance and “hand-holding” to SMEs with current capacity for exporting as well as SMEs with significant exporting potential, placing them on the fast track to efficient exporting. The program can be coordinated by CI, with some input from ADEI. The structure should aim to make participating companies export-ready within 18-24 months, while at the same time introducing a permanent change in their corporate strategy. Each participating company should rely on a foreign trade expert; these will be trained to work specifically with the assigned company and implement the following actions:

- Diagnose companies leverage-able strengths and opportunities in terms of its strategy to enter foreign markets
- Design an export plan tailored to the specific company, identifying all the elements related to the intended export activity, from determining which products to payment methods
- Apply and monitor the export plan over the course of 18 months, while adapting it to any changing market realities.

The Chambers of Commerce¹⁷¹

There are two chambers of commerce in Cape Verde, one in the Barlavento (or northern islands) and one in the Sotavento (southern islands). The Chambers of Commerce are the largest aggregation of private sector actors in the country and offer their members a variety of different services for a fee. These services are all designed to assist entrepreneurs in the establishment, growth and consolidation of their companies. The most notable programs and services offered by the Chambers of Commerce include the following:

Entrepreneurial Missions

The Chambers of Commerce organize trips designed to create greater proximity between local companies and businesses in other regions and countries, through contact exchange. In 2012, for example, the Chamber of Commerce of the Sotavento organized trips to Spain, India, France, the United States, Portugal and Brazil. It is unclear to what extent the appropriate enterprises are able to take advantage of these trips, as they are generally self-financed. The main contribution of the Chambers is the actual organization of the itinerary and the visits during the mission.

Import/Export Licensing – As addressed below on the section on SMEs and Exports, the government has tasked the Chambers of Commerce with providing import and export licenses as a means of raising operational funds.

Support through the Growth and Competitiveness Fund (Fundo de Crescimento e Competitividade - FCC)

The objective of the FCC is to improve the competitiveness of Cape Verdean SMEs through access to innovation, training and technology transfer. While the program is implemented through the two Chambers of Commerce, it is supported by the Ministry of Finance and Planning and the World Bank. It is open to micro, small and medium enterprises (as well as groups of companies) for which at least 90% of the employees are of Cape Verdean descent, and where the fiscal and social responsibilities are being met relative to the Ministry of Finance and Social Security. It privileges companies with activities that are considered more innovative, such as those operating in the tourism, information or communication technologies, and light industry. Assistance obtained through the FCC tends to focus on areas such as marketing (market research or marketing plans, etc) or financial management, production management and business development. The fund works as a co-financier, contributing 75% of costs up to 500.000 CVE and 50% of costs up to 1.000.000 CVE for single enterprises and 50% of the costs up to 2.500.000 when the project is promoted by a group of companies. Between 2004 and 2009, the FCC financed solutions to 87 SMEs, or an average of 17,5 companies per year. The most recent funding cycle began in

¹⁷¹ Data for this Section was obtained from two Chamber of Commerce websites, <http://www.faroldacciss.org/> and <http://cciasb.org/> along with interviews during team mission.

2012 and has not yet been fully disbursed, though a total of 42 companies applied for funding in the Barlavento and 17 applied for funding in the Sotavento.¹⁷²

Professional Training

The Chambers' primary service is offering professional training to its members. The Chambers identify training needs among the members and then promote programs that strengthen the skills of managers, decision-makers and technical staff. An annual training plan is made available on their website and each member is allowed to pay for the opportunity to attend the training sessions.

Of interest for the purpose of export preparation, is a recent training/technical assistance program designed to take six companies (3 in the north and 3 in the south) through the entire process of obtaining certification for their products, so as to be able to export them to key target markets in Europe and North America. The Chamber will have certifiers travel from Europe/USA to Cape Verde to provide the necessary certification for a few key products (primarily in agro-business, grogue, wine, etc). This is an important initiative because it bypasses the national certification program which still has quite a road to go before it is actively functioning.

Recommendation: For the purposes of improving the possibility of SMEs exporting their products, support should be offered to the Chambers of Commerce specifically to expand the scope of the project and increase the number of companies/products that are able to go through the certification process between now and the launch of an effective national certification program.

Recommendation: In the same vein as the above recommendation, in addition to proper certification, another area where the Chambers of Commerce can have a significant impact is in their ability to help SMEs identify trading houses and strategic alliances especially for niche markets. How effective alliances with agents and trading houses can improve an SME's ability to trade internationally is further detailed through an example in the Vinho de Chã Case Study in this document (pg. x). The Chambers of Commerce should launch a program for identifying important and relevant trading alliances and putting them in contact with sectors/SMEs that could benefit from those relationships.

Recommendation: Creation of an SME Hotline - In conversations with members of the different Chambers of Commerce in both the Barlavento and Sotavento, a frequent complaint is the lack of resources for providing rapid, relevant advisory services to members and non-members alike. As such, the funding and staffing of an SME Hotline system in the Chambers of Commerce is recommended. The Hotline would consist of a physical phone line along with a connection to the Kit de Ferramentas: SMEs for Export (ADEI) where companies could look up information before making a call, and would have a specific section for answering export related questions. The hotline would also answer questions on the following, information which could also be found, frequently updated by the 2-3 people necessary to staff it, on the website: Credit information, important annual dates, information on different financing opportunities and schemes centralized in one location, information on all the support schemes existing and operating in the country, useful links, recent articles on SME activity, tender offers, success stories, frequently asked questions, as well as a section for airing any grievances encountered in any of the day-to-day processes facing the public sector. The SME Hotline would not only offer support services on a day-to-day basis to all SMEs with the number, but would also be a useful source of information gathering for developing recommendations for the government. Given the minimal number of SMEs that are currently exporting, the program would begin as generic assistance to all SMEs and

¹⁷² Interview with Monica Vicente, Coordinator of the FCC, 25 January 2013

could then develop a more specialized section as more SMEs approached the hotline with export-related issues. It should be structured such that SMEs would face minimal barriers in seeking and accessing the information. ANAC should be involved to consider the possibility of a toll-free number.

4.6 Discussion of Binding Constraints

In a recent study carried out with INE, the Observatorio de Empleo surveyed a pool of about 2,155 MSMEs to determine their most important constraints and their professional development needs. The study demonstrates that the main constraints continue to apply to financing, planning and competition. A large number of the MSME population, nearly 40%, continue to have inadequate and unorganized accounting and financial planning tools. This adds another dimension of difficulty when these enterprises approach traditional forms of financing such as credit or obtaining the fiscal benefits that may come with having organized accounting. This section of the report will focus primarily on the question of access to finance, as it directly and indirectly touches upon most other key constraints.

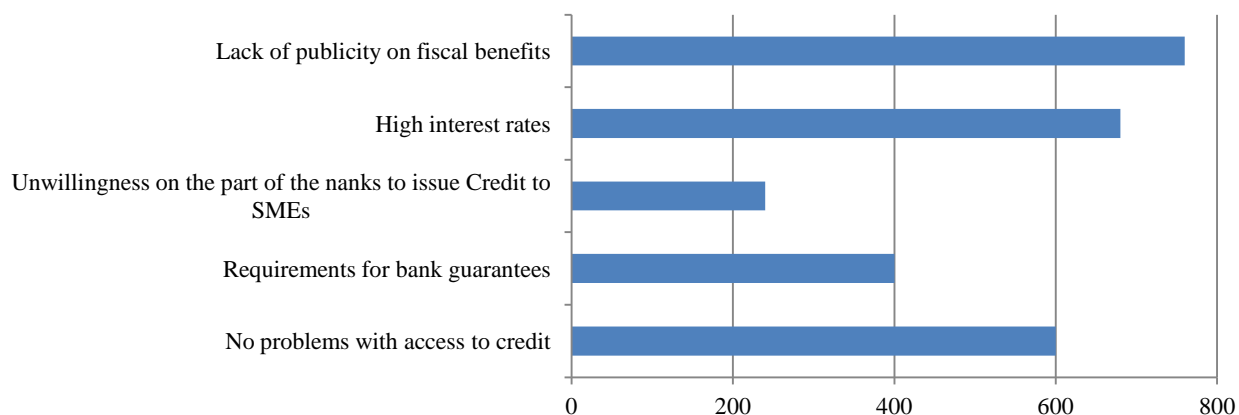
4.6.1 SMEs and Access to Finance – Why so many failures?

As discussed in other parts of this report, Cape Verde has a solid, modern and well-regulated financial system. It is composed of an increasing number of commercial banks, with a most recent total of eight (8). These eight banks have a network of over 100 branches at the national level, with representation of at least one bank on every inhabited island. An equal number of microfinance institutions (8) compete with and try to fill in the gaps left by the large commercial banks among lower income populations. On paper, the young and under-populated Cape Verde Stock Exchange is structured in line with most international standards. Further, the Government of Cape Verde (along with other partners) introduced, in September of 2010, the Novo Banco (New Bank), whose stated mission is to provide services, “with a focus on segments of the population with lower income levels in order to support actions that create employment and increase national production.” The hope was that this bank would revolutionize the microfinance sector. Results in this regard in the two years of operation do not suggest that progress has been made, having ended the first year with massive losses and continued complaints from credit-seekers. Several international financial institutions are present in Cape Verde and, in general, operate within a solid and well-developed regulatory framework.

In the last “Ease of Doing Business Report 2012,” Cape Verde’s ranking rose considerably with regards to the question of access to credit from 150 to a rank of 126. However, an absolute majority of the small and medium enterprises in the country continue to complain of a crippling deficiency when it comes to accessing the credit that they need to finance investments.

The chart below shows that when asked about the facility of obtaining credit or fiscal benefits, the overwhelming majority of respondents addressed having some constraint including the existence of high interest rates, unwillingness on the part of the banks to issue credit to SMEs, inability to meet high requirements for bank guarantees for loans, and the lack of publicity and public knowledge about existing fiscal benefits.

Figure 24 SME Survey: Fiscal and Credit Benefits



Source: *Observatorio de Emprego*

In large part, the survey with MSMEs also reveals that this sector is largely unaware of the benefits, programs and financial support systems that have been implemented specifically for their benefit. When queried on the knowledge of the existing programs such as SDE and ADEI, an overwhelming majority reported having no knowledge of these programs. Few reported having actually benefited from these and an even larger number believed that these programs are difficult for them to access due to excess bureaucracy and disinterest among staff members charged with assisting them, which act as discouraging factors.

From the perspective of the commercial banks, the conundrum is an easy one to solve: the same constraints that keep banks from offering credit in every country in the world are in effect in Cape Verde. Asymmetry of information and lack of guarantees/guarantors make extending credit to operators in developing countries, and especially to small and medium enterprises very risky business. In discussing the concept of creating Cape Verdean companies that produce something and sell it abroad, it is important to note another salient issue. In addition to the basic problems of asymmetry of information and lack of guarantees/guarantors, most commercial banks in the country do not create lines of credit that are oriented towards financing production activities, such as those in the agri-business sector; their financing opportunities are generally limited to the purposes of commercializing, as commercializing is inherently a less risky business activity than production, and is a characteristic of more mature and stabilized companies.

Microfinance institutions present a similar issue, as even though their target audience necessarily forces them to develop products that are more oriented towards the rural poor, and to agricultural operators, these have exorbitantly high interest rates (some as high as 25%), making them also largely inaccessible to SMEs for financing sufficiently large enough to invest in a project of potential exporting scale.

So – what financial institutions have existed for the purpose of providing capital to SMEs? Promotora is a public-private partnership venture capital fund that very well demonstrates the deviation of an otherwise potentially optimistic possibility of addressing this problem. As a venture capital fund, Promotora should promote private sector investments through financing and temporary participation in the decisions of the company receiving financing. After being privatized by BCA and Caixa Geral de Depositos, however, it has become more an instrument of the banks to promote the same policy that

shapes their traditional credit line customs than an instrument for the SMEs.¹⁷³ While it now has a reduced number of small clients and generally good results, it has not had anywhere near the potential impact it could have, had it resolved its management issues.

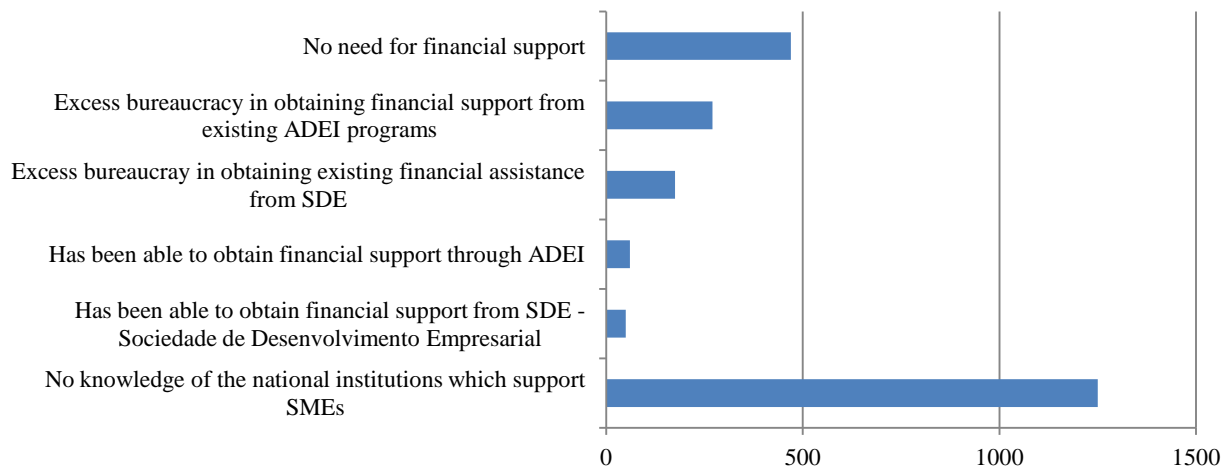
Still, in many countries with short histories of active economic interaction in the global marketplace, the question of access to financing is alleviated with short- and long- term public programs designed to assist SMEs up until such a time as they can independently negotiate credit with banks by minimizing the risks of asymmetry of information and insufficient guarantees. The public sector has introduced a number of initiatives to address this issue, but these have not alleviated the constraints as intended, most notably the SDE and the FCC mentioned above. In large part, the inadequacies of the various programs designed stem from 4 main limitations: 1) **Lack of knowledge about the existence of the fund**, 2) **High fragmentation of the funds**, 3) **Inadequate follow-up technical assistance**, and 4) **Internal inadequacies characteristic of the Cape Verdean SME**. Let's discuss these issues below.

4.6.2 Lack of Knowledge about General Support and Export Promotion Programs

In the study carried out by the Observatorio de Emprego, the same respondents were asked about their relationship with existing programs to facilitate access to financing and provide other support services for SMEs. The chart below shows the results:

- An overwhelming majority of the SMEs queried have no knowledge of the existence of national institutions which support SMEs
- Of those that do, a large number complain of excessive bureaucracy as creating difficulties in accessing this finance

Figure 25 SME Survey Responses

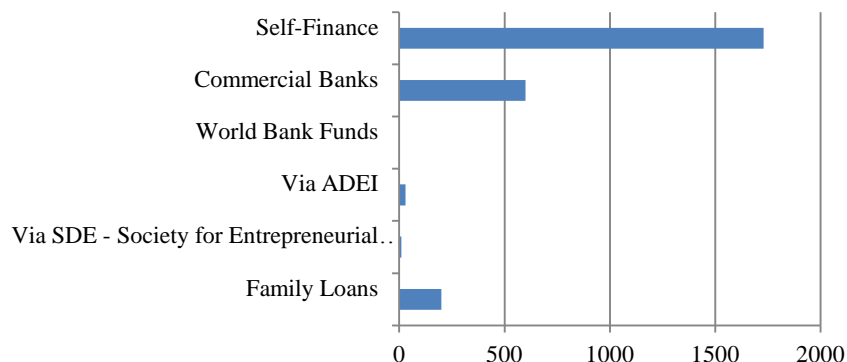


As a result of the difficulty in accessing credit through the traditional forms of financing and those promoted by the government, the primary means by which entrepreneurs finance starting a business

¹⁷³ Interview, Francisco Lima Fortes, ADEI

and SMEs finance investment and expansion is through self-financing. In fact, an embarrassingly low percentage of SMEs has actually benefited from any of the various programs that have been introduced by public policy makers. This, quite obviously, limits the impact of these institutions.

Figure 26 SME Survey: Financing



Recommendation: Government agencies, including ADEI, CI, MTIE and MIREX should collaborate to launch a series of major awareness-raising campaigns to make companies aware of benefits to internationalization and of the existing mechanisms to facilitate that process for them. The campaigns should aim to provide information and counseling directed at specific segments of SMEs and direct them to services that are tailor-made for them. Campaigns should also aim to demystify any misconceptions about existing barriers and the existing public support to assist SMEs in overcoming these. In these cases, both the support and the communication regarding that support need to be tailored to the type of firm and its potential for internationalization as well as to its specific international status.

4.6.3 High fragmentation of the Support Mechanisms

In Cape Verde, as in most democracies, policies are designed with the presupposition that the more individuals benefit, the better the results of an investment will be. In theory, this is a just and beautiful idea. However, the question here is that of “initially” benefiting versus “eventually” benefiting. A system such as this means that financial supports, loans, grants, etc that are distributed with this sort of presupposition result in extremely low per-capita support to each individual SME that may benefit, and usually, the benefit is insufficient. Fragmented assistance to a larger number of SMEs does not allow any of the beneficiaries to attain a certain critical mass necessary for higher levels of accountability and for achieving the scale that could be the defining line between a successful investment and a failure and embarrassment for the public initiative and for the SME in question. Furthermore, these inadequate supports, once used, leave in their wake an insolvency, having not been sufficient to create the self-sustainability that takes that SME to the next level of access to finance in the commercial banking sector.

Recommendation: The expectation, then, is that viable projects should be rewarded with heavier financial and support packages, to the extent that this is backed up with a solid business risk analysis and eventually that the risk also be shared by the project promoter/SME and the state support program.

4.6.4 Inadequate Follow-up Technical Assistance

Normally, the same funds that are divided in a fragmented fashion among SMEs with a need for access to finance are also administered by an institutional framework that is unclear and is frequently characterized by duplications of delegated responsibilities and, in worse cases, omissions of some responsibilities. As an example, since the 1990s, several public institutions have been installed, financed, and staffed for the purpose of supporting small and medium enterprises in every aspect of their important work. These include ADEI, IADE, SDE, Promex and Cape Verde Investments, to a certain extent. At the same time, many of the same responsibilities that deal with assistance to SMEs were attributed to the IEPF (Instituto de Emprego e Formação Profissional). This does not even take into account the existence of a host of micro-finance institutions that should be providing similar assistance to the SMEs. So while the policies may consistently point in one direction, and often, in the *right* direction, the implementation of those policies is plagued by inefficiency and incoherence among the different partners who should support each other in assisting the SMEs. This is in line with the study carried out by UNIDO in 2011, “A Melhoria do Ambiente de Negocios em Cabo Verde” which notes that deficient application of the existing legislation is one of the principal constraints to the improvement of the business environment in Cape Verde. This incoherency regarding which institutions should provide which sort of technical support further exacerbates the deficient articulation and execution of the desired support systems and policies.

The incoherency, particularly in the case of technical assistance that should support publicly financed companies, creates a worrisome situation. Technical assistance is of utmost importance to an SME during the initial YEARS of a business or project. Meanwhile, the majority of recent public finance initiatives that included some technical assistance aspect foresaw an intervention of at most six months. In the cases that we are addressing in this country, technical assistance over the course of six months is completely useless, as it does not even allow enough time to determine if the seed of the project has germinated, never mind guaranteeing the sustainability of the intervention.

Fundamentally strong technical assistance packages should include principles and applications regarding the management of stock, cashflow, credit, clients, suppliers, etc. Otherwise, the result is what is frequently noted in the SME sector in Cape Verde: an emphasized personalization of the business to the point that there is a certain degree of promiscuity between family assets and SME assets. SME owners receive public finances for the purpose of financing an activity that will eventually result in the public good, and instead see no lines between these funds and their personal funds, frequently using these funds to cover personal expenses without keeping proper accounting of these instances. The results are resounding failures. The likelihood of a successful investment is diminished dramatically to almost zero. The potential for a positive return disappears and the company has no method of repaying a loan and no new property that can be used as a guarantee to access finance in the commercial banking system.

Though it is certain that the government has, over the past several years, continued to increase its pedagogical perspective as pertaining to SMEs, their access to public finances and the technical assistance that should accompany this access, it is lacking in efficacy and perspective. Even worse, often the technical assistance, when designed properly, is implemented by consultants with little applicable experience in the field.

4.6.5 Internal Inadequacies Characteristic of the Cape Verdean SME

Not all of this can be blamed on the public sector; the Cape Verdean SME is also a difficult beneficiary, plagued by market inefficiencies and failures. These include lack of know-how, lack of technical knowledge, and professional training that does not bridge the gap relative to the needs of the companies.

A further intricacy of the domestic SME sector is the extent to which it is characterized by managers who have migrated from other entities in the sector of their business and who consider themselves sufficiently trained to manage their own business. This is not bad per se - knowledge of the field is fundamental for a good manager - but it is not self-sustaining. A more credible combination includes knowledge of the sector coupled with the fundamentals of financial management; many Cape Verdean managers have skipped the training in this second field, considering the former sufficient background. In the worst cases, field knowledge causes managers not to neglect their financial management capabilities but to, in fact, overestimate these skills, which makes them even less likely to seek out or be receptive to potential training programs in these areas. Many potentially successful SMEs in Cape Verde end up collapsing for the most basic of financial management problems, such as the complete absence of any capacity for cash flow management and an even more striking absence of the commercial and financial aspects of managing a business. In the most extreme cases, these companies are literally unable to provide the exact amount of money they lose every year, for decades on end.

In addition to the basics of financial management, working in a field and then migrating to owning a company in that field does not necessarily qualify one to have the technical business knowledge for operating in that field. The basics of how to access credit, optimize risk, negotiate individually and collectively with employees, and identify trends, inefficiencies, failures and opportunities in the market place are rarely given a second concerted thought. As such, the business, more than a horizon for providing services, employment and the backbone to the development of a society in the medium to the long-term, is seen as an opportunity for creating easy wealth in the short term.

At the management and other levels there is another fundamental problem that exists in terms of the large gap between the available skills in the existing workforce, or lack thereof in many cases, and the capacity needs of the business entity. Even programs of continuing training, such as those that are increasingly offered through public initiatives such as ADEI and IEPF, often have less than their desired impact because they are designed to have as their point of departure a base, or a certain knowledge level, that these companies rarely possess.

Recommendation: After the creation of the Special Regime for SMEs is in place, a project should be launched to create: “Kit de Ferramentas: SME Cape Verde” within the ADEI framework. The Toolkit can take advantage of the work that has already been done on this by the Small and Medium Enterprise (SME) Department of the World Bank Group. The online toolkit should, in Portuguese, provide resources such as how-to articles, all business-forms necessary, financial tools, online training, information resources developed by important experts in the field, success stories and even free software designed specifically for SMEs of various levels of sophistication. Topics to be covered can include Accounting and Finance, Business Planning, Marketing and Sales, Importing and Exporting, Technology, Information about pertinent events all tailored to the Cape Verdean business environment. The toolkit should be publicized widely.

4.6.6 Developing Mechanisms to Address Financing Constraints

Several initiatives are currently being developed, specifically to address the question of access to finance for SMEs – the two most important ones are promoted by ADEI. As SME preparedness for export becomes a more frequent topic of political conversation in the country, the effective application of these new mechanisms will largely determine whether or not this conversation will have plausible results. These mechanisms include the development of a venture capital firm as well as the national Mutual Guarantee Fund.

Venture Capital Fund

Likely the most interesting of all of the initiatives currently underway to help address the question of access to finance is that of the venture capital fund, being developed by ADEI and formally introduced in November of 2012.

Venture capital, in theory, is a much more effective form of financing for small and medium enterprises because, unlike in traditional commercial loans, investors take on the same risks as the company and their only form of guarantee is the success of the company. Hence, they are required to be involved in the management of the company, and get their returns with an appropriately designed exit strategy.

However, successful investment through venture capital stills depends heavily on the growth potential (this must be high) of the firms and whereas firms with plans for expansion limited to Cape Verde will have an unattractive growth potential for venture capital, firms that are ready to internationalize stand to benefit a great deal. The key challenge in this case is guaranteeing the sustainability of the venture capital firm in the gap years between now, when realistically speaking, the number of companies with growth potential in the export markets is limited, to when that population will have developed sufficiently to provide sustainable returns to the VC, or rather, guaranteeing that the venture capital firm will have sufficient deal flow to close enough deals on an annual basis.

Another challenge includes the fact that VCs normally judge investment opportunities based on the entrepreneurial quality of the existing members of a certain management team. Given the lack of a strong entrepreneurial culture rooted in strong financial and marketing management as discussed in sections above, the VC will have to be especially vigilant in judging the quality of management teams without having a sufficient track record to use in this determination.

Perhaps more than any of the other solutions already attempted for addressing the question of access to finance in the country, venture capital is particularly dependent on the skills and the commitment level of the VC managers. Because these are not only identifying and evaluating investment opportunities, but also contributing to the management of projects, high quality managers are particularly important. To attract these managers, effective incentive packages must be offered, including strong profit-related incentives. This is of course dependent on the size of the VC fund, which UNCTAD recommends should be about US\$20 Million in developing countries. The current fund in Cape Verde is starting well-below that at 3MM EUR - this is a pretty large gap.¹⁷⁴ While this challenge is partially mitigated by the fact that the managing partner with whom ADEI is currently working (Investisseurs & Partenaires) already operates regionally in about 20 African countries, this advantage

¹⁷⁴ Interview, Francisco Lima Fortes, ADEI

will have to be reconciled with sufficient local knowledge to be able to effectively identify and develop healthy deal flow in the difficult conditions that characterize the economy.

Of the many more, likely the most important barrier that the VC will have to confront to be a sustainable financing tool for SMEs in the country in the years to come is the existence of effective and profitable exit mechanisms. Exits are facilitated and more profitable when a country has an active stock market. Cape Verde's limited equity capital markets will make it very difficult to achieve the capital gains necessary to sustain its activities, especially when dealing with Small and Medium enterprises. It is important to create and implement measures that strengthen and increase the equity capacity of the stock market.

CVGarante: Mutual Guarantee Fund

This initiative, which has been in the works since late 2009, in its current form, was proposed by ADEI and is part of the institution's overall strategy for addressing the question of access to finance through the combination of multiple mechanisms simultaneously. The basic premise of the mutual guarantee fund is that it will provide SMEs who typically do not have the capital or property to use as credit guarantees to access finance with commercial banks a better opportunity in this regard. The mutual guarantee society will provide guarantees for shareholding companies, allowing them access to loans with more favorable characteristics, such as lower interest rates, longer payback periods, etc. It is a system for pooling funds to decrease the risks inherent in providing loans to SMEs. The mutual guarantee fund has been fully developed and is awaiting approval by the Bank of Cape Verde before it can begin functioning – it is expected that it will greatly stimulate the commercial banking sector to approve financing for small and medium enterprises.

Financing through the Incubators & Association of Business Angels

Other initiatives that are getting some attention, but not nearly as much as the above two mechanisms, is setting up a system to provide financing to companies housed in the existing business incubators (namely the one belonging to ADEI based in Praia). In a conversation with ADEI, it was determined that this would function by launching a contest among the local commercial banks which would introduce the issue of management participation in order to encourage the banks to take the risks associated with funding the SMEs.

ADEI is also currently trying to revitalize the association of business angels that was created in 2010 in partnership with the Business Angels of Portugal, by providing some technical assistance and connecting the association to, primarily, young entrepreneurs. The Business Angels function on the basis of a contract in which the capital must be returned. This is an initial solution to small scale investments but for the purpose of exports, a healthy private equity environment would have to exist to take on the task of business expansion that could result in galvanizing any sort of export and growth potential.

4.7 Opportunities for Competitiveness

The export competitiveness of any firm depends on its ability to sustain or expand its position in international markets – directly or indirectly – by supplying quality products on time, at competitive prices and at a scale that consistently meets the purchaser's stock needs. But what are the salient

features of a transnational exporting SME? In “Determinants of International Activities – Are SMEs Different,” Hollenstein argues that the exporting SME can be identified through the following features:

1. Highly specialized in niche products which can give them high market power in those market segments
2. Their advantages tend to be proprietary knowledge, flexible management, organization and market ability, reputation and supplier/customer relations
3. Typically need to possess some degree of market power in their home countries, about 30% in more casesⁱ

Box 12 Main Constraints of ICT Companies

What are the main constraints that face companies operating in ITC sector specifically?

A nossa mentalidade, o custo elevado das comunicações, falta de recursos humanos especializados, falta de normas e políticas para o sector, dificuldades de financiamento e monopolização do sector público estatal pelo estado “NOSI”.

– Compta /WeTrust Lda

In our opinion, the high costs of communications, lack of specialized human resources, lack of norms and policies regulating the sector, difficulty in accessing financing, and the monopolization of the public sector by “NOSI.” – Compta /WeTrust Lda

The Cape Verdean business environment’s many constraints and the general absence of an export culture make it very difficult for national actors to gain any sort of domestic competitiveness, never mind international competitiveness. For almost any product we can name, it is unlikely that the country will be able to reach some sort of quantity/quality paradigm with sufficient momentum for exports in the short- to medium- term. In regards to the quantity question, for agricultural, industrial and other products, the nation simply will not be able to produce enough to compete with traditional and new producers with more advantages in the same timeline. These products are discussed at length in their individual chapters. It is clear, however, that for most of these products, in the short and medium term, the goal should be to focus essentially on increasing competitiveness in the domestic market, and especially the tourist markets. Simultaneously, efforts should increase to establish a certain foothold in markets that are psychologically close to Cape Verde, particularly, the diaspora markets, but also other close markets such as those focusing on the African experience, the immigrant experience, the trans-Atlantic experience, that of Small Island Developing States, and the lusophone experience. For the majority of these products, the quantity challenge can be met with significantly improved marketing techniques to anchor the product in identified niche markets.

Still, there is room for some optimism in terms of exports competitiveness in the short term; the limitations facing agricultural, industrial and other products and Cape Verde do not necessarily evenly cover all of the sectors in the country. In recent years, much has been discussed about the potential for developing a strong local services economy, especially in information technology, designed primarily for exporting. In the following sections, we argue that unlike any other sector, the information technology sector may be the only sector where Cape Verde’s many business and geographic limitations do not

hinder development, but in some cases, may even serve as a source of comparative advantage. The section explores some of the successful actors in that sector, along with their opportunities for competitiveness, the constraints that do threaten their existence and, with it, the potential for developing a balanced and profitable technological services-oriented economy in Cape Verde.

What Sectors?

For the question of Cape Verde exports, the IT Services sector provides an interesting opportunity for local entrepreneurs. Some of these are discussed in the Trade Policy section of this report, especially in the comparative analysis with Singapore. A few others stand out, including:

1. Whereas the fragmentation of the islands is a challenge for the commercialization of most products, physical distance between the islands provides excellent domestic practice space for developing services that can be provided at a distance (i.e. companies on one island can have clients on another and perfect this approach, later to be exported to international locations.)
2. Cape Verde possesses various diasporas that can function as connection points to distribute IT services internationally;
3. The physical constraints that affect production in this country, save perhaps access to energy and efficient broadband, almost do not matter for IT companies;
4. The ITC Services sector, when compared to ITC products, is more advantageous in that it is not as capital-intensive as other sectors in terms of initial investments; most of what is essential boils down to brain matter and creativity.

Box 13 Mini Case Study: Prime Consulting

Paulo Nuno Martins left NOSI in 2007 to start Prime Consulting, having spent six years working for that public sector institution, during which time he was part of innovations such as Casa do Cidadão and Empresa no Dia. He claims that he left because he thought that the NOSI structure was getting too heavy, imposing on the private sector, and worse, not working in partnership with those firms. He draws up the example of an instance while working on Portondinosilha.cv, where after being stuck on a certain technical issue for months; he suggested to his team that they should get in touch with a private sector actor he knew to be particularly adept at handling similar situations. After another few months of pushback, the team finally agreed, and for 100.000 CVE, the company resolved the issue within two weeks. This was his sign to leave.

Paulo started Prime Consulting and has been managing it as one of the leading ITC firms in the Cape Verdean market for the past five years. In that time, Prime has grown from one person to more than fifty employees at its peak...and back down again to the current 13. They have offered services in ITC advisory, consulting, implementation and training to some of the biggest actors in Cape Verde.

Currently, Prime is in the process of bidding for a contract in Angola, which would be their first international project and a major stepping stone for the company in its potential to become a multinational. The process has been simple: the firm procured a local partner and prepared a proposal as they would for any domestic project (hence the benefits of ITC in exports). Rather than optimistic, however, Prime's CEO, when he meets with the consultant on the day of the company's fifth anniversary, is considering whether he will be able to keep the company's doors open if they are not able to win the Angola contract.

Taking into account these conditions, and considering that a legitimate potential may exist for exporting services in the short and medium term, the consultant carried out a series of intensive interviews with top competitors in the sector, which according to one interviewed member, is made up of about 20 small and medium enterprises. Of these, the following seven companies were interviewed in person, by email or by phone: Prime Consulting, Leaf Media, AVA Sytems, ITS Systems, Mind System Connection, Compta/ We Trust, and CVWifi over the course of January 2013.

The primary purpose of the interviews was to explore the following:

- 1) What are the main constraints that face companies operating in ITC sector specifically (all of these are SMEs)?
- 2) What recommendations would they make for addressing these constraints?
- 3) What potential exists for exporting in the ITC sector, or rather, which products and which markets?

To begin the discussion regarding the results of the interview, it is important to note that of the seven companies contacted, six claimed to be considering closing their doors because of the primary constraint in the sector, and one, though the image is still present, has for all intents and purposes, already closed their doors. This is a dramatic fact and one might say would even suggest that there is no potential in the sector. At the very least, it alerts the consultant that if the current trajectory is continued, this sector on which much of the future development of the nation is said to be depending may never get the opportunity to consolidate itself.

What recommendations would you make for addressing the constraints currently affecting your sector?

1. *Support with access to credit for training in order to create more specialized ITC technicians*
2. *Initiatives on the part of the state to clarify the policies those are specific to the ITC sector.*
3. *Creating a state mechanism that is more of a promoter and regulator and not a competitor to the private sector.*
4. *Decrease customs duties on ITC equipment and solutions*

- Compta / We Trust Lda

Among all of the SMEs surveyed, when asked about the top constraint on their expansion in the domestic market and in international markets, 100% of the firms responded that it was the market behavior of NOSI – Núcleo Operacional da Sociedade de Informação (NOSI). One of the most successful example of indigenous innovation in Africa, and a model of example of innovation inside the public sector, NOSI has is the architect of Cape Verde’s electronic governance system. Today, it has grown into a large and expansive entity, covering everything from back-office integration, platform and applications design, infrastructure development, even to IT support, web design and basic help-desk. From the standpoint of SMEs in the sector, NOSI has had a crowding out effect, monopolizing ICT services in the public sector and ICT infrastructure development in the country. NOSI, currently a public entity, has the following stated mission: “To be the coordination structure responsible for promoting an information society and electronic governance, covering all direct and indirect administration State and Municipal administrations, and to propose and execute measures and policies in the areas of innovation, information society and electronic governance.”¹⁷⁵ Among its primary objectives is “to promote

¹⁷⁵ NOSI Website, “Mission”

measures and policies that mobilize society, the private sector and the public sector in the advent of creating an information society, while implementing measures that modernize the structure of public administration using electronic governance.”

NOSI has had some critical success and has been applauded for pioneering electronic governance products designed for the Cape Verdean context, products that can eventually be adapted and applied to the West African context at large. In many ways, leaders at NOSI have been revolutionary in their approach to deconstructing and reconstructing the relationship between the citizen and the state, through the use of electronic governance. However, despite its many laudable accomplishments, NOSI has in large part failed its mission and objective to promote an information society and to propose and execute measures and policies in the areas of innovation and information society. Most importantly, many people in Cape Verde argue that NOSI has failed to adopt measures and policies that *effectively* mobilize society and the private sector, in particular, in creating an information society, and much less in creating an information society capable of developing and selling information technology services to external markets. Many argue that, from an economics and free market perspective, NOSI's behavior makes it almost impossible to achieve that objective and directly undermine NOSI's role as a stimulator of private sector activity in information technology.

Box 14 Supporting National Infant Industries and Start-Ups

Developing an ICT sector is a strategic priority for Cape Verde. Several promising ICT start-ups have emerged, but they will need proactive support and attention, based on performance criteria, if they are to consolidate, grow, and break into international markets. Leaf Media was founded in 2006 in Praia and began exporting media and technology services to such big name companies as Xerox, REO, Prism System and other companies in the United States. In the early days of the company, Leaf Media benefited from a management team with strong connections to the domestic market and high exposure to the ITC market in the US, complete with important contacts.

In a recent interview, Leaf Media's owner recounts a situation in which a large local telecommunications company launched a bid for an ITC solution. Leaf Media submitted a technical and financial proposal, only to have the promoter cancel the contest, claiming they had not found any of the technical proposals sufficiently attractive. The promoter then contacted a Portuguese company, presenting Leaf Media's technical proposal and requesting a financial proposal. They received this at three times the price of LF's original proposal. Unbeknownst to the promoter, LF was the Portuguese company's local representative, and was immediately handed their technical proposal to implement.

Situations such as these happen often, as the ITC sector in the country has not yet had the opportunity to consolidate itself to inspire a culture that looks for domestic solutions. NOSI and other public policy makers should create tools that encourage local companies to place more trust in local ITC companies, leaving these to seek knowledge transfer partnerships with foreign firms when it proves necessary.

To begin, it is important to re-state that the Cape Verdean economy and market is extremely small and limited, making it difficult for most firms to make a sustainable profit. This applies to firms operating in the information technology sector as well - consumers of these products are limited and they have even more limited spending capacity to purchase products. In addition, the information technology society and culture is still very much in its development stages; further limiting the consumer market.

Most of those using information technology services are located in urban areas. Larger consumers include the private sector, individual and household consumers, and the public sector. To the extent that the country possessed a robust and highly modernized private sector with large demand for information technology services and products, it would be more acceptable that NOSI should be considered the premier provider of information technology services for the public sector (by developing electronic governance products), though it would still be sub-optimal from a free market perspective. But especially where a robust private sector does not exist, it is imperative that the government institutions act as market-makers and not as competitors against market actors. NOSI, instead of making markets for the private sector, is responsible for the following:

1. Departing on official missions to potential export markets with no representatives from the private sector to market their own products;
2. Frequently opting to give bids to foreign contestants for particularly large projects, rather than showing preference for local entrepreneurs and allowing these to sub-contract in the case of technology transfer needs arising; the claim is that local private sector actors do not have the capacity to take on such projects, but this capacity must be developed through experience. Such behavior deprives local IT SMEs valuable opportunities to build the portfolios that will assist them in negotiations for other domestic, but more importantly, for international bids and the opportunity for export; this is especially pertinent because the nature of the Cape Verdean IT private sector is such that many managers of the current actors at one point worked for NOSI and contributed to the development of key NOSI products. However, they have limited ways to use this to their advantage in portraying a well-developed portfolio for marketing purposes.
3. NOSI frequently competes with private sector IT firms for both public sector and private sector work. As both arbiter and competitor, NOSI stands to win most of the contests or bids in which it participates, having access to information that private sector competitors do not. Such examples include an instance of Prime Consulting approaching Cape Verde Investments with a proposal for an investor tracking system. NOSI stepped in, announcing that it should be their jurisdiction without the launch of a bid. The consultant has checked with Cape Verde Investments and the tracking system has yet to be implemented. This competition is further evident in the fact that the owners of both Leaf Media and ITS Systems claim that NOSI management has approached them with employment offers, asking that they close their companies and work for them instead.

In order for NOSI to take on its intended role as a public sector mechanism to foment and promote, while regulating, the growth of a strong private sector-led information technology services economy, the following recommendations should be taken into consideration:

1. Most importantly, a strategic position must be taken as to whether the country should, in one decade, possess a large state-owned enterprise (inefficient, as is the nature of SOEs) competing for electronic governance contracts in West Africa against private sector actors from other key electronic governance competitors (Switzerland, Estonia, Portugal, India) or whether it would be more attractive to have a burgeoning private sector that could compete to develop electronic governance solutions under NOSI's direction but also be able to create and export solutions for other information technology services, thus providing more employment, more innovation and

more competitiveness than a single institution would ever be able to attain. Assuming the latter scenario is more attractive, it is important to:

2. Reinforce NOSI's original role as a small, highly qualified, high-level, public service-oriented regulator, specializing in using the private sector to create innovative e-governance solutions. This would require scaling back NOSI's employees to only include the number of highly qualified technicians that are, to a large extent, already in existence at the top of the NOSI structure, with responsibilities in grand strategy, as well as regulating and promoting the sector. NOSI would envision e-governance solutions and contract private sector actors to implement these solutions.
3. Reinforce NOSI's competence in fomenting the development of a more qualified and competent IT Private Sector; currently the only other institution that provides some sort of support system for information technology engineers is the local "Ordem dos Engenheiros," but this institution is better-equipped for more traditional forms of engineering. This leaves an important gap that NOSI should fill by identifying and promoting training opportunities, regulating and promoting the certification system in order to develop specialized professionals capable of competing at the international level, and stimulating general capacity-building policies and mechanisms to promote the growth and quality of the sector.
4. Policy makers should introduce public bid regulations that favor domestic information technology firms, or consortia of domestic and international firms/ joint-ventures over purely international bidders
5. Policy makers should introduce incentives for other private sector actors to favor domestic information technology firms over international players into the Code of Fiscal Benefits
6. Policymakers should consider policies and incentives to further stimulate and encourage immigration of qualified information technology personnel, whether from the Diaspora or from other markets to Cape Verde
7. Measures must be implemented to strengthen intellectual property rights and cut down on licensing counterfeit software
8. Currently, the tariff structure for information technology software and hardware is cost-prohibitive in terms of the development of the country's IT sector; a special regime should be implemented for at least five years in order to stimulate growth in the IT and IT services sectors
9. Finally, a development model for the sector should include investments in various geographical locations of the country in order to de-centralize the IT sector while at the same time ensuring a more balanced development of the national economy

4.7.1 Which Markets

This section will only minimally suggest which particular markets should be targets for Cape Verdean SMEs and instead will focus on the fundamentals of deciding which markets, which requires a much more elaborate undertaking, though the process is basic in structure. The section further recommends

certain open-mindedness in determining which markets can serve as potential target markets. Increasingly, in markets all across the world, price (where it is extremely difficult for Cape Verdean firms to compete) is not the only point of competition. A recent study from McKinsey and Company suggests that while the African consumer, for example, remains concerned about price, product quality and branding is also very important and increasingly so.¹⁷⁶ This type of consumer exists not only in mainland Africa but in almost all of the countries of the world. In theory, any country in the world can possess a potential consumer market for Cape Verdean products. However, the question cannot be approached, as it often is, “How is it possible for Cape Verde to export to China?” In fact, it does not make sense for Cape Verdean companies to export to China, but it could to a specific market of consumers living in a couple of eastern towns in Guandong. This is given as an example, but the idea is that Cape Verde need not concern itself with exporting to millions of consumers, much like it is not necessary for the country to create millions of jobs – a few tens of thousands of strategic jobs would significantly improve the quality of life for a huge portion of the population. The country’s export targets should be similarly scaled to portions of strategic populations in strategic markets.

From an earlier section, we recall that, in general, SMEs that have attained some export volume in recent years have approached their market selection strategies in an essentially haphazard manner, by identifying a few markets that are psychologically close to their domestic businesses. It is likely that as new firms enter the export market; their initial export stages will take a similar approach, as these markets are easier and less costly to penetrate. However, the recommendation is that SMEs (and all exporting companies in Cape Verde) can eventually reach a level of sophistication wherein they begin to expand their foreign operations to a greater number of host countries, and even those that can be psychologically distant, through effective market analysis and segmentation.

First and foremost, it is important to acknowledge that, “the experience and personal characteristics of small firm owners have been shown to have a significant impact on firm performance.”¹⁷⁷ It stands to suggest that SME managers’ level of international experience is not only an important segmentation tool for developing export support programs, but also an extremely practical point of investment with potentially huge repercussions on the number of companies that could be exporting. In general, market information beyond the Diaspora/Sodade Markets (and even for these, to a certain extent) is scant. As the trend shows earlier in the sector analysis, most companies do not possess, internally, any sort of market information gathering system, and they have not been trained to be preoccupied with the importance of such a system. Resulting high levels of uncertainty will continue to be a significant barrier to the internationalization of SMEs especially, as these have lower limits on the risk they can take on in business decisions. It is important that steps be implemented to create a culture where firms can actively seek out and obtain export-related and market related information, using these to identify, segment, and develop entry modes for different markets. What measures can public policy makers take to improve SMEs’ ability to effectively gather and process this information?

Currently, the only institutions that offer some opportunity for firms to visit other markets are those in the local Chambers of Commerce and Cape Verde Investments. However, these opportunities are limited and suffer from the same problem that other programs supported by these institutions do – firms are not aware of the existence of the programs. Those that are aware of the existence of the programs often do not have the access to the finance to afford such trips. It is important to increase the

¹⁷⁶ “Understanding the African Consumer,” McKinsey Africa Consumer Rights Center, January 2013

¹⁷⁷ “Decision-making and Market Orientation in the Internationalization Process of Small and Medium Enterprises”

number of opportunities for SME managers to have exposure to strategic markets, perhaps beginning with psychologically close markets and expanding outward to less psychologically close markets.

Recommendation: A two-step recommendation is offered: financially re-enforce export support and SME development programs (i.e. SME Express – Born Global, FCC, etc) with sufficient funds for a certain number of prospect missions through a merit-based selection while simultaneously improving publicity about these opportunities.

Recommendation: Create Market Access Strategy Task Force staffed with 2-3 individuals in Cape Verde Investments (with formal meetings open to the Ministry of Foreign Affairs, ADEI, the Chambers of Commerce, and other stakeholders). The task force's competence is to create one annual qualitative report, an ongoing update delivered through primary media sources and comprising the following information:

1. Collection and compilation of relevant statistical data in all of the sectors identified in the DTIS report, along with other identified key sectors;
2. Selection, screening and presentation, on a regular basis and for each of the sectors, of key countries and segments where the specific products stand to have a relatively significant export volume, including some established psychologically close markets and other distant and/or emerging markets where niche products can grab a foothold;
3. For these markets, provide ongoing analysis on market growth trends, competition, marketing challenges, distribution opportunities, barriers, relevant information sources, and best business practices in those niche markets

The Task Force will further be responsible for preparing an annual quantitative target market map both for the country at large and for key strategic firms selected on an ongoing basis. This product should include:

- a. **Market grouping models** to create and publicize clusters of countries on the basis of similarity in terms of their attractiveness for Cape Verdean products; as well as
- b. **Market estimation models** to evaluate the total market potential in various markets for the country and for specific firms.

4.8 Conclusions

This chapter has taken an optimistic approach to the question of whether a Born-Global SME is possible in Cape Verde and has addressed the primary constraints standing in the way of SME preparedness for exports in the country. It offers a series of recommendations for relevant stakeholders to consider along with an appeal for a visionary transformation at the national level that accepts that the country can and should in fact export. It further makes practical recommendations as to how Export Promotion programs can be more practical and direct in their approach to assisting firms in the planning and preparation for export market involvement. It briefly discusses the need to prioritize investments in sectors where the country stands to gain comparative advantage and where internal barriers do not have as much of an impact on creating a quality product by addressing some of the main constraints of the ITC sector. The action matrix below summarizes all of the recommendations in the chapter.

■ CHAPTER 5: AGRICULTURE AND AGRIBUSINESS

5.1 Executive Summary

Advances made by the agrarian sector in Cape Verde, despite the lack of statistical data, are visible in the domestic consumer market, the impact on poverty reduction and in the shift from subsistence agriculture to an agriculture focused on market demand. The sector's constraints reflect the smallness and fragmentation of the farming lands, the shortage and randomness in the availability of water, and the insularity and the islands hilly relief. These natural factors, combined with the weak logistic infrastructure and production seasonality, show the current difficulties in marketing the agricultural and livestock products from the producer markets to the consumer markets.

Cape Verde is particularly suited for fruit and vegetable production, which has developed much due to the incorporation of new technologies and as a real response to the domestic market growth and to the increase level of demand. Agribusiness in Cape Verde essentially shows the family nature of agricultural production. It still is an insignificant activity, with exception to some business companies in the area of animal feed production, poultry farming, the production of wine and *grogue* (alcoholic beverage made from sugar cane). This subsector demands the supply of raw material, in quantity and frequency that the agricultural production cannot meet yet, which limits the continuous work in processing and transformation.

Production surpluses recorded in the agricultural and livestock sector result from production peaks, enabled by good soil and climate conditions and weak planning capacity of the farmers, together with the lack of market information systems that allow a better knowledge of the domestic market.

In this context, before considering exports, it is necessary to solve two great challenges – the increase and the optimization of production and marketing, regardless of market (domestic or international); with these aspects taken care of, there is the need to understand the preferential markets for the products of Cape Verde, thus directing the efforts in matching the demanded quality of these markets. This quality cannot lose sight of the value added that the “Cape Verde brand” and unique origin can bring to the niche product and thus constituting a competitive advantage for export.

Taking into consideration the specific conditions in Cape Verde, and thinking about export, investments should be on niche products (biologic, ethnic, fair trade, *produto di terra* (Cape Verdean expression meaning products from the homeland; diaspora) and high added value).

In addition to investments to increase production, including training, production scheduling to minimize the issues related with the seasonality of production, and post harvest losses, an added effort should be directed to improve the products sanitary conditions, to promote quality and quality control, in a logistic, distribution and marketing system that facilitates the access of agro-food products in the preferential markets, inside and outside the country.

Develop the entire value chain of products that are already being exported, even informally, such as: *grogue*, wine, coffee, ensuring the characterization of the products, the registration of brands and seals

of denomination of origin, where applicable, should serve as a project-pilot, whose experience should be improved and extended to other products. The cheese is added for the potential it represents to this group of products.

The management of post-harvest and preservation centers already built should be made by the private sector, with an active role in training the farmers and other chain operators, in the promotion and dissemination of market information. The State would be responsible to establish incentives so that good practices can be replicated, making them sustainable and promoting the development of the sector.

In the process of export, exporters face demands that are different from those of the domestic market, so specific support to export should be established such as: credit line for export, applied research, support office, grants systems, etc. The levels of communication and information channels for export need to be improved with studies to know the real constraints in the export process of agricultural products and establishing team works in the institutions that exclusively dedicate to find solutions. The promotion strategy of exports of agricultural and livestock products includes the organization of production and of the farmers, the knowledge of the market and improvement of marketing conditions and public policies that promote the increase in production, work the product quality and provide local support to companies that meet conditions to export.

5.2 Vision of the Sector

5.2.1 Characteristics and Evolution

The agricultural and livestock sector in Cape Verde is mainly family-based. According to the 2004 Agriculture Census (Portuguese acronym: RGA), the country had 44,506 farms, of which 99.87% were family-owned. There were 56 farms that were not family-based where it included 8 companies, 6 farmers' association and 1 consumer cooperative.

The farmland scenario is primarily composed of small plots, where 70% of the total arable area is distributed in small sized farms, with areas between 0.1 and 1 hectare. Only 11% of the total arable area is associated to farms with more than 2 ha (RGA, 2004). The irrigated surface was 2,732 hectares, of which 350 hectares with the drip irrigation system. In 2010, this value was estimated in 800 hectares (DECRP III – Growth and Poverty Reduction Strategy Paper III). The insularity, the hilly orography of the islands, combined to the paucity, the unpredictability and torrential of rainfall constitute, since the beginning, the main challenge in the sector. Despite the lack of data registering in a sequential and consistent way the evolution, this has been the sector that has developed the most in Cape Verde, since independence.

The programs and projects implemented, in the fight against desertification, allowed the country to move from 1% forest coverage in 1975 to about 21% of wooded area. The targeting and widespread investments in infrastructures for the soil conservation, water mobilization and reforestation produced results, making resurface the investment interest of the farmer in agricultural production, demonstrating the will to get out of the subsistence agriculture to a more productive and market-oriented agriculture. With the investments made in water mobilization and the introduction of drip irrigation system, the beginning of 1990 experienced an increase in the productive irrigated agricultural activity – still with irrigation by flooding – but already with the use of drip irrigation system, of fruit and vegetable seeds of improved varieties, and with a extended program of farmers training.

From 2004, the investment of the sector in the construction of new infrastructures of water mobilization is notable, with the building of the dam of Poilão. This infrastructure, with a storage capacity of 1.7 million of cubic meters, of which 1.2 million of cubic meters are available for irrigation, proved its capacity to store water in quantities not registered before and relatively quickly, taking into account the rainfall in the country. This water availability in large quantities and almost immediately, created possible conditions to irrigate more 150 hectares, establishing the necessary pre-conditions to ensure and motivate the sustainability of the investments made by the farmers.

If, on one hand, the building of 17 dams, 8 of them with guaranteed funding, will allow a 5,664,728 cubic meters increase of available water and a estimated potential irrigation of more 603 hectares for agricultural production, on the other hand, the challenges of this sector do not limit to water availability, so that equal effort should be made in research and training.

Although there is still no statistical system for monitoring the fruit and vegetable production, which is considered the option with the greatest potential, estimates of fruit and vegetable production, made by the Ministry of Rural Development (MDR/DGPOG), indicate the values shown in Table 1.

Table 20 Estimate of the national agricultural and livestock production, 2007 - 2010

CLASS / YEAR	2007	2008	2009	2010	Annual Average	Share Of Annual Average Production In Its Category (%)
TOTAL AGRICULTURAL PRODUCTION (Tons.)	119.974	111.658	117.932	119.422	117.247	100,00
Subtotal Fresh Fruits & Vegetables Production (Tons.)	107.745	98.219	105.867	106.841	104.668	89,3
Vegetables (Tons.)	24.095	24.328	29.887	26.283	26.148	22,3
Roots & Tubers (Tons.)	12.580	12.795	13.011	12.592	12.745	10,9
Fruits (Tons.)	10.363	10.363	10.363	10.363	10.363	8,8
Vines (Tons.)	114	106	104	160	121	0,1
Coffees (Tons.)	35.982	26.016	27.891	32.832	30.680	26,2
Sugar Cane (Tons.)	24.611	24.611	24.611	24.611	24.611	21,0
Subtotal Cereals & Grains (Tons.)	12.229	13.439	12.065	12.581	12.579	10,7
Corns (Tons.)	4.425	8.039	7.383	5.569	6.354	5,4
Beans (Tons.)	7.804	5.400	4.682	7.012	6.225	5,3
TOTAL MEATS & MILKS PRODUCTION (Tons.)	14.053	14.083	14.325	19.735	15.549	100,0
Meats of bovine, caprine, ovine, & porcine (Tons.)	4.120	4.149	4.200	4.254	4.181	26,9
Milk of bovine and caprine cattle (liters)	9.932.740	9.933.896	10.124.727	15.481.062	11.368.106	73,1
TOTAL EGGS (Units) PRODUCTION	18.615.000	18.615.000	26.371.250	26.371.250	22.493.125	100,0
Eggs (Units)	18.615.000	18.615.000	26.371.250	26.371.250	22.493.125	100,0

Source: MDR/DGPOG, 2012

5.2.2 Gender and poverty reduction

The incidence of poverty in rural areas, which according to the National Institute of Statistics (INE/QUIBB 2007) was 44.3%, is the result to a great extent of the limited access to arable lands, the randomness of

rainfall and still the relative delay in agriculture modernization. Despite the great investment efforts in the sector, regarding water mobilization infrastructure, still there is the need to make the corresponding investments in research, training of the various participants in the productive process and in transparent public policies that promote the development of the agriculture and livestock private sector and allow a good business environment.

One of the goals, recommended by the Government in its VIII Legislature program, is the extension of the rural economy, improving the capacity of everyone, including the poor, so they can participate in the productive economy, creating jobs in the rural area. Stockbreeding was considered an important sector in the fight against poverty.

The agricultural sector is strategic in the fights against poverty because 70% of the poor live in rural areas. The findings of a modeling exercise carried out in 2009 under CAADP / ECOWAP show that for every 1% of poverty reduction, roughly $\frac{3}{4}$ is the result of the growth of the agricultural sector (DECRP III, 2012). Paradoxically, despite a poverty reduction of the order of 10% at the national level, the rural areas were where the reduction was smaller.

The agricultural sector is predominantly female, since from the agricultural population, 52% (116,223) are female (RGA, 2004). They are the ones who mostly do the marketing of the agricultural products and ensure the execution of an important number of production activities. The increase in value of agricultural and livestock production will tend to increase the number of jobs in the sector, in general, and the increase of these jobs tend to benefit women, more specifically, given the nature of the activities developed by this sector, namely packaging, products cleaning, processing, transformation and marketing. This direction reinforces the interest in investing in the sector, in particular in fruits and vegetables production and stockbreeding, which offer greater potential of directly contributing to family revenues as direct impact in poverty reduction.

Given this opportunity, for the VIII Legislature the integration of the rural areas is envisaged. This process is centered in the empowerment of the poor to increase their productive capacity and their participation in tourism and other economic sectors. DECRP III elects some products for development, such as tomato, lettuce, carrot, onion, cassava, potato, banana and papaya. The above-mentioned document suggests also the creation of agribusiness incubators in the islands with agricultural inclination and suggests as goal the creation of 100 new projects.

5.3 Strategy

The great options of the plan define five axes upon which the country's economic development strategies articulate. In the agricultural and livestock sector this articulation is done in the different axes, prioritizing however this articulation more consistently in actions to promote entrepreneurship, competitiveness, growth, expansion of the productive base, development of human capital and infrastructure that allow a balanced development.

The most important questions for the sector strategic development relate with the creation of sustainable rural living conditions, enhancing food safety, supply of the tourism market, expansion and diversification of the productive base. This effort centers in agriculture modernization, which involves

the introduction of new production technologies, intensification and diversification, always guided by the constant need of water rationalization, optimization and management for irrigation.

The “New Agriculture”, according to the Government program for the VIII Legislature 2011-2016, proposes to continue with agriculture modernization, mobilizing around 75,000,000 cubic meters of water till 2016, through the construction of 17 dams and this way expanding the irrigated surface to 3,070 hectares, of which 1820 hectares is intended to be with drip irrigation system. Of the 17 dams, 8 already have guaranteed funding. With this, the aim is to increase production, productivity and agribusiness. This program also has as goals the installation of 50 greenhouses for hydroponic crop each with 500 m² and with a capacity production of 520 tons/year of high quality products. Stockbreeding constitutes also, according to this program, a sector of paramount importance in the fight against poverty. The investments for its modernization will be towards diversification, breed improvement, through artificial insemination of the main species and fodder production to improve animal nutrition. The government intends to promote the extension of the rural productive base, through the creation of sanitary and distribution conditions so agri-products enter the marketing circuit of the hotel industry in the country. This goal will be achieved with the increase of quality control centers, the incentive and technical support to export and to national production and the reinforce of research capacities and intensive knowledge transfer to farmers.

Table 21 Horticultural Average Annual Imports 2002 - 2011

_Horticultural Average Annual Imports 2002 - 2011				
PRODUCTS	Average/Weight/TON	%	Average/Value/1,000 CVE	%
	16,733.2	80.4	757,838.2	65.8
	4,086.1	19.6	389,371.6	33.8
TOTAL	20,819.3		1,152,166.0	

Source: INE, 2012

Today it is still seen that imports play an important role in ensuring food safety, even in production sectors where the country has potential and competitive advantage. Of horticultural imports, in a ten-year period (2002 - 2011), there are important average values of annual import, 20,819.3 tons corresponding to 1,152,166,000 CVE. If these values are replaced by local production they can

constitute an important revenue source for the farmer and for the entire logistic and domestic distribution chain.

5.4 Constraints

The constraints of the farming sector are well known, characterized in several documents so we will not refer to the factors that constitute the geographical nature, rainfall, soil and climatic condition or even the mountainous terrain of the archipelago. We will instead make reference to the aspects that will constrain the better utilization and optimization of resources invested and produced by the sector with a view to supply domestic market and export.

5.4.1 Supply Side

Regarding offer, there is a high potential for increasing national production now fostered by the availability of water for irrigation, by a growing local market that is reflected in import of fresh agri-products, which can be easily replaced by local production.

Data on imports indicate there is no surplus production but refer to production peaks that particularly result from products such as potato and onion in certain periods of the year, as a result, on one hand, of the beneficial effect of the weather during the growing seasons and, on the other hand, the deficient production scheduling by the farmers, who still mostly depend on rain fed agriculture.

Overcoming the dispersal of 40,000 hectares of arable land, located in different islands, whose terrain is a permanent challenge to mankind and valuing family-based production, which is the most remarkable feature of Cape Verdean agriculture, are just a few among many other equally challenging aspects of this sector and that will allow scale development in terms of offer.

5.4.2 Marketing / Logistics And Distribution

The difficulties inherent in the dispersion and smallness of farms have culminated, for years, in recurring demands of the farmers and operators of the sector that claim for solutions from the government, urging for the creation of logistics and distribution conditions that allow the timely delivery flow of their products from the producing market to the consumer market. These problems relate to the difficulty of access to the agricultural production areas, to the irregularity of shipping, to the deficient agricultural products packaging conditions for transport and to poor condition of distribution and cold networks.

There is a great communication difficulty between the participants involved in the agricultural and livestock production chain, which hinders the coordination of the actions and necessary team work for the formulation of measures that facilitate and promote the circulation of products between the producers markets and the consumers markets. This situation is worsened by the trade liberalization policy and with a weak economic situation of agricultural products, which are not prepared to face the competition from bigger producers markets, more competitive and subsidized.

The absence of a market information system (Portuguese acronym: SIM) contributes to the lack of transparency in the distribution chain and will hinder the operation of the post-harvest centers, which are about to start their activity.

5.4.3 Institutional Aspects And Public Policies

Policies to promote national agricultural and livestock production were not followed by investment in infrastructure, research, training of farmers and technicians, addressing the issues of quality and certification, which would be able to increase the aggregated value of the national product and place it on equal footing as the imported product. Given the poor environmental conditions of agricultural production, the priorities during the early years of independence were focused on issues of fighting desertification and food security. Today, this strategy is still reflected in the context of export of food produced in the country, where a single product, the fish, in its different forms, constitutes almost 100% of the country's food exports.

Having overcome some challenges, it is urgent to promote the increase of agricultural competitiveness necessarily passing through a process of agriculture modernization, based on applied and adjusted research programs aiming the efficiency and optimization of resources allocated to production, respect and appreciation of cultural and traditional specificities of the product brand CABO VERDE as a niche product and high added-value.

The growth of the domestic market, which has also registered higher level of demands in terms of food, has contributed to the diversity and increased supply especially in the sector of fruits and vegetables, whose production has conquered and secured it space at the domestic level, providing products to supply several shops and supermarkets at a national level. With tourism development and the construction of hotel chains/resorts another perspective of supply of agricultural products opens up to this “new” market, giving rise to a number of initiatives aimed at this market, as it was the case of hydroponics.

Table 22 Export of Food, 2011 - 2012

Export of Food, 2011 - 2012						
PRODUCTS	2010		2011		TOTAL	
	WEIGHT/ KG	VALUE/CVE	WEIGH/KG	VALUE/CVE	WEIGHT/ KG	VALUE/CVE
Food Total	16,234,868	3,127,403,780	18,122,292	4,457,727,723	34,357,160	7,585,131,503
Food excluding fish and products*	41,576	8,562,418	109,055	18,479,462	150,631	27,041,880
% of food excluding fish and products	0.26	0.27	0.60	0.41	0.44	0.36
* Ground coffee, sugar cane molasses, malt extract, cereal-based products obtained by roasting or expansion, cookies and biscuits, pastry products, bread and food preparations.						
Source: INE, 2012						

5.5 Sector Activities Planned Under The 2008 DTIS

5.5.1 Updating the conformity work plan for SPS conformity with WTO

Table 23 Updating the conformity work plan for SPS conformity with WTO

Actions	Deadline	Update
Review existing legislation and new amendments to ensure regulations are based on risk assessment and sufficient scientific evidence.	No later than 1 December 2008.	Ongoing.
Development and enactment of basic legislation for SPS regime: · Drafting and enactment of new Laws related to Food Safety, Plant Health and Animal Health; · Establishment of Regulations and updating existing laws.	No later than 1 December 2008.	Ongoing. Law on food safety has been published. Much more needs to be done.
Submission of notifications required by the Agreement to the Committee on SPS.	No later than 1 January 2008.	Ongoing.
Acquisition of laboratory equipment and upgrading of laboratory infrastructure, international accreditation of lab with international standards related to the different requirements included tenders etc.	No later than 1 January 2010.	Not implemented. Contacts and projects were presented for funding with FAO, WHO, UNIDO, with reference to some equipments and rules. Funding to be mobilized.
Upgrading and strengthening of quality control, quarantine system and proper border inspection posts, functional Food Authority related to the 3 areas, including proper staffing and training and full compliance and implementation of the WTO Agreement on the Application of SPS measures.	No later than 1 January 2010.	Ongoing (training/capacity building of Phyto and Zoosanitary border inspection agents). The other elements are yet at a very early stage.
Training of staff on SPS implementation.	No later than 1 January 2010.	Done.
Full implementation of the WTO Agreement on the Application of Sanitary and Phyto-sanitary Measures.	No later than 1 January 2010.	Ongoing.

As noted in the update of the seven points, whose conformity should be fulfilled, in many cases, on January 1st, 2008, only personnel training in implementing SPS is performed, whilst the remaining activities are ongoing. The investments made by Inpharma in creating InLab, holder of ISO 17025

certification, enable the country to rely on laboratorial capacity regarding quality control of water and food. Likewise, the Official Laboratory for Fisheries Products (LOPP) offers technical conditions to perform milk food analysis.

To meet the requirements of the SPS agreement, the following actions were developed and some are still ongoing:

- Creation of the SPS notification and information point in 2007 – responsible institution DGASP;
- SPS specialized training in Geneva, Switzerland, at the WTO headquarters – 2 members from the notification and information point;
- Equipment purchase (computers, printers, fax, telephone) to the SPS information point.

Laws were produced and published in harmonization with Codex Alimentarius, OIE, IPPC and SPS agreement, as discriminated below:

Table 24 Legislation in harmonization with codex alimentarius, OIE, IPPC and SPS agreement.

Legislation	Content
Implementing decree nº 7/2010	Regulates the rapid alert system (Portuguese acronym: SIARA)
Decree-law nº 32/2010	Establishes the purpose and principles underpinning the national system of food (Portuguese acronym: SNCA)
Legislative decree nº3/2009	Creates the rapid alert system
Legislative decree nº 3/2009	Establishes the general principles monitoring the safety and quality of foodstuffs and animal feed, the responsibilities incumbent upon the food sector operators, as well as the procedures in case of risk in order to ensure a high level of protection of the health and quality of life of consumers.
Decree-law nº 25/2009	Establishes general standards of hygiene which foodstuffs are subject as well as the methods of verification.
Decree-law nº 24/2009	Adopts rules for the labeling of foodstuffs to be delivered directly to the end consumer as well as those that regulate certain aspects of their presentation and advertising.
Legislative decree nº 2/2009	Establishes the general principles of the offences against the economy and public health.

5.5.2 Updating the implementation of the action plan for the sector

Table 25 Updating The Implementation Of The Sector's Work Plan

N.º	Action	Priority Level	Entity	Period	Observations	Status
5.6	Implement the Action Plans agreed in the WTO accession package. (Customs, SPS, TRIPS, and Commerce). Reviewing legal codes, drafting regulations. Institutional support for implementation. Capacity building.	Very High	MECC, Customs, MDRRM	2009 - 2011	EU technical assistance approved under EDF TradeCom Facility starting in 2008. EU assistance under SPA "convergence" programme. Under the one-UN program, UNCTAD has been designated as lead agency; WIPO, WTO; UNIDO is already executing a project of TBT, financed by EU; Despite this TA, further support is needed.	Still ongoing.
7.4	Improve SPS standards and food security in hotels and restaurants.	Medium	MDRRM, ARFA, IGAE, Ministry of Health	2009, Continuous		Not executed.
12.5	Support the development of selected agro-based products throughout the entire value chain. Special attention to supplies to the tourist sector, and to sanitation questions.	High	MDRRM, ADEI, ARFA	Continuous	Build on existing projects. E.g EU/Italian project in Fogo (deals with wine as well as links with tourism). Center Agro-Food in Porto Novo, etc.	Not executed.
12.6	Support for standardization and certification of niche agro-	High	ARFA, ADEI	2009	Build on existing projects as for 12.6. UNIDO has started implementing a quality	Not executed.

products (coffee, grogue, wine, etc.). Support capacity building for commercialization and export promotion.	control programme under the One UN programme.
*MECC = currently MTIE MDRRM = currently MDR	

Globally, the implementation of the actions identified in the DTIS-2008 action plan was not completed on time, which now suggests that the implementation periods established may have been unrealistic due to the complexity of the issues to solve and the need to coordinate the people involved. The proposed 4 years time might have been too optimistic, since some of the actions suggested in the DTIS-2008 take longer to be implemented and depend on other activities of the Government’s transformation agenda. These actions must be reprogrammed and readapted according to their priority in order to meet the challenges of public policies on agriculture and on the general framework of the current economic development of the country.

5.6 Agricultural Production Competitiveness

We do not intend to deepen all issues that constrain and affect the agricultural sector, because they are very well treated in various documents and thematic reports of the sector that can be studied: we will only analyze some key issues whose treatment may enhance investments made and produce the desired results.

5.6.1 Increased production

The scarce water resources of Cape Verde, the dispersion of its territory and the difficulty of access, combined with the import of almost all agricultural production inputs, pose major challenges to the competitiveness of agricultural and livestock production. The investment in training and capacity building of the different participants of the sector constitutes a key factor to the increase in competitiveness together with the increase in value of production, through a persistent and hard work in improving quality, intrinsic and extrinsic, of the products placed on the domestic market, tourism market and international market.

Once the water deficit for production is mitigated through the investments in the construction of dams that does not exhaust all constraints to the agricultural and livestock production in Cape Verde. Instead, other aspects less successful will become visible. In this context, the poor results of agricultural research in recent years, water management, the need for greater interactivity between public and private sectors, with other demands and vision of the sector.

Table 26 Import Dependence, Select Products

	Total	Cabbage	Onion	Pepper	Tomato	Banana	Papaya
Import (Ton.)	6,238	110	2,727	134	152	3	15
Consumption (Ton.)	61,328	7,800	5,585	1,950	7,800	5,200	1,300
Dependence on imports	10%	1%	49%	7%	2%	0%	1%

Source: Hanemann and Lopes, 2009 / Import Dependence Selected Products

According to Hanemann and Lopes (2009), where it was possible to compare side-by-side imports and local products, the appearance of the local product was far superior and this superiority

reflected in the higher unit price of the local product which, according to the authors, gives credibility to the local production, because it can compete, in quality and price, with the imported product. Still according to the same authors, the Cape Verdean farmer is posed with the challenge to produce more and out of season so it can successfully compete with the imported products from Holland, Portugal or Brazil (MCA project – Cape Verde, 2009).

Despite the sector's supply is still short of domestic needs, there is a potential for growth in the coming years, which if well oriented and supported, will contribute significantly to the country's economic growth, supplying the domestic market, including the tourism sector, in quantity and quality, in addition to providing the export of some products to the international market, namely the nostalgia markets (Cape Verdean Diaspora) and still the ethnic market and the growing organic products market.

In Cape Verde, agro industry reflects the character of family-oriented agricultural production and shows the overall picture of the sector. It is an activity still not significant, with exception to some companies in the area of feed production, poultry farming, production of *grogue* and wine. Nevertheless, there are already some products whose development is well advanced with considerable acceptance in the national and international markets. These should be considered successful products. They should be subject of research in order to obtain the success factors and make their disclosure as positive experience.

Some agricultural and livestock production sectors are now established by their relative productive potential, quality, local and cultural specificity. These are the agricultural and livestock sectors upon which research work could focus aiming their increase in value, and elaboration of market strategies, aiming their better integration in the domestic and international supply chain, working on the marketing issues, brand, place of origin and the whole inherent culture/history. Cape Verde brand should be the umbrella for the branding of the agricultural and livestock niche products, which can then have other individual names according to the product, island, location, etc.

Table 27 Agricultural and livestock sectors with potential for development in the domestic and international markets

Sector	Product	Island currently with greater potential
Wine	Chã, Sodadi and Maria Chaves wines.	Fogo.
Sugar cane	<i>Grogue</i> , honey, punch, liqueurs with herbs and fruits.	Santiago, Santo Antão, São Nicolau.
Coffee	Green coffee beans, roasted coffee beans, ground coffee.	Fogo, Santo Antão, Santiago.
Livestock	Cheese, goat milk, kid meat, pork meat, chicken, eggs, <i>linguiça di terra</i> (sausage made of pork with spices).	S.Antão, Fogo, Santiago, São Nicolau, Boa Vista, São Vicente, Maio, Brava.
Horticultural	Tomato, lettuce, carrot, cucumber, onion, pepper, cassava, potato, banana, papaya.	Santo Antão, Fogo, Santiago, São Nicolau, Boa Vista, São Vicente, Maio, Brava.
Grains	<i>Feijão congo</i> (beans).	Fogo, Santiago.
Processed and transformed	Sweets, jellies, jams, preserves, purees, diverse punches and liqueurs, of herbs and fruits.	Santo Antão, Fogo, Santiago, São Nicolau.
Cuisine	Corn pastry, couscous (made from corn flour), cassava flour.	All islands.
Forestry	Physic nut, aloe vera, castor oil plant.	Santiago, Santo Antão, São Vicente, São Nicolau.

The **wine** from Fogo Island, with a history of product development of almost 20 years, has been asserting as a quality product and with a good potential to be a gourmet product at the international level. Despite this potential, its biggest challenge still is the availability of this product in the domestic market, including HORECA channel network, where often this product is scarce. The installation of the vineyard Maria Chaves with 25 hectares will increment the wine production in Fogo Island. Considering that this new vineyard is located in a semi-arid zone, this wine can be different from the wine produced in Chã das Caldeiras and in Mosteiros.

Sugar cane. In this sector we find the *grogue*, which despite the lack of a research and marketing work enabling it to assert itself with its own name, has been finding its place in the market of nostalgia. Its exports to the United States of America happen under the name of rum. This is a situation that needs to be cared for and reverted so that the *grogue* from Cape Verde can assume its proper name. The characterization of this product constitutes an important factor for its added value and differentiation from other rums produced in the country and other similar distilled spirits produced in other countries. We also find the **honey** that is much sought after in the Cape Verdean cuisine and by the market of nostalgia (Cape Verdean diaspora market).

Livestock. In this sector we find goat **cheese**, despite the not very salubrious conditions in which it is sometimes produced, constitutes a product with national representation. From the 9 inhabited islands, only one does not produce cheese, the island of Sal. This product is very well accepted by the domestic

market, where demand is greater than the offer. Along this sector we also find **goat milk**, which can also be a product of high added value for its nutritional properties recommended for low fat and easy digestibility. We still find in the sector, **meat** and its derivatives, with some potential presented here: **chicken, kid** and **pork meat, beef** and **eggs**. Besides providing fresh meat for the local and tourism markets, there is also the potential of some processing and transformation in the production of **linguiça de terra**, much appreciated in the Cape Verdean cuisine. This is also a sector that absorbs a lot of female labor and represents a great potential for revenue generating activities.

Coffee. It is essentially produced in the islands of Fogo and Santo Antão. However, the coffee of Fogo Island is the one with greater notoriety. Some studies performed demonstrate that this coffee, if well developed, can become a high value product, sold in specialty shops, along with other world coffees. As with other products from Cape Verde, the coffee from Fogo Island also lacks a sustained work in research, for its characterization, improvement in the whole productive chains and marketing.

Processed or transformed products, **sweets, jellies, jams, preserves, purees, diverse punch** and **liqueurs of herbs and fruits**, etc. This sector constitutes one of the most practical and least expensive solutions in the absorption of surplus that occur during periods of peak production, whether fruits or vegetables. The initiatives for the creation of processing and transformation units that may arise should be encouraged, but always bearing in mind a global vision of the business, its sustainability, logistic, marketing and trading. This is an activity that absorbs a lot of female workforce that, alongside their daily activities on farms, dedicates to this activity, generating extra revenue to the household income.

Products of the national cuisine. Under this sector, we can include some typical products that, if developed, can constitute products of greater domestic consumption, including the tourism market, and products for exports, such as: **corn pastry** from São Domingos (Santiago Island) and couscous – that can be frozen; **linguiça, cachupa** (corn-based dish) and **feijoada** (beans-based dish) and other typical dishes that can be canned or frozen in individual portions for consumption, either for the domestic market or the international market.

Fresh fruit and vegetables sector. It is still at a very early stage of its development, when it comes to quality, classification and image. Post-harvest is still an activity poorly understood by the farmers, due to the lack of perception about the added value that the losses reduction can represent on their income. It is estimated that the losses of post-harvest in Cape Verde may be around 40% (Lisa Kitinoja, 2007). This significant loss results from failures in post-harvest practices, including suitable scheduling for harvest, lack of proper packaging for each product, lack of a cold and preservation chain and appropriate transport for agricultural production. In this sector, it is important an intensive work of capacity building, training and research in post-harvest, alongside a normative work that aims the increase in value of these products, in their intrinsic and extrinsic features. A study about the most competitive sectors may give clear indications about those with competitive advantages for export. The usage of low cost technologies to produce niche products (e.g. dried fruit, organic fruit) may be exploited. This sector can offer a wide range of products, whose opportunities for export can only be evaluated after knowing better which specific sector, including the costs of its production and the best consumers markets (domestic and international). Some cultures in this sector have been referenced as potentials, such as: **tomato, cassava, pepper, onion, lettuce, carrot, cucumber, potato, banana, papaya**. Although this is the sector that has the greatest impact on the household economy, and as such was prioritized in several government documents, it demands a logistic and cold system that is well organized and consolidated that needs to be developed in the country.

In Cape Verde, agricultural production does not cover all the needs of consumption. However, the prospects that open with the current water mobilization program make a perfectly attainable goal the increase in production. This will have a real impact to the extent if one also works/invests in the marketing, beyond the production chain itself. The existence of local products that have managed to garner the consumers' appreciation enhances its development as competitive **niche market products**.

Contrary to what was thought, with regard to food supply for the tourism market, hotel chain managers are more concerned with supply reliability than with the prices, since most of the provided vegetables are cooked before being served so the products visual aspects are not that relevant (MAC project – Cape Verde, 2009). Thus it becomes a priority to develop an applied research work that results in appropriate normative for national production and quality control measures in line with the traditional nature of Cape Verdean production, a factor that will contribute for the added value that is intended.

There is often the idea that processing and transformation are the attribute of production surplus that occur at certain times. However, the volumes of production in Cape Verde still do not allow for transformation at an industrial scale in a permanent and sustainable way. At the current scale on which the transformation and processing is performed in Cape Verde, they serve to: 1) increase the value of raw material; 2) protect the residual value of the raw material that one cannot sell fresh; 3) allow an alternative for when one cannot make the production distribution and the prices fall. Still the best solution to address the issue of oversupply as a result of peak production is the reorganization of the crop production calendar, seeking to produce less in periods that have historically recorded oversupply e more in the periods during which historically registered supply shortages.

5.6.2 Improved Quality

The demand for the placement of high quality products in the domestic market can provide a marketing strategy with far-reaching results. Given the number of tourist who visit us and can, firsthand, consume the national product; they may be potential costumers of these products, in their home country where they can purchase the product as gourmet, ethnic, organic or fair trade.

The strategy to increase exports of national agricultural and livestock products goes through the development of the domestic market, taking advantage of the potential that this market offers and testing the quality of some products whose production already is consolidated and improved its offer, working in its value increase and developing its brand image alongside with the marketing circuit. This work would constitute a research work aimed at creating knowledge applicable to other products whose production will gain space. The development and improvements to supply the domestic market is compatible with export and creates synergies for a sustainable export strategy.

In order to achieve the tourism market and improve domestic supply, the quality issues should be prioritized, always bearing in mind the creation of norms that value the intrinsic features of the national product and not its standardization to the products sold in other markets. Working from this perspective and always keeping focus the niche product and the designation of origin, a percentage of imports currently made to cover the all-inclusive tourism needs can easily be complemented by local production. The added value of the Cape Verdean agricultural and livestock production will be greater the better one can create products for niche market and of high value. The success obtained on this work of

product development will be the groundwork for export of the agricultural and livestock products of Cape Verde.

The current challenge is to focus on a hard work of supply the local market, including the HORECA channel, of products of local production in quantity and quality. In a first phase, the quality control system may focus, as recommended in the DTIS 2008, a strong pedagogical program in the area of quality and sanitary inspection of foods in the establishments of food marketing (hotels, restaurants, etc.).

Under DTIS 2008, a recommendation was made in order to regulate and certify traditional agro-products aimed for a niche market. This recommendation has not been implemented yet.

Recommendation 12.6 (DTIS 2008) – Regulate and certify the traditional agro-based products addressed to niche markets

Regulate and protect the production of traditional regional products, specially the wine from the Fogo volcano, grogue, pontche and coffee, including production and processing regulations, labeling and certification. Organize the farmers, namely the coffee producers, to strengthen the processing and marketing, and to improve the added value, as well as the product brand.

Still according to DTIS 2008 recommendations, hotels should be encouraged to buy local, regional and traditional products. This recommendation does not have any public policy mechanism that promotes and encourages its implementation.

Post-harvest and preservation centers (Portuguese acronym: CPCC) constitute an important tool for building a quality system to improve the product organization and to dissemination of research and market information. The attention should be focused in the management of existing centers in order to produce the success models that can be replicated. To this end, some tools must be produced in order to enable a clear-sighted management able to predict the needs and offer products. The successful implementation of a market information system (Portuguese acronym: SIM) is an instrument of vital importance for the proper operation of these centers, as it allows to evaluate the seasonality and price variation, which in turn are indicators of offer and demand of products. CPCC must position in the middle of the sector and promote improvements upstream and downstream, with extension, capacity building, technical assistance, logistic, distribution and marketing actions. Due to the need of these structures to establish and affirm the role they can play in terms of production promotion, it is urgent the revision of their current business and management models, in order to adapt them to the market and operators needs. Given the role of production promoter these structures may play, a grading subsidy system can be analyzed to ensure their initial financial viability.

5.6.3 Institutional Support and Public Policy

To respond to the farmers and agro-industry sector aspirations, a new generation of agricultural public policies should be established aimed directly to promote agricultural and livestock production, farmers accountability, ensuring the sustainability of the livelihoods of families/rural communities, as well as

investment incentives. The new public policies and the programs that implement them should change the agriculture paradigm and planning current vision, should move from an inside-out planning (centered in administration) to a planning from the outside (starting from the producers specific interests). This change supported by an adequate and reliable statistical basis, should have as new paradigm the achievement of specific production goals, revenue generation, creation of wealth and employment, poverty reduction in rural areas, shaping sustainable lifestyles.

Export incentive initially goes through the stimulation of increased production and agricultural production optimization, in a process of creating the image and brands of national products. As such, the investments done in water mobilization, through dam constructions, should be followed by the correspondent investment and complementary initiatives necessary to the optimization of production and marketing improvement.

Eco tax falls on packaging, namely bottles, boxes, stoppers, labels, etc. This tax increases the price of the product and may discourage producers to invest in the improvement and added value of their production thus making national agricultural and livestock products less competitive. Protection to domestic production is needed in order to allow Cape Verdean agricultural and livestock production to compete with some safety margin with products from countries that subsidize their production so when they export to other countries the costs do not reflect the actual cost.

There are some institutional issues whose resolution becomes urgent, or else they might contribute to the eventual regression of the national agri-business sector. The lack of a agricultural research aimed to provide quick and practical answers to producers and operators results in inefficiencies in the sector and discourages further investments.

Access improvement between the production and consumer markets areas and the organization and training of the farmers will have an impact in the reduction of post-harvest losses, will encourage production increase, a reduction in costs, besides allowing the guarantee of fulfillment of established supply contracts and the delivery of quality products. This fact positions itself as a key element in increasing competitiveness of agricultural production.

It is important the knowledge of the international markets where some Cape Verdean products may have a competitive advantage because it will allow operators to invest in production and quality. The preparation of a list of sensitive products and the capacity building of institutions in the sense they know the rules and procedures for operating in specific situations the safeguard measures allowed by WTO, would allow the country to have objective conditions for situations of need to safeguard some sectors of the agricultural and livestock production.

Given the country's own weaknesses, rates in Cape Verde do not have as priority the protection of the national production, which is globally understandable in view of Cape Verde's dependence on imports to ensure its food security. However, the investments done in the agricultural sector in Cape Verde start to being felt in terms of offer, whose evolution is predictable due to the continuity of investment. It is urgent that deep reflection are done in order to begin address this issue, creating exceptions for the products that the country can produce with some competitiveness, so as not to put again at risk an important part of the investments made in the sector and all food safety policy that has so hardly been built. The lack of local production protection created setbacks in some sectors of agricultural and livestock production that, in the recent past, were already registering significant advances, guaranteed

profitability for producers, as well as providing the marketplace, as the examples of poultry and eggs production, potato and onion production, in the late 1980s – early 1990s.

The improvement in the market of arable lands in terms of access, acquisition and registration stands as one of the aspects that in the medium term may jeopardize the substantial investments already made by the government, so that a work of improvement of the current system would much promote the investment in the sector and would be the appeal for a new generation of agricultural and livestock producers to stand as actors and protagonists in the New Agriculture projected in the VIII Legislature government program, 2011 – 2016.

DTIS 2008 recommended undertaking a study to identify the agricultural input demanded by the tourism industry.

Recommendation 7.7 (DTIS 2008) – A study to identify the agricultural input required by the tourism industry

The study should treat both the offer and the demand of these supply chains. The work already done by the Millennium Challenge Fund in this area and others under the umbrella of “product transformation” should be built upon.

This study has not been done yet. It would be advisable its implementation, in order to better meet the supply needs of the tourism industry and the bottlenecks that national producers still face to gain access to this market. If on one hand, the study allows knowing the bottlenecks, on the other, it allows also knowing the opportunities that this market holds. It appears that the most important, after the identification of these issues, is that these measures are taken in such a way that if not possible to eliminate them to at least alleviate them, thus allowing the market to function more fluidly.

Public policies should establish and promote an environment prone to the development of agricultural business. For example, policies that promote the purchase of local products for public institutions based on public local acquisition systems as for schools, hospitals, penitentiaries, etc.

The lack of a permanent statistical system does not objectively allow the evaluation of the impacts of the considerable investments done in infrastructures of water mobilization and now in the dams. This situation should be corrected with the urgent implementation of a permanent system of agricultural statistics that can adequately serve the public and the private sectors. If not done, there is the serious risk of putting to waste all the efforts the successive governments have done to create the conditions for the increased production and improvement of the living conditions of rural and agricultural population. This shortcoming prevents the evaluation and monitoring of the developed public policies, makes it impossible the knowledge of the real gains in the main production sector of the country that is horticultural, hampers a better management of the available resources and their real impact in meeting the needs of the population. A permanent monitoring system of agricultural production will allow also the improvement of the sector evaluation and its contribution in the accounts and in the making of the national wealth.

Last but not the least, is the need to improve the coordination between the institutions, creating an ongoing communication system to identify and find solutions to issues that strangle the better development of the sector.

5.7 Exports Of Agricultural Products From Cape Verde

5.7.1 SWOT analysis

The recommendations result from this simplified SWOT analysis about the possibilities of export of agricultural products from Cape Verde.

Table VI. 9 – SWOT analysis



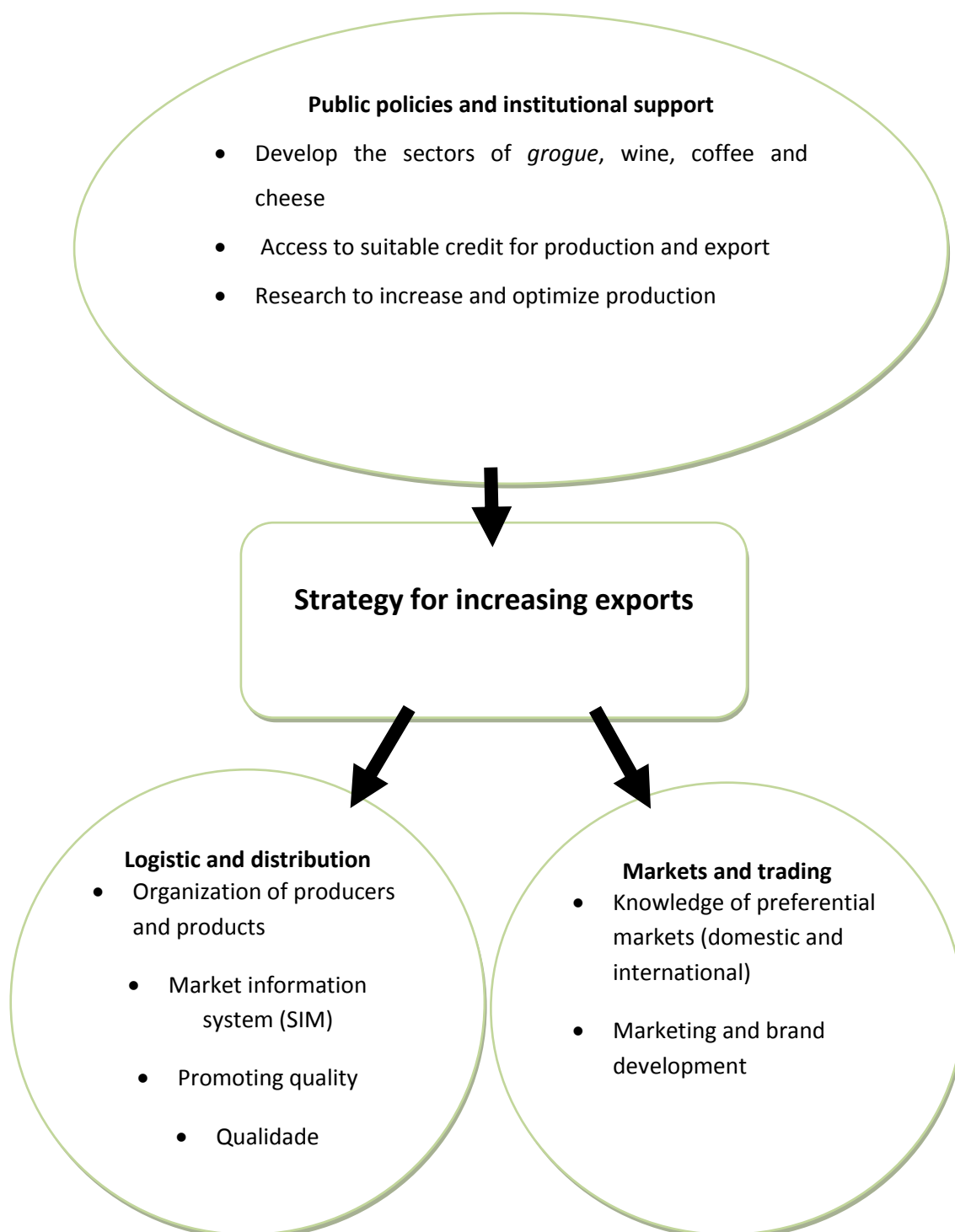
OPPORTUNITIES AND TIME	
<ul style="list-style-type: none"> • Existence of Diaspora and ethnic markets. • Increased consumption in the world and local markets of organic, ethnic and fair trade products. • Existence of a potential market in the hotel industry for tourism. • Increased awareness about environmental protection issues. • Increased global demand for food. • Preferential access to markets: European Union (Cotonou Agreement), United States (GSP and AGOA Agreements), ECOWAS (ECOWAS Treaty), Canada (New Initiative for Africa) and China. 	
Short and Medium Term	Short and Long Term

<u>Strengths</u>		
<p><u>(Quantity)</u></p> <ul style="list-style-type: none"> • Favorable natural conditions for production throughout the year for certain products. • Low use of agrichemicals. • Existence of a population (222,254) who are still engaged in agriculture. • Increased availability of irrigation water (construction of 17 dams, in the VIII Legislature Government program) • Increased supply of vegetable from local production, in the main markets and supermarkets. • Diversified production of fruits, vegetables and livestock. • Existence of a potential Diaspora market (estimated at 1 million people). <p><u>(Quality)</u></p> <ul style="list-style-type: none"> • Potential for product differentiation in niche and gourmet product. • Global growth of the ethnic market, organic products and fair trade. 	<ul style="list-style-type: none"> • Promotion of companies engaged in helping the producer to work through the issues of packaging, brand, marketing and certification. • Studies of the sectors of agricultural production in order to identify the most competitive. • Market surveys that identify the most competitive markets. • Boost the tourism related to the consumption of local products (organic, ethnic, niche, gourmet and fair trade products). • Promote the creation of companies specialized in logistic and distribution (warehouses/post-harvest centers, packaging centers). 	<ul style="list-style-type: none"> • Increase the production and productivity in the most competitive sectors.

<u>Weaknesses</u>		
<p>(Quantity)</p> <ul style="list-style-type: none"> • Production seasonality and high post-harvest losses. • 70% of the total arable land is formed by small dimension farms (0.1-1 ha). • Competition from imported products subsidized at the origin and exempt from custom taxes. • Research programs that do not respond to the challenges of the sector. • Weak associative capacity from producers. <p>(Quality)</p> <ul style="list-style-type: none"> • Lack of quality standards and regulations and a certification system. <p>(Logistic)</p> <ul style="list-style-type: none"> • Lack of a logistics and distribution system, nationally and internationally. • Difficulties of access between the agricultural production zones and the domestic and international markets. <p>(Institutional aspects and public policies)</p> <ul style="list-style-type: none"> • Lack of knowledge of the real production costs. • Lack of knowledge of potential exports markets. • Lack of a credit system directed at the sector. • Lack of a statistical system to monitor suitably the agricultural and livestock production. 	<ul style="list-style-type: none"> • Establish a research program that responds to the challenges of production and of agribusiness for export. • Build a quality and certification system that addresses public health issues but maintains the intrinsic features of Cape Verdean agricultural products. • Boost innovation. 	<ul style="list-style-type: none"> • Invest and encourage product quality (intrinsic and extrinsic features and in particular the design) • Monitor the quality/price ratio

5.7.2 Strategy for increasing exports of agricultural products

Figure 27 Strategy for increasing exports of agricultural products



5.8 Recommendations

Once the legal, public policies, regulations and norms issues are resolved, it appears that the solutions to the matters found lack teams mandated and equipped to address the aspects that strangle the sector. We list some recommendations that aim to translate the issues discussed in this report, organizing them primarily in terms of: quantity, quality, logistic, institutional support and public policies.

5.8.1 Increased Production:

Recommendation 1. Research programs aimed to monitor and support the farmers and operators in the agricultural and livestock sector in export, particularly on issues of optimizing production (soil management, seed and improved varieties, irrigation systems, water management, etc.), post-harvest, logistics, marketing, brand, certification, marketing and business.

These conditions relate to the aspects of knowledge, research, information from the domestic and international markets, credit, legislation, insurance, structures for investor support, which are able to provide information for decision-making and resources, financial and human, necessary to its realization.

Government efforts in rural infrastructure should be followed by an equal effort in optimizing agricultural and livestock production. This effort will require significant research support, training and capacity building of all stakeholders in agribusiness, in a broad and comprehensive concept, activities before production, during production and post-production. According to the evaluation made by Lisa Kitinoja on post-harvest in Cape Verde, the post-harvest losses are around 40%. Given these values, the author recommends the gradual adoption of the cold chain in order to double the products useful life. For every 10° C decrease in temperature post harvest losses are reduced in half.

Here it is important to note that the issue of certification is not a guarantee of the value and marketing of agricultural and livestock products, as each import market establishes a specific set of conditions to whom exports and certification has a cost that is justified solely on the basis of the value that the market demanding it is willing to pay for it. Certification depends on the "quality" of the products, but quality does not depend on certification and it (the quality) is the basis for any system of certification and the construct of any certification system. The construction of a quality system of horticultural products in Cape Verde must pass through a sector approach, encompassing all stages, from production to the consumer. Any efforts concentrated only in post-harvest, namely packaging, transport, market information systems and transportation will not have the desired results if the aspects of production are not properly optimized. The increase in production and marketing perspectives depend on the production optimization.

Due to the imperative of public policy orientations in the fields of quality and certification, it is important to promote the debate on these issues in order to allow the collect of contributions that avoid the implementation of projects that rather than promote and add value to local production, might conduct to plaster the efforts to effective local production valorization. There are significant differences between quality criteria built from local production reality, with the objective of distribution in the local market, or even in the national market, and those

adapted to comply with export pretensions, once these should respond to the international market, ruled by a number of non-negotiable criteria which, finally, might even compromise the singularity and local quality of the agro food products. The option to export requires the inevitable need to respond to the international sanitation criteria, such as the ones proposed by the *Codex Alimentarius*, while the development of differentiation and niche markets strategies, as means to increase the revenues of small farmers, but also as means to protect jobs, to preserve the traditional know-how, the biodiversity, and the cultural heritage, might be very hard to obtain with the indiscriminate enforcement of international regulations for food production.

To solve such impasse, the previous decision is related to the destination of the products (target market), by other words, if they are addressed to supply the local market / national market (including the tourism market), or if they are addressed to exports markets; such a decision will allow to set the boundaries for the most convenient type of certification.

Recommendation 2. Encourage the creation of companies, business associations or cooperatives for the supply of packaging and services in the area of post-harvest, logistics and distribution.

The promotion of private companies in the areas of trading of agricultural inputs, in post-harvest, logistics, distribution and technical assistance services can leverage the increased production and improved product quality. The management of post-harvest centers already built should be managed by the private sector, actively assuming the capacity building of farmers and other chain operators, promoting the dissemination of market information, creating incentives for the experiments that can be replicated and making these investments sustainable and promoters of the development of the sector.

Recommendation 3. Study of some sector of the agricultural production, including the study of production costs in order to prioritize those with the most competitive value for export.

Knowing the price of production allows to assess the competitiveness of the product, whether in the domestic or the international market, thus allowing to evaluate the market opportunities of each production and the advantages of investing or not so one is able to enter markets that positively assess the value added of the product.

5.8.2 Improved Quality:

Recommendation 4. Implement the recommendations done for the improvement of export conditions in DTIS 2008, in particular the sanitary, quality and certification frameworks:

- Improving the SPS standards of food security in hotels and restaurants;
 - Build a certification system that responds to the public health issues and favors and values the quality and intrinsic features of the national product and not its comparison to products traded in other markets.
-

There are difficulties in reaching an agreement on the responsibilities and competences between the various stakeholders in the quality system. The lack of this consensus between institutions makes it difficult to put into practice the actions planned for the quality systems that may in the future lead to certification. It thus becomes necessary to clarify the boundaries of each institution of the national quality system and improve the climate of shared responsibility. Despite the need for a comprehensive and integrated approach of the quality issues, it is needed to define leaderships and clear boundaries in the responsibilities of each institution that do not have the necessary resources for its better implementation. As such it is recommended that quality must become part of each service/department in order to incorporate this concept and corresponding knowledge in the institutions. The creation of groups within the institutions to work on issues of quality and certification ensures greater efficiency and effectiveness to the system by allowing individual knowledge to be preserved and proposals of quality standards respect dimensions such as the reality of the agricultural and livestock producer, its culture, its tradition and its environment.

The short duration mission – trading report, the result of a technical assistance to the Ministry of Agriculture and Environment, recommends that, as regards the preparation and revision of quality standards, it must have the cooperation of traders as well as of representatives of the hotel industry (...) *the strengthening of the origin "Cape Verde" at this product (refers to grogue), which requires a substantial increase in the level of organizational production and marketing.* The same report also notes that priority should be on the acquisition of good practices, then recommending the need for the authorities (ARFA, DGASP or IGAE) to assume this responsibility and control.

The creation of specific team works with mandates and resources allocated to the fulfillment of established objectives, can guarantee results in the short and medium term. The establishment of the Quality Institute of Cape Verde can provide greater dynamism to produce solutions in this area, provided the issues of conciliation and shared responsibility are taken into account.

Recommendation 5: Work the entire value chain of the following products: *grogue*, wine, coffee, cheese, ensuring the characterization of the products, the trademark registration and the seals of denomination of origin, where applicable.

Grogue, wine and coffee are products that are already being exported even if informally. Working the entire value chain of these products, to which cheese is added – for the potential that this sector represents would serve as a case study whose experience could be improved and then replicated to other products.

It is worth mentioning that *grogue* is currently exported to the United States enclosed by the characteristics of rum and it is labeled as such. The *grogue* from Cape Verde is not registered yet. This situation lacks solutions that go through applied research determining its properties, setting quality standards, certification and a strong diplomatic foray towards achieving its registration as a trademark of Cape Verde.

The creation of a brand "product of Cape Verde" for agricultural and livestock products will allow the work of an integrated marketing, where the various aspects of increase in value, quality, specific characteristics, culture and tradition, as well as others, can be integrated to create a Cape Verde niche product.

5.8.3 Logistics and Distribution

Recommendation 6. Study of the logistics and distribution chain in Cape Verde with the aim to identify the bottlenecks and the needed improvements for access to national and international markets.

Regarding inter-island shipping, although it is not the ideal, it may be improved with a hard work of organizing the travel schedule so that their frequency is guaranteed and the storage conditions during transport and unloading are improved. This would increase the efficiency of supply and minimize losses.

Despite some animosity that sometimes is perceived to exist among producers, "*rabidantes*" (intermediate) and the consumer, the role played by this professional group is extremely important for the risks they assume in the business by circulating the products of agriculture and livestock to all parts of the country. This group is without a doubt the main partner of the marketing of agricultural and livestock products, in many cases taking activities even of harvest of the product when they negotiate the product still in the field, of product packaging, of transport and finally marketing. Without this class, we risk stating that the marketing situation of agricultural and livestock products would be much worse and would have negative impacts on production.

It is however important that to improve the performance of those who invest in the marketing of agricultural and livestock products one improves the market transparency by providing elements that facilitate communication between the participants, including information on the cost of products in the producers and in the consumer markets. The development of the farming industry and agribusiness, alike all other business sectors, involves creating an environment that promotes the investment and risk taking. However, given the vulnerability and randomness of the factors that shape this industry some basic conditions are necessary for the success of those who decide to invest in the sector.

The boosting of the entire agribusiness chain (companies selling inputs, the production itself, logistics and distribution) is crucial for the sector to develop in its fullness, since specialization is necessary in order to gain efficiency and competitiveness. The difficulties that exist can be overcome by creating team works empowered and provided with resources to enable them to work exclusively to resolve the bottlenecks that exist and strangle the process, to provide the correct functioning of the initiatives, and to improve the communication systems between the various participants of the chain.

5.8.4 Institutional support and public policies

Recommendation 7. Market studies aiming at understanding the markets (diaspora market, ethnic market, fair trade, organic products market) and agricultural products that Cape Verde can export.

On-going monitoring of the production volumes, costs and selling prices would enable reliable conclusions about the impact that high-value products, produced within a timetable that meets the market needs, may have on the revenues of producers and in the increase of companies in the sector.

The basic assumptions in order to speak about export is to know first where the preferential markets for the products of Cape Verde are, knowing which Cape Verde's products may compete in these markets, divulge this information so that operators of the agricultural and livestock sector can get ready to produce in quantity and quality required by these markets.

In the specific case of the diaspora market, analyze the import logistics and distribution network of products that are currently being exported as well as the payment systems. Learn how the imports of products found in the diaspora are currently done, who imports and how he/she markets, would help to better understand the value chain of products exported and thus evaluate how they can provide opportunities for companies in the business.

Recommendation 8. Trade policy – create a local support system and specific for the export of agricultural and livestock products (credit line, support office for exports, grants system, subsidies for export, facilitation measures and financial guarantees for export, etc.).

In the process of exporting, the exporters face extra expenses that do not equal the expenses taken in the domestic market. A line of credit to support exporters, who have already secured contracts in order to meet the extra expenses incurred in the export process, would be a measure of incentive to export.

Given the random and perishable nature of the agricultural and livestock production, the instruments created for export incentive should be agile and flexible in order to be promoters and facilitators of the sector. The lack of a system of agricultural insurance to cover the risks involved with the agricultural and livestock production constitutes a bottleneck to credit access and discourages further investment in production. The charged Eco tax is applied whether to a filled package or to an empty package. It is proposed that the Eco tax be repaid when the exporter performs the export.

Recommendation 9. Reshape public policies in order to show in a transparent way the incentives to the private sector and promote:

- The growth of private companies that operate in the entire chain of agri-business - before production (agricultural inputs), production and post-production (logistic, distribution and trading).
 - Creation of an institutional market, through a transparent procurement system, of local production products for public institutions. Example: school canteens, hospitals, penitentiaries, etc.
 - Agriculture mechanization as a way of valuing agricultural and livestock work and encouraging young people to agriculture and rural entrepreneurship (automation, increased use of new communication technologies in agriculture).
-

The creation of public policy mechanisms that promote the consumption of local products, boost local businesses and create incentives for the establishment of companies throughout the chain of agricultural and livestock production would provide the much desired momentum and growth for the sector.

The investments in the sector lack of measures that promote its sustainability. The growing young and qualified workforce is an important asset that also needs to be targeted for productive activities in the agricultural and livestock sector. This intention can be achieved

through programs that search and disseminate the systems that enable mechanization and automation and the use of the new communication technologies in agricultural and livestock activities, appropriate to the terrain and the nature of family and small-scale farms.

Despite the lack of scale in production and the constraints in accessing the market, farmers also lack the motivation to associate themselves in order to improve their market power. This reluctance to improve the scale of their operations leads them to operate under various bottlenecks/barriers. These barriers reflect the asymmetries in relation to their buyers, to transportation providers, in the access to market information, resulting in a global lack of motivation for innovation in agricultural production (MCA project - Cape Verde. 2009).

Recommendation 10. The gradual transition of functions that until now have been performed by the central government to local government bodies and trade and agricultural associations and others that work for the development of the sector.

The specificity and diversity of the production and of the rural and agricultural Cape Verdean landscape constitute the country's greatest asset in the context of creation of value-added niche products. This implies a local attention to product development, in the expectation of selling a product with history and tradition; it requires a local involvement in its development. The engagement and involvement of local governments in the process create sustainability; enrich the sense of ownership, alongside of stimulating self-esteem and local empowerment. The centralization of decisions at the central government level affects the export process. By promoting power delegation, the central government should simultaneously strengthen its role of regulator, supervisor and assurance of transparency and quality.

Given the specificities of the agricultural and livestock sector, an office focused to support in a dynamic and interventional way the export initiatives of the sector, in addition to providing a specialized and sensitive service to issues of the agricultural and livestock product, would effectively allow the knowledge of the real difficulties and, at the same time, to act for their resolution. This office may be associated with trade associations/chambers of commerce, but working closely with the MDR (Ministry of Rural Development). The levels of communication and information for export need to be improved. A study to know what are the real bottlenecks in the process of export of agricultural and livestock products would help institutions to pore over its resolution.

Recommendation 11. Capacity building action of agricultural producers in the specific areas of their production, including aspects of business management.

Despite the numerous training and capacity building activities undertaken, its impact is still short of what is needed for the optimization of agricultural and livestock production. Other capacity building actions must be explored to allow widespread access and by the need of the producer, through electronic support readily accessible to those interested.

Recommendation 12. Improve access conditions to arable lands. Create the necessary legal conditions for a free market of arable lands.

The lack of transparency in the price of land hinders their access to investors. It is therefore important to improve the information on the value of the land so that the business can be boosted with benefits for both, buyers and sellers.

Recommendation 13. Boost tourism related to the consumption of local products (organic, ethnic, niche, gourmet and fair trade products).

The import substitution in the tourist hotel sector by domestic production is a possibility within reach to Cape Verdean farmers because the country has potential and products that can easily conquer this market. However, it is required an effort to meet the standards of this sector. This sector requires that products have a certain level of quality, of health guarantee, a certain degree of homogeneity, predictability and reliability of their supply.

The trust relationship and customer loyalty in demand for domestic products may go through the encouragement of the tour operators to include in their packages programs of knowledge about the local cuisine and local products tasting.

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■ CHAPTER 6: FISHERIES AND THE MARITIME ECONOMY

6.1 Preliminary Remarks

The fisheries sector has been elected by the successive governments of the republic as a strategic sector and of vital importance to the social and economic development of the country. In the year 2012, the fisheries sector decisively took over the leadership of the country's exports and has even exceeded the weight of the clothing sector. According to recorded data for the year 2011, a total of over 40 tons of fresh fish was exported. In fact, the subsector's contribution to the country's economy has experienced more positive developments lately, mainly due to increased exports of canned fish. On the other hand, exports of frozen fish, once a very relevant segment, experienced considerable setbacks due to lack of adequate infrastructure conditions of cold ashore.

In recent decades, in recognition of the role of the sector in the economy, huge investments from public sources and international cooperation were spent in an attempt to modernize and develop the sector. However, despite the progress made, it is observed that the gains have not been sufficient to alter substantively the main determinants of the modest contribution that the sector brings in the framework of the main macroeconomic aggregates of the archipelago - about 2% of GDP.

However, from a social standpoint, the sector is of an increasingly growing importance, especially if taken as part of initiatives to fight poverty. The contribution of the sector in the supply of employment opportunities and income have been a factor in the settlement of populations, especially those living in coastal communities where alternative opportunities for professional reconversion and diversification are still very scarce. The latest recorded data indicate that, in 2011, direct employment provided within the framework of the activities of the sector represented approximately 4% of a working population of 177,000 people. More than 6,000 people, including youth and female heads of households, found in the sector the livelihood their households.

Domestic production of seafood products reveals a tendency over the years to stabilize catches on around 10,000 tons/year, a figure far below the global potential of exploitable fish resources at the country level. According to the latest estimates and corrections, the resource potential of the country is estimated at 36,000 to 44,000 tons/year. It could well be understood that there is an underutilization of the available fishing capacity and that fisheries are not being exploited at optimum levels so there is still availability likely to support an increase in the fishing effort in order to increase catches.

However, together with the limitations in terms of scientific knowledge about the dynamics and evolution of the main stocks of available and exploitable resources other factors add up such as illegal fishing, poor management, supervision and control of the marine activities that associated with the poor control of the catches of licensed vessels are limiting factors in the expansion of disembarking. Therefore, it is necessary to consider in the foreground alternative strategies to enhance competitiveness, profitability and sustainability of fishing activities other than through the increase of effort and extraction capacity.

In this vein, investment should consist primarily in creating the conditions for sustained improvement of the rates of productivity and competitiveness of the sector, based on an ecological and economically

sustainable approach and that is able to contribute to impart greater efficiency in the distribution channels and marketing of seafood products to provide industry representatives a greater share of the value chain, thus increasing the income levels of the operators and the welfare of fishing communities. The increase of export capacity should be part of a strategy to promote and exploit the complementarities between the domestic and foreign markets, based on an approach focused mainly on intangible factors, such as training and capacity building of the stakeholders in the sector, the promotion of quality products, research and introduction of modern capture and fish processing technologies in order to better respond to new opportunities, preferences and requirements of an internal consumer market increasingly wider.

The strengthening of the capacity of exploitation of the depth resources and of alternatives that are offered within the framework of fisheries agreements with countries in the sub-region could give to the sector increased and diversified opportunities of disembarking that could be channeled primarily to strengthen the capacity of domestic self-supply, taking better advantage of the opportunities of market tourism and to increase availability for the canning industry.

The products of high commercial value, including species such as *fanhama*, grouper and other demersal species of great depth, must become the purpose of a specific applied research accompanied by an exploratory commercial fishing to assess the profitability of these fisheries and their competitive potential within the global market opportunities.

It is precisely in this context that one understands the purpose of this initiative, which is to update the diagnosis and devise a plan of action to improve the business environment in the sector with a view to make better use of the opportunities the global market offers. Thus, this document is divided into two distinct and complementary parts.

In the first part, an update of the diagnostic sector is presented, pointing the constraints that exist both upstream, i.e. the supply side that includes the production processes, the state of knowledge, exploration and management of resources as well as the potential alternatives for diversifying and increasing supply, and downstream that portrays aspects related to the distribution channels and marketing, transformation and processing of products disembarking and their use in the context of market opportunities.

The second part consists of a plan of action guided by the principles and goals that will guide the development strategy for the sector with a view to remove the main constraints that hinder a better use of the potential of the sector in the context of global market opportunities. It is thus a strategy that articulates the valorization and growth of economic activities in the sector with the need to preserve the scarce resources available.

6.2 Diagnosis of the Fisheries Sector in Cape Verde

6.2.1 Characterization of the Sector

The fisheries sector has been the object of study by several authors, presenting today a rich collection of books. In most of these studies, the sector is divided into two distinct categories, where the main criteria for the definition are the destination of catches and the type of vessels. Two distinct categories result from these criteria:

- i) Artisanal fisheries, responsible for decentralized fish supply to local communities and islands, and;
- ii) Industrial fisheries, responsible for the export, supply of the canning market, and supply of the main urban centers of fish consumption at the country level.

In some cases, industrial fisheries are divided into two sub-categories: semi-industrial and industrial. For the purposes of this study, fishing industry is considered as a whole, taking into account that the produced statistical data do not give references to these subcategories.

6.2.1.1 Artisanal fisheries –Evolution of the Fishing Fleet

In the country, fishing activity is developed mainly around the islands and islets near the coast. Catches from this subsector are targeted for species like tuna, small coastal pelagic, lobsters and several other species of demersal fish. Artisanal fishing presents itself as a traditional activity sector whose social importance far exceeds its modest expression level at the level of macroeconomic aggregates of the country.

Along the coast of the different islands of the archipelago, there are currently about 94 fish landing ports, located in nearby villages - fishing communities - whose majority of residents have in the fisheries sector and its related-activities their main economic activity. Hence, it is reserved for the sector a leading role in the settlement of populations, especially in rural areas, where besides rainfed agriculture and animal husbandry, alternative opportunities for income and employment for local residents are scarce.

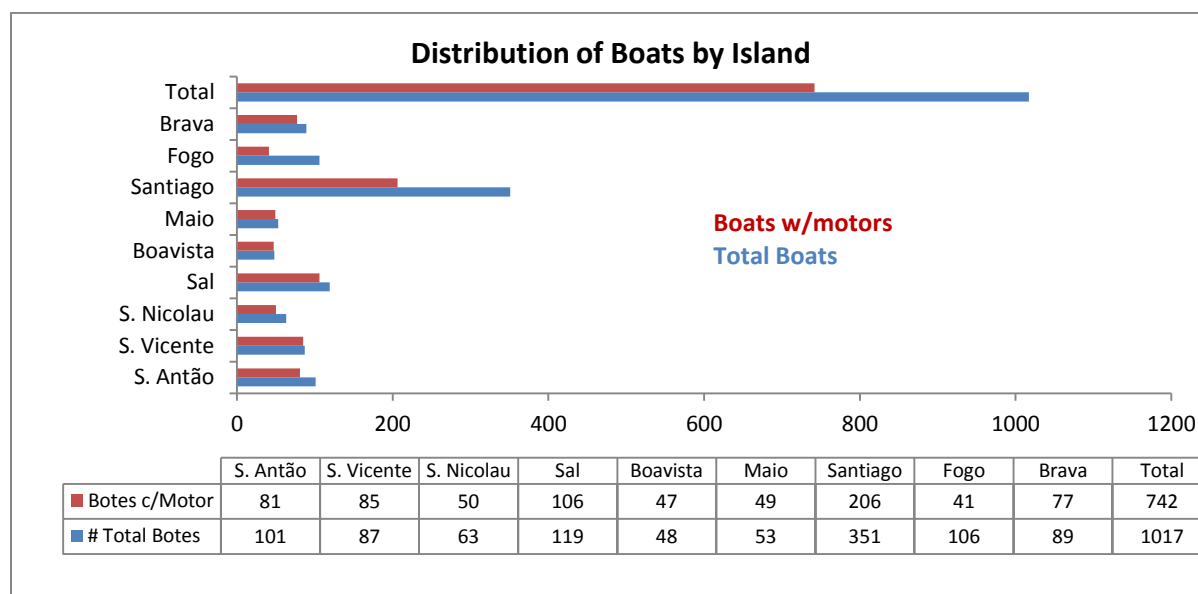
It is extremely complicated the retraining of operators and/or diversification of their activities due to the prevailing low level of education among the majority of operators. However, with declining catches close to the coast as a result of excessive fishing effort exerted continuously on scarce coastal resources and the emergence of new alternative employment opportunities and income in urban centers of the country, mainly in the sector of construction works show that the sector has been progressively losing some competitiveness. The reduction of both the number of fishermen as well as the respective production units is a clear evidence of this phenomenon. This reality is much more prominent for the artisanal fisheries sector mainly in the islands of greater inclination for tourism, as are the cases of Sal and Boa Vista.

6.2.1.2 Evolution of the Artisanal Fisheries Fleet

According to data from INDP (Portuguese acronym for National Institute for Fisheries Development), the fleet of artisanal fisheries in Cape Verde comprised, at the end of 2010, a total of 1,036 boats with length ranging between 3 and 7 meters and breadth between 1.5 to 2.5 meters. The distribution of the number of units per island is quite heterogeneous, as well as the number of operators. The configuration of the boats is very distinct. This, in general, is determined according to the sea conditions in which it operates, the configuration of the bays and landing stages, and the predominant means of propulsion. Thus, the artisanal vessels of the inward (*Barlavento*) region are generally larger than those of the leeward (*Sotavento*) region. Another difference resides in the means of propulsion used. While in the inward region, the combination is made between motor and sail, due to greater predominance of winds in this region, in the leeward region propulsion is usually done using a combination of motor and oars.

In recent decades, as a result of the modernization process, most of the small vessels started using outboard engines as the primary means of propulsion. The introduction of outboard engines, as part of the efforts to modernize the means of production, provided the operators with a set of advantages, which resulted in reduced travel time and consequently of fishing trips, in ease of access to farthest fishing areas and most importantly, in increased security and reduced efforts of the fishermen. Available data indicate that, in 2010, the rate of motorization of artisanal fleet, at the national level, was approximately 73%, being more pronounced in the islands of São Vicente, Boa Vista and Maio (see chart).

Figure 28 Distribution of Boats by Island



On the other hand, in purely economic terms, this innovation substantially worsened not only the initial investment costs of production units but also, incidentally in a way far more pronounced, the operating costs (maintenance, repair and fuel costs), with evident consequences on the profitability of the production units. There are no studies on this latter aspect of artisanal fishing, although it is assumed

that profitability is due to the simplicity of the techniques and fishing gear used and the improved knowledge of fishermen on the different fisheries and areas of concentration of resources targets. Knowledge of the seasonality of the fisheries and of climatic variations supports the decision to change the fishing basis of the fishermen according to the seasons. This adaptation allows operators to ensure a greater number of days of toil at sea, as such, the continuity of access to income. This practice is much more common in the islands of Fogo and Maio.

As part of the modernization of the artisanal fishery fleet, innovative techniques of building boats were introduced, using resins and fiberglass in an attempt to react to the shortcomings for wood construction. However, this alternative did not meet strong adherence by operators due to high material costs together with difficulties in accessing them. The advantages expected by the suggested innovation, namely increased longevity of vessels and reduction of maintenance costs, were not enough to convince operators. However, alternatively, the option has been to coat wooden boats with fiberglass. This alternative appears to be much more feasible from a financial standpoint given the weak capacity of accumulation by the operators of artisanal fishery.

Available statistics show a very marked reduction in the number of artisanal boats and fishermen, especially these last two decades. It is observed that, in the period of approximately 20 years, the number of boats experienced a reduction of around 12% while the number of fishermen during the same period went from 4,283 to 3,108, i.e. a reduction of approximately 18 percent. Several explanations have been advanced to explain such a phenomenon.

The sharp reduction in the availability of resources along the coast, and therefore of income, and the need to travel to more distant fishing grounds resulting in more elongated fishing trips and with increased risks of security and costs, are listed as the determinants of the increasing loss of attractiveness and competitiveness of the sector. Indeed, in many fishing communities, a growing tendency is seen for migration of young fishermen to urban centers in search of professional alternative.

The target-fisheries of artisanal fishing fleet do not differ much from industrial fishing. A careful analysis of the data on landings reveals that catch composition is very diverse, varying throughout the year depending on the season for each fishery. Seasonality is a very striking aspect in the fishing activity. The artisanal fisherman shows a good knowledge of his craft and of circumstances of toil, all the result of a very finely tuned power of observation and based on experiences and practices that are transmitted from generation to generation.

6.2.1.3 Industrial Fishing – Fleet Evolution

In Cape Verde, industrial fisheries are of paramount importance, not only by the number of people involved directly in production as in marketing and processing but mainly for its outstanding contribution in reducing the deficit in the balance of payments through exports of fishery products. The supply of the canning industry and the complementary offer of fish to the domestic market reinforce the socio economic importance of this subsector.

In the 1990s, in recognition of the importance of this sector in the economy, large investments were made in order to meet the challenges of modernization and adaptation of the fleet. A fleet of 20 modern vessels, made of fiberglass and provided with a relatively greater autonomy, was developed and introduced. However, the results of this initiative did not meet expectations. After a trial period of

fishing both at the country and at the sub-region levels, it became clear that the viability of these units did not seem an easy task. The establishment of a joint venture for the exploitation of these units and their movement for fishing in Angola was also not feasible.

The current status of these units requires special attention, which may undergo through revaluation and possibly revitalization and adaptation of these units for a multi-purpose and versatile fishing able to better meet the challenges of a more distant fishing, which could even extend to the countries of the sub-region with which Cape Verde has a reciprocity agreement. However, the feasibility of such an initiative lacks a previous study in view of the unsuccessful experiments of the past.

6.2.1.4 Evolution of the industrial fisheries fleet

Available statistics show that, at the end of 2010, the country's industrial fishing fleet comprised a total of 96 vessels with a length between 8 and 25 meters. These units are equipped with internal motor with power ranging from 35 hp to 300 hp and have a gross tonnage not exceeding 30 GRT. Most industrial fishing vessels are based in the port of Mindelo, the only port of landing in the country with adequate support infrastructure for the export market and complementary with a canning industry associated market. The port of Praia, situated near the largest center of domestic consumption, constitutes the second port of landing of the industrial fleet catches. A small proportion of vessels of this subsector alternatively use the harbor of Tarrafal in São Nicolau to land catch for the canning industry. Landings from the fleet of Sal Island happen in the different ports, according to demand.

Over the years and unlike artisanal fishing, the industrial fishing fleet has experienced a rather sharp growth, going from 66 units in 2001 to 96 units in 2010. However, it should be considered that part of these units are inoperative or have a very discontinued use throughout the year. The efforts initiated in the modernization of the production facilities has not indeed yielded the desired effects, resulting in huge public and private investments with doubtful profitability. According with data, the evolution of the number of vessels was not accompanied by a corresponding evolution of fishing effort and neither with the desired increase in landings (see table).

Table 28 Evolution of the industrial fleet

Evolution of the industrial fleet – Variation in the number of vessels										
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Windward (Barlavento) region	35	36	35	34	34	36	30	35	33	37
Leeward (Sotavento) region	31	24	31	32	35	30	31	38	55	59
Variation (%)		-9%	10%	0%	5%	-4%	-8%	20%	21%	9%

Among the multiple factors that explain this reality, stand out particularly:

- Fleet comprised mostly by obsolete units, of high average age and thus requiring high maintenance and repairing costs;

- Inadequate units for simultaneous use of multiple devices and fishing methods adapted to the different fisheries;
- Fleet marked by very different types of units and equipped with a variety of engines and brands making it difficult to create a stock of spare parts and equipment in the internal market.

The industrial fishing exploitation conditions are highly precarious due to low unitary productivity and poor infrastructure conditions ashore. This fact is more pronounced for the vessels engaged in seasonal fishing of tuna and small pelagic. The weak autonomy of vessels and poor fish storage conditions on board combine with factors such as high operating costs resulting from the need to travel increasingly far from the main landing ports. The improvement of the ports of landing and of the ground support conditions particularly in the region of Sotavento could greatly contribute to better profitability of the industrial units based in this region.

As regards the contribution to direct employment, the evolution in the industrial fleet production sector shows a more positive trend than the one registered by the artisanal fleet. In late 2010, the industrial fleet employed a total of 1,152 fishermen, i.e. an increase of around 22% compared to the year 2000 when the subsector employed 900 fishermen. The data indicate that, over the years, this evolution has been marked by very significant changes. This variation is reflected in the amount landed (see table).

Table 29 Industrial Fishing

Industrial fishing – Evolution of the number of fishermen and of fishing effort											
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of fishermen	900	792	720	732	744	828	792	732	876	876	1152
Effort (days/sea)	4822	3450	5366	5123	2553	1068	1738	4916	4971	6184	7197

As can be seen from the table above, the fishing efforts translated into number of days of toil suffered a much sharper increase in the last decade, going from 4,822 days at sea, in 2000, to 7,197 days, i.e. an increase of more than 32%. In many cases, this increase is explained by the need of a greater effort without necessarily translating into a proportional increase in catches. In this same period, the increase in catches did not exceed 21%, thus going from 3,844 tons, in 2000, to 4,839 tons. It must also be taken into account that this increase is due in part to increased catches of small pelagic instead of tuna, a species of higher demand and increased business value both domestically and internationally.

6.2.2 Availability Of Fisheries Resources

6.2.2.1 Status of main resources

The availability of fisheries resources in Cape Verde is conditioned by a set of factors that make crucially important the adoption of prudent and responsible policies and that able to promote a balanced and rational exploitation of the scarce resources available. Despite the privileged location of the archipelago, situated in a region of relatively high primary production, the available data suggest the existence of a relatively small potential of fisheries resources, although very diverse in its composition, as a matter of

fact a typical characteristic of the tropical seas. Among the multiple determinants of such a reality, stand out particularly:

- i) Unfavorable climatic, topological and oceanographic conditions;
- ii) The lack of upwelling phenomena, upwelling of bottom waters;
- iii) Low and very irregular rainfall, and;
- iv) Reduced extent of the continental shelf. (Management Plan for Fisheries Resources, 2003).

The results of research surveys on the marine populations point to an estimated biomass of approximately 100,000 tons. The global potential of exploitable fisheries resources of the country, according to the latest estimates and corrections, is in the order of 36,000 to 44,000 tons. This without considering other resources of the utmost importance on catches composition, such as the large pelagic ocean, beaked species (swordfish), sawfish and demersal from the rocky bottom. In this estimate, it is still not included the deep-water resources, cephalopods, “conch-goat”, barnacles, algae and other mollusks. The non-inclusion of these species is partly explained by the inherent difficulties in fisheries research in tropical settings worsened by a lack of resources both financial and human.

A superficial reading of these numbers can lead to a fallacious conclusion reflected in the assumption that the country’s fishery resources are exploited far below the optimal level and that there is indeed a resources potential that can sustain a considerable increase in fishing effort and, consequently, in increased landings. However, one must keep in mind that more than half of this potential is composed of tuna species, i.e. a highly migratory and seasonal species. Another element to consider in this analysis relates to the technical and economic feasibility of exploitation of certain fisheries. A research project of such resources combined with an exploratory fishery with commercial focus could, to some extent, overcome this inadequacy.

From the analysis of the statistical data on landings, it is observed easily that the landings of the fleet operating in the country are focused on the following species:

1. **Large pelagic ocean**, which includes species such as yellowfin tuna (*Thunnus albacares*), bigeye tuna (*Thunnus obesus*), skipjack tuna (*Katsuwonus pelamis*), frigate tuna (*Auxis thazard*), little tuna (*Euthynnus alletteratus*), sawfish (*Acanthocygnium solandry*), dolphinfish (*Coryphaena hippurus*), among other species.

Box 15 Exploitation situation of the pelagic ocean resources

Exploitation situation of the pelagic ocean resources

Tuna catches by the national fleet, in the period 2005-2010, stood on average at 3,400 tons/year. Because they are transoceanic resources, the estimative of the potential of these resources and as well the recommendations for their exploitation are under the responsibility of ICCAT (International Commission for the Conservation of the Atlantic), an international commission that evaluates the stocks of these species and formulates recommendations for their exploitation. The latest estimate of the potential of this resource in Cape Verde points to 25,000 to 30,000 tons.

However, one should refer that the main species caught in the country’s waters, such as yellowfin, bigeye and skipjack tuna, are on the list of the resources whose exploitation may be at too intense or over-exploited levels, as directed by ICCAT.

2. **Small coastal pelagic species**, including the black mackerel (*Decapterus macarellus*), white mackerel (*Decapterus punctatus*), horse mackerel (*Selar crumenophthalmus*), picarel (*Spicara melanurus*) ...

Box 16 State of the Resources Exploitation

State of the resources exploitation

*The black mackerel (*Decapterus macarellus*) is one of the main resources exploited by both the industrial and artisanal fisheries. Mackerel is a small pelagic that is part of the diet of an important fringe of the Cape Verdean population, mainly because of its affordable cost to all social classes. Data from the last stock assessment of this fishery point to a potential annual catch of 5,000-6,000 tons.*

From year 2008, a closed season for mackerel was established (August - September), thus protecting the time of peak spawning (white water) and reducing temporarily the fishing effort. However, there is evidence for a systematic violation of this rule by the operators.

Considering the evolution of the landings in recent years, it is estimated that there is a potential that allows increasing the landings in the order of 2,000-3.000 tons/year, without jeopardizing this fishery stocks.

In relation to horse mackerel, the availabilities stand at 200-700 tons/year.

3. **Demersal fish**, which are a species living near the seabed and that includes a group of highly diverse species. In this group emerge, within the catches composition on landings, the sand steenbras (*Lithognathus mormyrus*), grouper (*Cephalopholis taeniops*), barbel (*Galeoides decadactylus*), red mullet (*Pseudopeneus payensis*), among many others:

Box 17 State of exploitation of demersal fish from the rocky bottom

State of exploitation of demersal fish from the rocky bottom

Demersal fish resources include a diverse group of species that live attached to the seabed. Characterized by an individual and population growth relatively slow, these species are highly vulnerable to overexploitation. In the specific case of Cape Verde, bottom fish are part of dry tropical environment ecosystems and inhabit in a limited island platform, which means that populations are relatively small and the biomass relatively low (APRM, 2003).

*The group of demersal from the rocky bottom (mainly caught by an angler) includes species such as grouper (*Cephalopholis taeniops*), eels (*Muraenidae*), red sea bream (*Lutjanus sp*), African forktail snapper (*Apsilus fuscus*), Atlantic emperor (*Lethrinus atlanticus*), black sea bream (*Spondylisoma cantharus*), red mullet (*Pseudupeneus prayensis*), sea bream (*Sparidae*), among others.*

In 1995, some banks and areas previously little explored, mainly the smallest and coastal, were already beginning to show signs of an unsustainable exploitation of demersal fish. The banks of the island of Boa Vista, João Valente, Tarrafal and Bancona, are in this case, whose annual potential was estimated at 3,000-6,500 tons (Hodson and Miller, 1998).

Most recent reviews for grouper and sand steenbras, on the platform of São Vicente, Santa Luzia and São Nicolau, show that the grouper is already being explored in that area at levels beyond

moderate, and that sand steenbras in a quite intense way (Tariche & Martins, 2011). Although there are no evaluations for other fishing areas, catches show signs of decline and are comprised of individuals of length increasingly smaller. This is most evident on the island of Santiago, where the signs of an intense exploitation or overexploitation of these resources to the 200 meters bathymetric, the area traditionally exploited by the artisanal fishing by an angler, are very evident.

4. **Lobsters**, which represent the species with higher demand and commercial value. These are classified according to their habitat: i) deep-water lobsters, and ii) coastal lobsters. As part of the catch of these species it is included: i) *Palinurius regius* ii) *Palinurius guttatus*, and iii) *Painurius charlestoni*.

Box 18 State of the resources exploitation - lobsters

State of the resources exploitation - lobsters

These species are usually caught by divers, generally using air cylinders and, in some cases, making use of compressors, although this latter practice has recently been the subject of prohibition by the authorities of the sector.

Lobsters are considered to be a very sensitive species to high fishing pressure. This is due to a combination of multiple factors, such as their sedentary habits, their great longevity, their slow growth, a slow stock recovery as well as high vulnerability, especially during changes.

In Cape Verde, three species of coastal lobsters are captured: the green lobster (*Panulirus regius*), the brown spiny lobster (*Panulirus echinatus*) and Mediterranean slipper lobster (*Scyllarides latus*). These species usually live at depths up to 50 meters. For this group, there is only an attempt to estimate the potential for the green lobster because this species is widely the majority in the landings.

According to existing studies, in the late 1980s, coastal lobster fishery reached a level of overexploitation on the island of Sal, which have motivated a migration of the divers who were engaged in this activity to other regions of the country (Dias, 1993), particularly to the island of Boa Vista. The lack of recent evaluations of the exploitation state of the coastal lobsters' stock does not allow a more conclusive analysis of the real exploitation situation of these species. However, taking into account the efforts directed to the capture of this species and current demand, it is believed that, right now, the situation of exploitation of these species may be at levels of overexploitation or, at best, it is being intensively exploited in the entire length of the archipelago, especially, in the areas near the centers of higher consumption (Sal, Boa Vista, Santiago, São Vicente) and of exports output (Sal and São Vicente).

While there are no systematic studies to monitor the coastal lobster fishery, the evidence of its overexploitation is well clear. In the composition of the landings of these species, it is increasingly growing the proportion of specimens of very small size. The sharp reduction in landings is additional evidence. The situation is particularly severe in the island of Sal and very worrying in the islands of Boa Vista and Maio, due to the booming tourism that these islands have been experiencing in recent years.

The frailty of the country marine ecosystem and the limited knowledge about the dynamics and evolution of the main stocks of exploitable resources are important aspects to consider in the design of policy measures for the promotion and development of the sector.

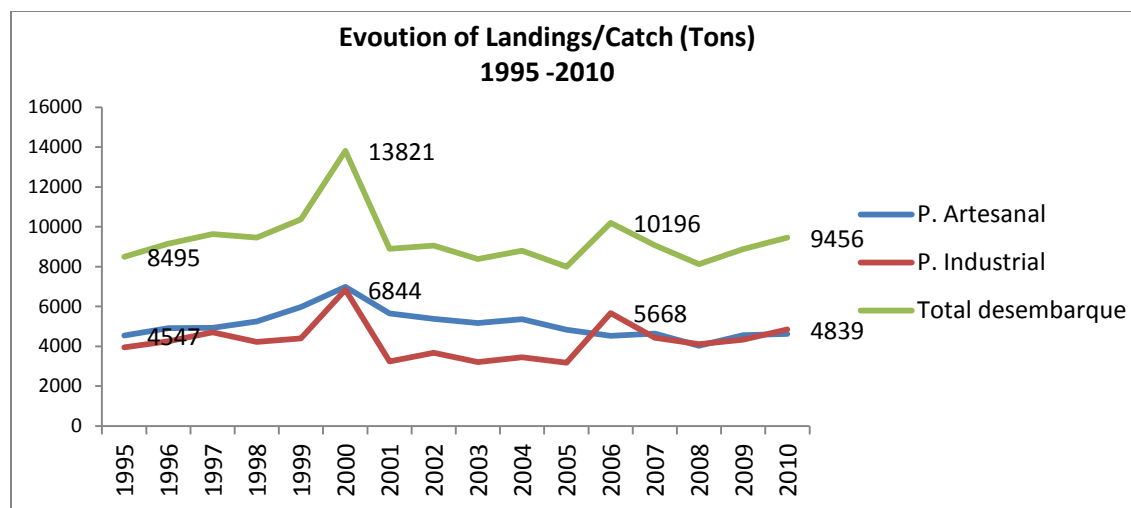
Thus, the gains in the sector are expected to result primarily from improved efficiency and effectiveness of processes both in production and distribution, processing, transformation and marketing and not by increasing the effort of extractive activities.

6.3 Evolution of Landings/Catch

6.3.1 Artisanal fisheries vs. industrial fisheries

At the country level, the evolution of landings show a tendency towards stabilization of catches to around 10,000 ton/year, as evidenced by the evolution of the catch data for the period 1995 to 2010. So much in artisanal as in industrial fisheries this trend is relatively clear. In this period, the peak in landings was achieved in 2000, with a total catch of 13,821 tons, distributed in equal proportions by the two subsectors. In 2010, the catch amounted to 9,456 tons. Contrary to 2009, in 2010 catches of the industrial fisheries supplanted slightly artisanal fisheries - 51% against 49% of artisanal fisheries.

Figure 29 Evolution of Landings

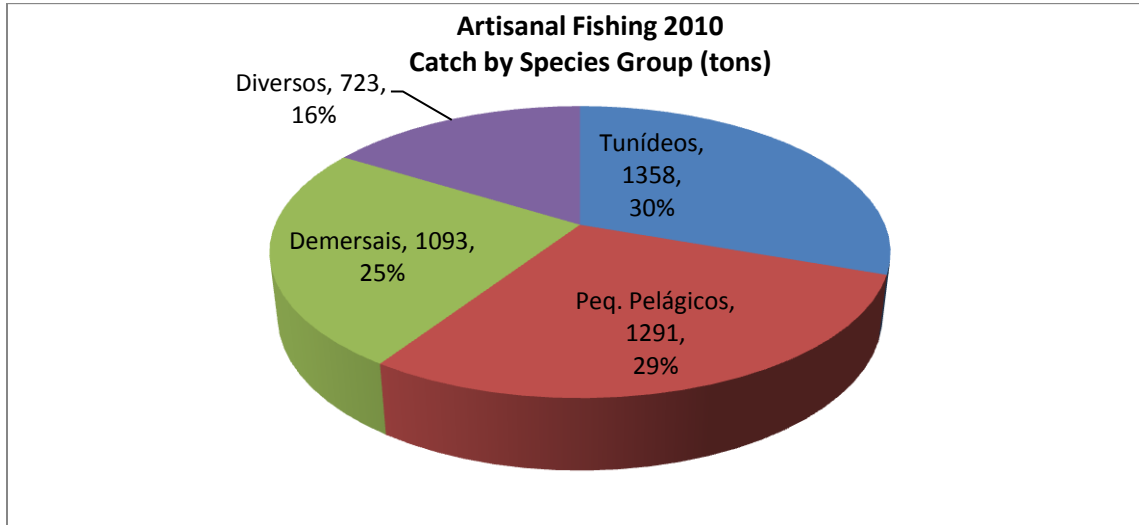


Over the years, the evolution of landings shows that, within artisanal fishing, the trend is for a continuous decrease since 2000. In industrial fishing, there seems to be a slight reversal of the trend since 2005.

The composition of the artisanal fisheries landings reveals a preponderance of tuna species. Approximately 36% of these subsector landings is constituted by these species. Landings of small pelagic

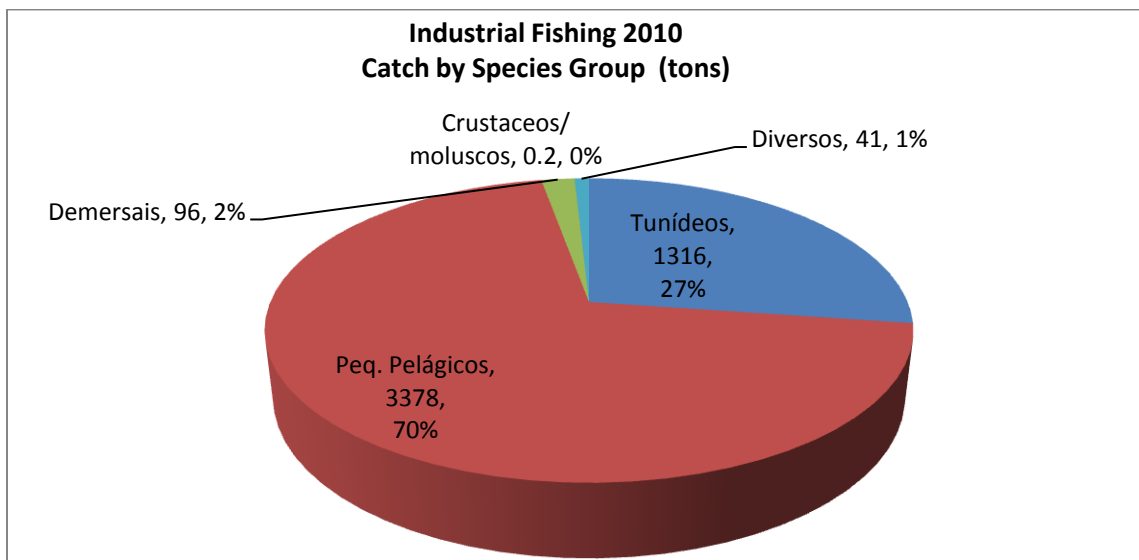
and demersal constitute the main species in the catch that makes this subsector. As can be seen, the composition of the landings of artisanal fisheries proves to be much more balanced than of industrial fisheries, where the concentration on small pelagic is all too evident.

Figure 30 Artisanal Fishing Catch by Species Group



Among the species caught by the industrial fleet, there are small pelagic, with a proportion that rises to 64% of the total catch. In a second plan, tuna species are included with 33% of the total. Catches of demersal species, of mollusks and crustaceans do not exceed 2.5% of total landings. In fact, there is a tendency for the prevalence of small pelagic landings of this fleet. This is partly due to landings of the semi-industrial fleet, particularly of 11 meters vessels, whose catches are intended primarily for sale in the local market.

Figure 31 Industrial Fishing, Catch by Species Group



The lobster, a protected species, is captured especially by the industrial fleets, making use of creels. According to data, in 2010, the industrial fleet caught approximately 8 tons of pink lobsters and the artisanal fleet caught approximately 5 tons of coastal lobsters.

Note that the landings of the industrial fleet do not occur systematically in the islands of Boa Vista, Maio, Fogo and Brava. The landings of this fleet are effectively concentrated on the islands of Santiago, where the biggest consumption center of the country is located, on Sal and São Vicente, where the bases for the export of seafood products are located. In São Nicolau, the industrial fisheries landings are destined to supply the canning industry and focus primarily on tuna species.

Unlike the first half of this decade, the artisanal fisheries reveal a slight tendency to decrease landings while industrial fisheries experience a reverse trend. The pike of artisanal fisheries was reached in 2000, with almost 7,000 tons landed and industrial fisheries reached its peak in 2006 with 5,7 thousand tons. In 2010, landings by the industrial fleet supplanted the catches of the artisanal fleet.

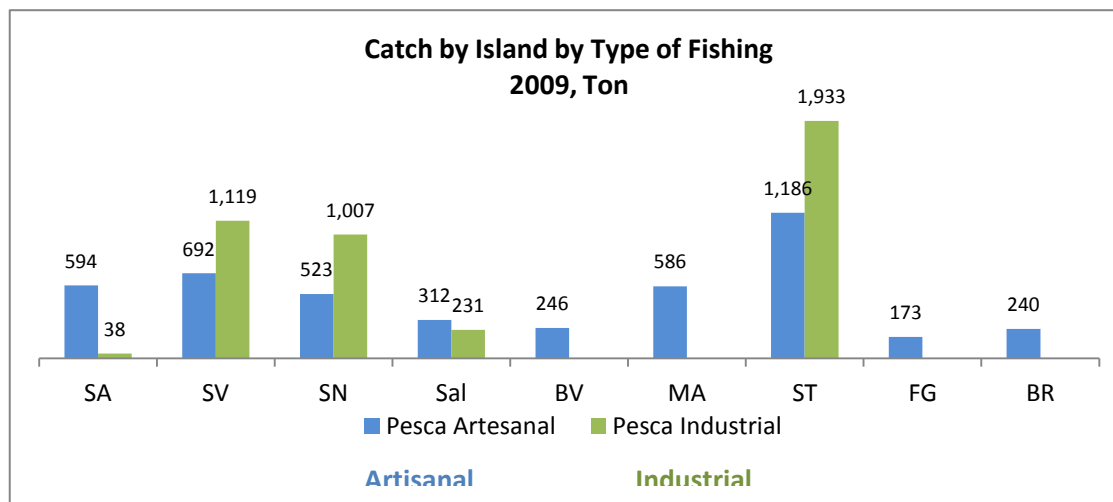
In 2009, artisanal fisheries managed to equal the catches achieved 14 years earlier, even though the population has increased almost 40 thousand people in this period. The reduction of caught fish reflects the reduction of the number of fishermen (on average, -4.0% per year), the number of boats (annual average, -2.5%) and the number of engines (annual average, -2%). However, there was a shy average annual increase in landing (0.01%) and the number of trips (0.6%).

Table 30 Annual Comparative Evolution of Landings of Artisanal Fishing, 1995 - 2010

Yrs	Catch (Ton)	Effort (# Trips)	# Boats	# Motors	# Crew	Landings		
						Trips (KGs/Viag.)	Boat (Ton./Boat)	Crew (Ton./pesc.)
1995	4,547	128,732	1,476	1,012	5,538	35	3.1	0.8
1996	4,912	134,667	1,424	986	5,406	36	3.4	0.9
1997	4,920	140,404	1,400	986	5,675	35	3.5	0.9
1998	5,242	148,158	1,400	986	5,724	35	3.7	0.9
1999	5,968	155,009	1,257	920	4,283	39	4.7	1.4
2000	6,977	173,856	1,257	920	4,283	40	5.6	1.6
2001	5,649	154,408	1,257	920	4,283	37	4.5	1.3
2002	5,383	156,714	1,257	920	4,283	34	4.3	1.3
2003	5,172	150,915	1,257	920	4,283	34	4.1	1.2
2004	5,034	137,552	1,257	920	4,283	36	4.0	1.2
2005	4,822	118,854	1,036	766	3,108	41	4.7	1.6
2006	4,530	124,740	1,036	766	3,108	36	4.4	1.5
2007	4,633	123,686	1,036	766	3,108	37	4.5	1.5
2008	4,018	118,311	1,036	766	3,108	34	3.9	1.3
2009	4,552	139,396	1,036	766	3,108	33	4.4	1.5
2010	4,617	144,752	1,036	766	3,108	32	4.5	1.5

In 2009, there were less 2,400 fishermen than in 1995, i.e. a reduction of 44% in this period. However, indicators show an average annual increase of 2.6% and 4.2% of the catch, in terms of tons per boat and tons per fisherman, respectively.

Figure 32 Catch by Island by Type of Fishing



In industrial fisheries, although there was a fall in the number of boats and fishermen to an annual average of -0.7%, the fleet managed to increase their catches to an annual average of 0.7% as well as the revenue per boat and per fisherman (1.3% on an annual average).

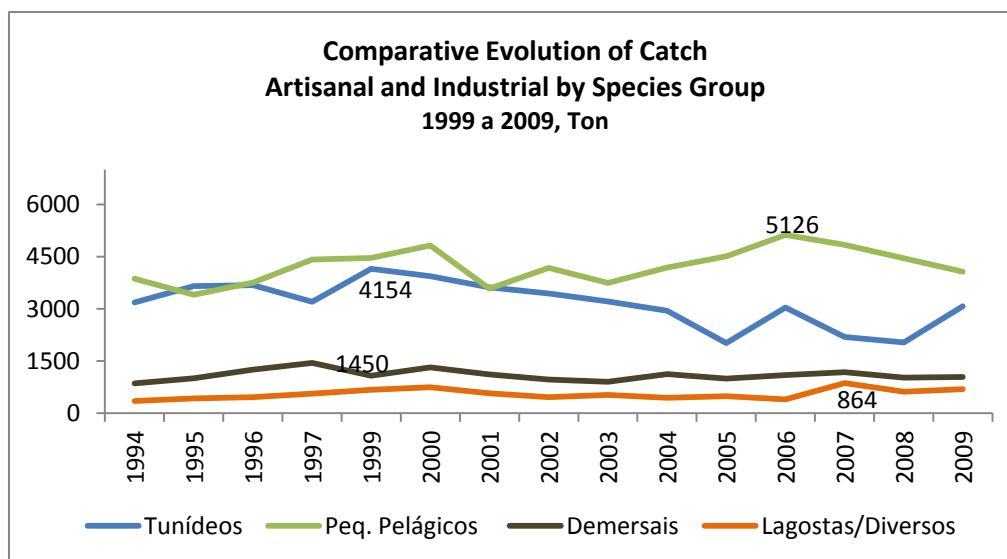
Table 31 Comparative Annual Evolution of Landings, Industrial Fishing 1995 a 2010

Anos	Desembarque (Ton)	Esforço (# Viagens)	# Barcos	# Pescadores	Desembarque		
					Dias/mar	Tons/Barco	Pescador
1995	3,948	3,106	80	960	1,271	49.4	4.1
1996	4,243	3,426	69	828	1,238	61.5	5.1
1997	4,707	5,057	77	924	931	61.1	5.1
1998	4,218	5,359	77	924	787	54.8	4.6
1999	4,403	5,949	83	996	740	53.0	4.4
2000	3,844	4,822	75	900	797	51.3	4.3
2001	3,241	3,450	66	792	939	49.1	4.1
2002	3,669	5,366	60	720	684	61.2	5.1
2003	3,213	5,123	61	732	627	52.7	4.4
2004	3,441	2,553	62	744	1,248	55.5	4.6
2005	3,180	1,068	69	828	2,978	46.1	3.8
2006	5,668	1,738	66	792	3,261	85.9	7.2
2007	4,435	4,916	61	732	902	72.7	6.1
2008	4,110	4,971	73	876	827	56.3	4.7
2009	4,328	6,184	73	876	700	59.3	4.9
2010	4,839	7,197	96	1,152	672	50.4	4.2

Fonte: INDP

The evolution of joint catches of artisanal and industrial fisheries shows that, despite marked variations in some years, the trend is for a timid evolution of catches. Tuna declined an annual average rate of -0.3%, being the only group where there is a reduction in catches. On the contrary, small pelagic species, demersal and particularly other species/lobster increased, respectively, 0.4%, 1.4% and 5%.

Figure 33 Comparative Evolution of Catch



Overall, the sector's performance indicators show significant regional variations, varying sensitively depending on the port of landing. For example, in São Nicolau, artisanal fisheries show 70 kg per trip compared to only one fifth of that value in Fogo Island. The same kind of relationship occurs for the other indicators. In industrial fisheries, the differences are equally sensitive, favoring once more the landings in São Nicolau.

Table 32 Comparative Productivity

Ilha	Productivity of Artisanal Fishing, 2009			Productivity of Industrial Fishing, 2009
	CPUE			CPUE
	Kgs/Trips	Ton/boat	Ton/crew	Kgs/Days at sea
S. Antão	40	5.9	2.0	905.00
S. Vicente	44	8.0	2.7	1,079.00
S. Nicolau	70	8.2	2.7	1,464.00
Sal	41	2.6	0.9	1,132.00
Boavista	35	4.4	1.5	
Maio	24	11.1	3.7	
Santiago	27	3.3	1.1	
Fogo	14	1.6	0.5	
Brava	44	2.7	0.9	
Total	33	4.4	1.5	700

Fonte: INDP

CPUE = Catch per Unit of Effort

However, it must be noted that the catch data do not include catches of the foreign vessels operating in the EEZ waters under fisheries agreements.

6.3.2 Foreign Vessels - Catches And Landings

In the most recent partnership agreement between the European Union and the country, signed in 2011, the licensing of 74 EU vessels authorized to exercise fishing labor in the EEZ of Cape Verde was stipulated.

The permit, which only covers the capture of highly migratory species, clearly defines the types of vessels composing the fleet:

- i) 28 freezer tuna seiners;
- ii) 11 pole-and-line tuna vessels and;
- iii) 35 surface longliners.

In compensation, the country receives an amount of 435,000 Euros for the licenses granted, based on the calculation of a total catch of around 5,000 tons/year, i.e. half the annual average catch of the national fleet as a whole. This share is much higher than the annual average catch of tuna by the national fleet, which fall in 3,500 tons/year.

The licensing process for foreign vessels has been the object of frequent disagreement between management and operators, mainly due to the acknowledged weaknesses of the country and the poor conditions of supervision, monitoring and control of the licensed vessels activities. The introduction of the vessels satellite tracking (vessels monitoring system - VMS) may, to some extent, overcome this inadequacy and especially fight the phenomenon of illegal fishing. However, the control of the species caught and respective amounts as well as the methods and devices used in the catches still lack more appropriate solutions.

6.3.3 Aquaculture - Perspectives

The promotion and development of aquaculture has been suggested as an alternative likely to contribute to increased fish production in the country. However, the results of research initiatives and of analysis of technical feasibility and cost-effectiveness indicate that the potential for development of a commercial aquaculture is particularly limited.

Meanwhile, given the growing interest of both the public and private sectors, in 2010, the government, with the support from FAO, developed a Strategic Framework for Aquaculture Development. In 2011, the government signed with FAO a document of technical assistance project for the feasibility of some of the actions set out in the strategic framework. In this vein, a project of capacity building and training of administration professionals and interested private groups, as well as assistance to the development of pilot-experiments, was developed and funded as part of FAO's actions.

Under the Chinese cooperation of project technical assistance, an experiment of tuna fattening in cages was developed (mariculture) and preliminary results are perceived as encouraging. The extension of this

experiment to other species of high commercial value is being considered. Within the framework of private initiatives, a project for shrimp cultivation farm is being implemented.

Box 19 Shrimp Farm Cultivation Project

Shrimp cultivation farm project

Within the private sector, it is in the early stage the shrimp cultivation farm project. This initiative of innovative nature proposes to grow the *vannamei* shrimp species in land. The project will be implemented in phases, starting by producing 50 tons of shrimp per year, increasing until it reaches 155 tons/year. The production farm (or farm) is located in Calhau (São Vicente) and the construction of the nurseries (dugout ponds) is almost complete. The project is promoted by a joint venture of Cape Verdean and Brazilian companies. In Cape Verde, the leadership is ensured by SUCLA-*Sociedade Ultramarina de Negócios*, which also owns the canning factory SUCLA in São Nicolau. On the Brazilian side, the representation is entrusted to the company Universo Pescados Ltda., a company with over 20 years in the aquaculture sector. In addition to shrimp production, this joint venture considers producing in the future tilapia in polyculture system with the shrimp. Initially, larviculture of the species is not expected, therefore the so-called post-larvae are ordered in certified laboratories, with guarantee to be free of any pathogens and also resistant to most common pathogens (SPF - specific pathogen free - and SPR - specific pathogen resistant). The cultivation that is considered is semi-intensive, so the stocking density used in the nurseries is low and may not even require assisted ventilation. Ration and other consumables will be imported from Brazil, while equipment should be imported from Europe, China and Brazil. The project, when fully implemented, is estimated at about 1,8 million euros. The Dutch government agency, EVD, is involved in financing with 675,000 euros.

6.4 The Export Market Of Seafood Products

The evolution of the country's commercial rates still presents a very unfavorable situation. The trade balance deficit, despite experiencing some decline in recent years, remains relatively high, with a coverage rate ranging between 6% and 8%, as can be seen in the Foreign Trade Statistical Bulletin data (INE, 2012).

Table 33 Evolution of the external trade statistics by quarter

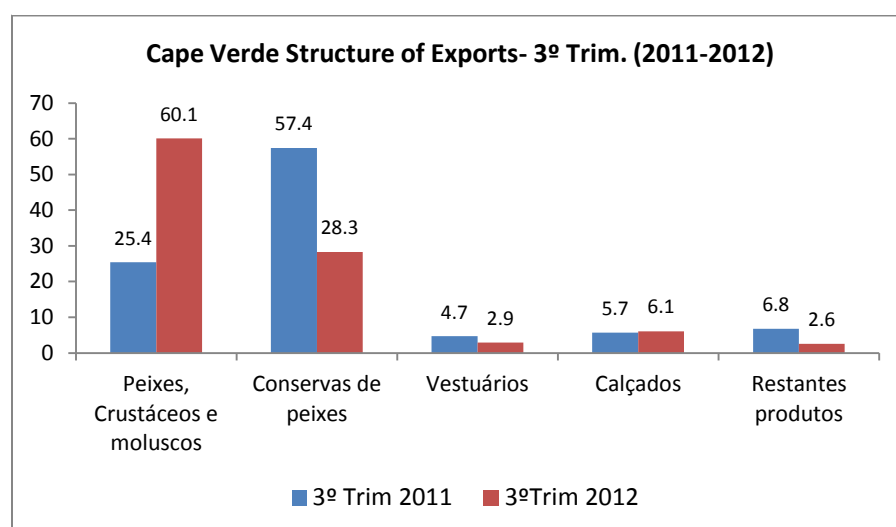
	2011			2012		
	Accrued	2 nd qtr.	3 rd qtr.	Accrued	2 nd qtr.	3 rd qtr.
Import	53.464	18.798	18.624	47.678	15.604	17.439
National export	3.880	1.535	1.226	3.706	1.421	1.287
Trade balance	- 49.584	-	- 17.398	- 43.972	-	-
Coverage rate	7,3	8,2	6,6	7,8	9,1	7,4

Source: INE, 2012

The contribution of the fisheries sector in the context of exports has evolved positively. Overall, it has even surpassed the share of clothing exports. The increased exports of fish and shellfish greatly contributed for that. In the 3rd quarter of 2011, they represented

approximately 25% of exports and during the same period in 2012 they exceeded 60%. On the contrary, canned products have seen their weight highly reduced in the exports context in the 3rd quarter of 2012.

Figure 34 Cape Verde Structure of Exports- 3^o Trim. (2011-2012)

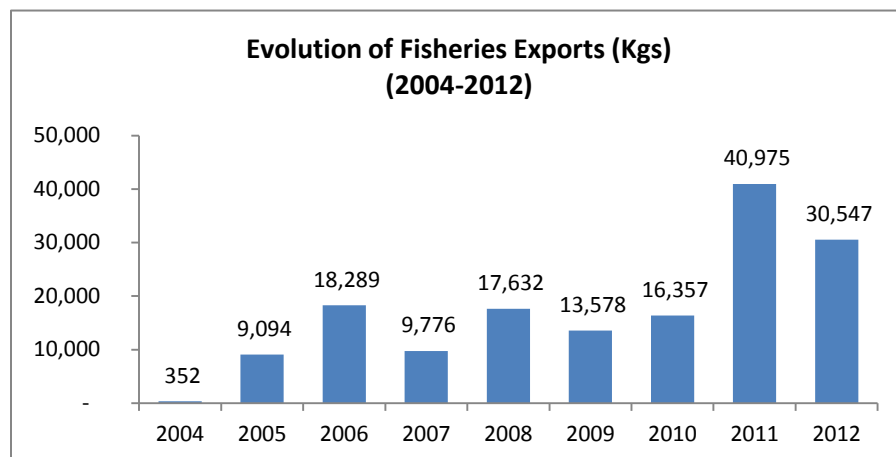


Within a year, this reduction stood at around 29 percentage points.

The latest available data show an increasing trend in exports in the last decade despite some setbacks recorded in the years 2007 and 2009. In 2011, fish exports peaked, standing at 40 tons, i.e. an increase of more than 150% over the previous year. The increase may be related to the inclusion of gutted fish in the export sector. In the

last two years (2011-2012), the contribution of this new product in the context of exports was very decisive, standing at 49% and 20% of total exports, respectively.

Figure 35 Evolution of Fisheries Exports



According to the operators, the variation in exports is a clear reflection of the fisheries seasonality. The most significant change occurred between the years 2010 and 2011, where exports rose from about 16 tons to 40 tons. Already in 2012 there was a sharp fall, translated into a reduction of approximately 25 p.p.

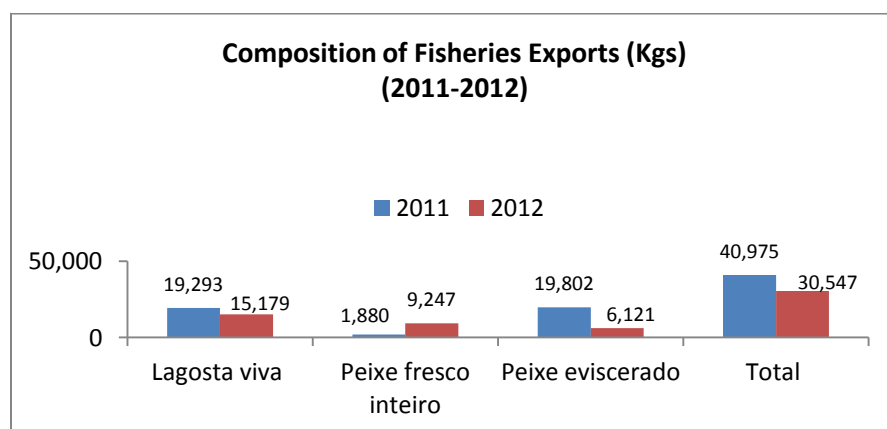
Table 34 Evolution of fisheries export (2004-2012)

Evolution of fisheries export (2004-2012)									
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Tons	352	9.094	18.289	9.776	17.632	13.578	16.357	40.975*	30.547*
Variation	468%	2.484%	101%	-47%	80%	-23%	19%	150%	-25%

Source: INDP, 2012. Data provided by Cova Inglesa complex services.

Catch composition has experienced over the years a very marked variation. The exception is lobster, whose contribution in exports remains stable. Demersal fish are increasingly preponderant in the context of exports. In 2012, this contribution exceeded 50% of the total exported products.

Figure 36 Composition of Fisheries Exports



According to the exports records, in 2010 the fisheries export sector contributed with an entry in currency totaling over 3 million escudos. It is still non-existent an accurate accounting of the amounts resulting from the transactions in the period 2011-2012. Based on the recorded variations in the

quantities of exported products in the past 2 years, a rough estimate indicates values amounting to 7.5 million CVE, in 2011, and 6.8 million CVE, for 2012. The analysis of these figures should be cautious given the variation in the composition of exports and fluctuations in the prices charged for the different species in the different target markets. The following table presents the evolution of exports translated into monetary values and its corresponding variation over the period under review.

Table 35 Evolution of fisheries export (2004-2012)

Evolution of fisheries export (2004-2012)							
	2004	2005	2006	2007	2008	2009	2010
Million CVE	108.974	629.957	956.857	549.534	1.681.000	2.052.896	3.118.841
Variation	133%	478%	52%	-43%	206%	22%	52%

Source: INDP, 2011;

In 2011, exports were almost exclusively oriented towards the Portuguese market (98% approx.), while in 2012 there was a greater diversification in the destination market. Last year, exports to Portugal stood at 50%. Countries like Italy, France and Sweden formed the target market of the remaining 50%. There are no explanatory reasons for this diversification. However, it is clear that the lobster market, incidentally the most valued resource, is oriented exclusively to Portugal, while for the remaining market in Europe, including Italy, France and Sweden, exports of sea products focus essentially in the fresh fish market. It should be noted that canned products are not included, where main market is Spain.

From analyzing the evolution of data exports, it results a set of instructions that can support the design of specific policy measures for the promotion and enhancement of catches taking into account the particularities of the target market.

The promotion of a commercial basis experimental fishing for the exploitation of deep demersal resources, which includes species like *fanhama*, *ruta*, *grouper*, among others, may to some extent contribute to increased catches of these fisheries, aiming the use of the available niche market. It should be noted that these products are not subject to a specific targeted fishery. As a matter of fact, this fishery is made in complementarity with other fisheries, as e.g. lobster fishing or it constitutes an alternative during the closed season of lobster fishing.

The country's fish export is conditioned by a number of factors, from which it is highlighted:

- A relatively low availability of exploitable and available resources that greatly affects the competitive ability of domestic supply;
- The fisheries seasonality and its effects on production, greatly limiting the responsiveness of the export agents in terms of quantity, regularity and predictability;
- The comparatively high cost of support services onshore, including ice (12\$50/kg), containers for packaging, services of cold storage, processing and air transportation;
- The administrative costs and high risks involved in export of fresh food (fresh fish and live lobster);
- The shortcomings in terms of the ground support service adequate infrastructure, particularly for certain islands and regions of the country;
- The difficulties of obtaining and access to finance for the development of activities in the sector (trading/export);
- A strong and growing competition in the domestic market demanding for seafood products;
- The competition of markets with greater supply capacity, among others.

6.5 The Manufacturing Industry for Fishery Products

For many years, the canning industry constituted an alternative market for the industrial vessel catches. Indeed, in 1985, there were in the country six canning industry units, distributed throughout the islands of Maio, Santiago, Sal, São Nicolau and Boa Vista.

Currently, the country has only two operating processing units, namely:

- I) Sucla, a company of national capital, located in the municipality of Tarrafal (São Nicolau), essentially manufactures tuna intended for the supply of the domestic market. The company has an installed processing capacity of about 750 tons/year, employing, on average, 150 workers, mostly women.
- II) Frescomar, a company of foreign capital, located in the city of Mindelo (São Vicente) with an annual production capacity of around 950 tons/year. The company's products are mainly for the foreign markets, in particular Spain.

The dynamics and complexity of the canning market operation, particularly in Europe, where the large canning producers worldwide dominate the market, constitutes a major challenge for the export of products from the national canning industry. In fact, population growth and increased demand of fresh fish both in the domestic market and in the exports represent the major challenges faced by the canning industry. The canning industry is thus confronted with increased difficulties in accessing raw material.

Sucla has lately faced major problems to obtain raw material, especially after the collapse of the cold infrastructure of Interbase, a cold storage service company. The discontinuity in processing is seriously jeopardizing the company that seeks in the national fleet landings the raw material needed for its operation. In contrast, Frescomar is using Spanish vessels and importing raw material to meet its demand, due to the inevitable and growing product shortage in the domestic market. The underlying problem is the limited supply capacity of the national operators, due to difficulties in production. Moreover, operators understand that the prices offered by the canning industries for the raw material are not competitive given existing options, i.e. the internal fresh market.

Taking into account the socioeconomic impact of the canning industry activities, providing employment opportunities, on an intensive basis, and their contribution in the context of exports, Frescomar's adopted model should become a specific case study to evaluate the possibilities and feasibility of replicating this model in other regions and islands of the country, with the appropriate adaptations. This model focuses mainly on raw material import that after being processed is exported through large canning retail/marketing chains based in Europe. Available information indicates that Frescomar imports over 85% of its raw material needs.

6.6 The Sector's Government Institutional Framework

Following the 2011 general elections, and the appointment of a new government, the fisheries sector was placed within the structure of the Ministry of Infrastructure and Maritime Economy (Portuguese acronym: MIEM), via the Secretariat of State for Maritime Resources, (Portuguese acronym: SERM), the governmental department that oversees the fisheries sector, being responsible for the definition, coordination and execution of policies aimed at valorization, protection and preservation of the marine resources, also including the responsibility to coordinate all activities related to the exploitation of the

sea and activities both in the continental shelf as well as in the full extent of the exclusive economic zone. As part of the responsibilities of MIEM and specifically related to the fisheries sector, according to the new organic law, the Ministry has, among others, the following tasks:

- i) Propose the promotion and development policy of the fisheries sector by developing and coordinating the implementation of sectorial plans;
- ii) Promote measures to foster sustained increase in the sector's production and productivity;
- iii) Adopt measures for ongoing assessment of the state of the main marine resources to ensure the stocks natural renewal;
- iv) Establish fisheries management plans and ensure their effective implementation;
- v) Promote research and experimental fishing as grounds to leverage a sustained increase in production;
- vi) Participate in the formulation of the finance and insurance policy for the sector;
- vii) Ensure the protection of species at risk and ensure a rational exploitation of fisheries resources;
- viii) Encourage the processing of fishery products and the practice of associations in the sector.

To advise MIEM and SERM in the definition and coordination of specific policies for the sector, the Minister has the support of the National Board of Fisheries, an advisory body on the major cooperation policy options between the different stakeholders.

The duties of MIEM are pursued through an integrated set of services of direct and indirect administration of the State. For the fisheries sector in particular the following entities are highlighted. The General Directorate of Fisheries (Portuguese acronym: DGP), a service of direct administration of the State with responsibilities in the design, execution and coordination in the areas of fisheries and marine resources, has a set of complementary tasks:

- i) Support the government in defining the national policy sector, including the management and exploitation of living marine resources;
- ii) Contribute in the definition and dissemination of legislative measures;
- iii) Support in the negotiation of international agreements and treaties;
- iv) Cooperate in the formulation and definition of quality standards for seafood products;
- v) Ensure control and inspection of the quality of seafood products;
- vi) Grant fishing licenses and authorization to export, among many other aspects;

For its activities, DGP has the following services:

- i) Fisheries Promotion Service, responsible entity for implementing fisheries promotion and development activities as well as for linking between the processes of research and valorization of the exploitation of fisheries resources, and;
- ii) Quality and Inspection Service, responsible entity for legal expert assistance, quality certification, and inspection of activities related to the fishing sector.

In performing their duties, both services have a range of specific skills and in some cases potentially conflicting. The promotion service should be of the specific competence of the National Institute for Fisheries Development. The National Institute for the Fisheries Development (Portuguese acronym: INDP), headquartered in the city of Mindelo (São Vicente), is a body of indirect administration of the State, with administrative, financial and patrimonial autonomy. INDP's mission is to carry out studies, develop research actions and promote the development of fisheries and aquaculture. INDP has three

distinct departments, oriented primarily for fisheries research, fisheries promotion and development and studies and projects. INDP is still the entity responsible for the sector statistical production.

INDP has a relatively large contingent of specialized technicians and staff with specific training in the sector. Investment in education and training are the cornerstone of the institute's actions. However, the institute faces some problems, of which one emphasizes the lack of specialized technicians, particularly in the aspect of stock assessment and management and in the aspect of research and promotion of aquaculture. The lack of financial resources has been one of the institute's major challenges, mainly to finance research activities to support the activity of exploratory fishery and aquaculture experimentation.

The Fisheries Development Fund, recently extinguished, was a body of indirect administration of the State, which had the power of fisheries promotion and development, through the provision of financial incentives to carry out projects and enterprises in the sector. It was also responsible for the management and supervision of the Integrated System of Investment Support – (Portuguese acronym: SIAI). It is believed that the extinction of this body was decided in the framework of the going sector reform to better respond to the challenges arising from the lack of alternatives for financing the sector.

In its intervention, MIEM works in a complementary way with the Ministry of National Defense, the Ministry of Internal Affairs and the Ministry of Justice, on matters relating to the inspection of the activities of the territorial sea and exclusive economic zone. This connection has been increasingly strengthened and integrated into a broader framework that also includes the inspection and control of drug traffic and organized crime. Due to the high costs that such an action entails, the government currently has the logistical and financial support of the international cooperation for its intervention in inspection, control and monitoring of the marine and coastal activities.

6.7 SWOT Analysis of the Fisheries Sector

The following table presents, in a concise and objective way, a set of interrelated aspects that emerged throughout the document and that will serve as the ground for the definition of goals and priority actions to be developed in the next 3 years.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> I) Relatively large Exclusive Economic Zone II) Existence of a wide variety of commercially valuable species III) Marine waters of free ownership and open access (national) IV) Good knowledge of the fishing areas and great tradition of fishing activity V) Existence of an artisanal fleet adjusted to fisheries VI) Existence of a large number of communities living from the fishing activity VII) Balanced distribution of roles between genders VIII) Population employed in the sector is mostly young IX) Exploitation of coastal fishery resources confined to the nationals X) Existence of port infrastructure in the major consumption centers XI) Consolidated practice of using ice both aboard (industrial) vessels as in the inter-island transport XII) High integration of small pelagic and tuna subsectors XIII) Relative abundance of small pelagic species with accessible commercial value XIV) Existence of an industrial fleet with well specialized segments (lobster and small pelagic) XV) Existence of a fisheries research service XVI) Fishing devices and methods suitable to the sector's situation XVII) Existence of a specialized statistics service covering the entire national territory 	<ul style="list-style-type: none"> I) Relatively small stock availability II) Dispersed distribution of resources III) Unfavorable climate and oceanographic conditions IV) Difficulty of access to the sea at certain periods of the year V) Difficulty of access to farther fishing grounds VI) Non-existence of updated fishing zones maps VII) Limited artisanal vessels in terms of autonomy, safety and storage capability on board VIII) Excessive concentration of fishing effort in the coastal zone; IX) Intensive fishing effort and directed at demersal, mainly along the coastal zone X) Inadequate industrial fleet and limited in terms of the combined use of multiple devices XI) On most islands, inadequate coverage of the ports of landings XII) Lack of cold storage infrastructure in many islands of the archipelago; XIII) Extremely high costs for maintenance and replacement of boats XIV) Low profitability of production and ground support units XV) Use of low selective devices (beach seines) and highly damaging to the ecosystem XVI) Increasing trend for the use of reduced bait sizes to catch smaller species (including juvenile demersal) XVII) Failure on the legal requirements regarding mesh sizes (purse, beach seines and gillnet) XVIII) Poor capacity to handle and treat fish, whether in catches or marketing and distribution XIX) Great tendency for street vending of fish, in poor sanitary conditions

XVIII) Existence of a satisfactory institutional and legislative framework	XX) Lack of processed or pre-cooked fishery products
XIX) Existence of a growing market for seafood products	XXI) Lack of hygiene in the handling, transportation and marketing of fish (street vending)
XX) Good complementarity between the islands internal markets and the inter-island market	XXII) Relatively large proportion of juveniles in the landings (small pelagic and demersal species of great commercial value)
XXI) Existence of a growing alternative market for processing and preserving	XXIII) Capture of juveniles for marketing, aggravating the bait shortage situation
XXII) Growing, diversified and profitable export market	XXIV) Non-existence of viable alternative ways of continuous bait supply
XXIII) Existence of a National Plan for the Management of Fishery Resources	XXV) High cost of materials, equipment and fishing devices
XXIV) Existence of professional organizations and representative of the professionals and their communities	XXVI) Inadequate supply of material, equipment, spare parts and devices in the domestic market
XXV) Existence of a clear political will for the promotion and sustainable development of the sector	XXVII) Lack of financial resources to finance research activities, exploratory fisheries and transfer of innovative capture technology
XXVI) Existence of programs, projects and cooperation initiatives for the sector's development	XXVIII) Weak capacity of exploitation of deep demersal resources
XXVII) Growing contribution of the sector in the improvement of the export levels and foreign currency earnings	XXIX) Limited knowledge of potential deep sea resources
XXVIII) Existence of specialized repair and maintenance services for the sector's equipment	XXX) Continued practice of capture of certain protected species
XXIX) Resources exploitation made exclusively by the private sector	XXXI) Weak inspection, control and surveillance capacity of the fishing activities
XXX) Existence (even if minimal) of phytosanitary and inspection of fishery products services	XXXII) Existence of multiple bays and inlets along the coast, making it hard to control
XXXI) Existence of a project for the certification of seafood products	XXXIII) Difficulty in the implementation of the management plans and weak monitoring capacity
XXXII) Existence of a treatment and packaging center equipped and certified for export	XXXIV) Weak involvement of the operators in the inspection, control and management of resources
XXXIII) Projects for increased storage and cold capacity on the starting phase	XXXV) Increasing trend towards the abandonment of the fishing activity by young people
	XXXVI) Lack of skilled human resources for investigative tasks of stock exploitation, analysis and assessment
	XXXVII) Unawareness of the stocks' current state for most fisheries
	XXXVIII) A considerable part of the higher commercial value resources are in a state of intensive exploitation and over-exploited
	XXXIX) Lack of a consistent awareness program to

	<p>fishermen on environmental issues</p> <p>XL) Weak monitoring of the catches from vessels operating under license in the framework of fisheries agreements</p> <p>XLI) Non-compliance of licensed vessels regarding the proportion of catches to be landed locally</p> <p>XLII) Inadequate support service for the organization of the professionals of the sector</p> <p>XLIII) Underutilization of opportunities for fish export</p> <p>XLIV) Low adherence for using spaces and markets for fish marketing</p> <p>XLV) Unfavorable conditions for aquaculture and mariculture development</p> <p>XLVI) Logistics problems in inter-island distribution and marketing and poor ice supply</p> <p>XLVII) Difficulty in the export of the fish landed by most operators non-resident in São Vicente</p> <p>XLVIII) Raw material price for the canning industry is unattractive and not worthwhile</p> <p>XLIX) Lack of raw material for the canning industry</p> <p>L) Fuel cost relatively high and very fluctuating</p> <p>LI) Difficulty in implementing the mechanism of purchase of captive fuel</p> <p>LII) Artisanal fishing boats equipped with fuel outboard engine, undermining toil profitability</p> <p>LIII) Existence of programs and projects with conflicting goals (increase in capture and reduction of fleet and number of operators in production - PRAOCV)</p> <p>LIV) Increasing trend for the import of seafood, including shellfish, lobster, clams, frozen fish, among others</p> <p>LV) Underutilization of opportunities under the regional programs and projects for fisheries</p> <p>LVI) Fleet average age is relatively high</p> <p>LVII) High number of family-based microenterprises with weak management capacity and absorption of new production technologies</p> <p>LVIII) Low education level of the sector's operators</p> <p>LIX) Sector's weak attractiveness for the youth due to low profitability of production units</p>
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	<p>LX) Lack of coastline spatial plans</p> <p>LXI) Illegal fishing by foreign vessels</p> <p>LXII) Competition from sports fishery products</p> <p>LXIII) Underutilization of opportunities and options offered under the fisheries agreements with countries in the region and the continent</p>
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OPPORTUNITIES	THREATS
<p>I. Existence of an underexploited deep demersal stock</p> <p>II. Growing demand for seafood products both in the domestic and in the international markets</p> <p>III. Sea of free ownership and incentives in the establishment of companies in the sector</p> <p>IV. In the launching phase, the project of cold infrastructure expansion and improvement, in Mindelo</p> <p>V. Fishing technology and methods for tropical seas easily accessible</p> <p>VI. There is room for increased production of small pelagic species</p> <p>VII. Population with maritime tradition and good command of fishing methods</p> <p>VIII. Available fisheries management plan with clear guidance on the potential of certain resources and conservation measures</p> <p>IX. Stable legal and institutional framework</p> <p>X. Availability of international partners to cooperate in research and species conservation</p> <p>XI. Local capacity for construction, maintenance and repair of boats, equipment and fishing devices</p> <p>XII. Existence of fisheries agreements with other countries in the region that primarily facilitates access to resources elsewhere</p> <p>XIII. Ongoing project for the certification of product quality</p> <p>XIV. Availability and easy access to training and capacity building opportunities</p> <p>XV. Project for the reinforcement of the capacity to inspect, control and monitor ongoing fisheries and marine activities</p> <p>XVI. Ongoing aquaculture development project</p>	<p>I. Rising cost of production factors (fuel that can compromise the units profitability)</p> <p>II. Worsening state of the main resources exploited commercially</p> <p>III. Worsening of illegal fishing practice with impact on resources availability</p> <p>IV. Ageing of industrial fleet and replacement difficulty</p> <p>V. Worsening difficulty in obtaining funding for the business operators</p> <p>VI. Worsening availability situation of raw material for the canning industry</p> <p>VII. Competition in the international market from countries of greater potential fisheries, lower production costs and lower demand in terms of environmental conservation</p> <p>VIII. Climate change and its effects</p> <p>IX. Worsening global crisis and its impacts</p> <p>X. Ensure licensing for export</p>

<p>VII. Existence of a decentralized network of fish aggregating devices</p> <p>VIII. Opportunities for staff capacity building and training in research, stock assessment, among others</p> <p>IX. Existence of a market demand for frozen tuna fillets</p>	
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6.8 Sector Development Strategy

In the long term, the fisheries sector's sustainability is a strategic goal of the country that besides its archipelagic condition has a population with a long tradition and great knowledge of the activity, reflected in a high fish consumption per capita. Another point to note is the growing importance of the sector in foreign currency earnings through the export of seafood products.

Indeed, the increase in seafood exports and competitiveness seems to be a major challenge for the operators of the sector. Meanwhile, it is certain that the possibility of increasing the exports contribution in the national economy by increasing the current fishing effort is subject to multiple constraints and restrictions and, given the results of the SWOT analysis, the feasibility of such a process appears indeed very complex.

Based on the data and information currently available, and with due regard to the results of the SWOT analysis, the development strategy proposal is structured primarily around 3 priority intervention axes, all of which coincide with the real and priority indications emerged from the diagnosis. In this perspective, the development strategy proposal should focus primarily on the following vectors:

1. Institutional capacity building for research, planning and management of fishery resources, to provide expertise to support measures for the promotion and exploitation of resources in a profitable, biologic and environmentally sustainable way. The improvement of human and institutional capacity to assess the availability of different fisheries, their dynamics, distribution and location, may contribute decisively to guide the process of the sector development and sustain the viability of options for increasing the sector's production and productivity without compromising the fragile balances that characterize the marine ecosystem of the country.
2. Improvement of the sector competitiveness through capacity building and technical training of the operators in methods and innovative techniques to capture, process and improvement of product quality. Higher incomes may well be achieved not only by means of the adequacy of fishing effort but by the diversification of fisheries, focusing on the capture of resources still little explored and better utilization of fishing opportunities in waters outside national territory under existing fishing agreements and treaties. Value creation in the sector could still go through the valorization of seafood products, including innovative transformation and processing procedures as well as the exploitation of market opportunities for alternative products to fresh fish. The introduction of pre-cooked products appears as one of the options being explored, once considered the needs and import costs of basic inputs.
3. Reinforcement of the capacity to inspect, control and monitor fishing activities in the archipelago, through the implementation of co-management systems where it is given to fishing communities and professional associations increased responsibilities in inspection, management and control of fishing activities, mainly landings. Strengthening of human and material resources for monitoring and supervision of activities in the EEZ of the archipelago proves unavoidable.

6.8.2 Proposed Approach In Plan Implementation

The proposed actions suggested here are necessarily cautious and open, in need of continued improvement as knowledge about the population dynamics of different fisheries is more profound. The proposed strategy contains at its core a vision of the future guided by principles and goals that go through sustained improvement of the sector's productivity and competitiveness indicators based on an

ecologically and economically sustainable approach and that is able to contribute to the improvement of living and welfare conditions of the fishing communities and operators of the sector.

In short, this is essentially a strategy guided by the principles and goals of the economic transformation of the country that focuses on the valorization and increased competitiveness of the fisheries sector and its contribution to the country's economy, connecting relevant aspects of employment, social cohesion and conservation of the marine ecosystem.

To reach these goals, which result in resources, process and ends, the adoption of integrated policies for the promotion and improvement of technical/scientific knowledge, strengthening of human and institutional capacities for planning, management and inspection and creation of favorable infrastructure conditions to modernization and development of the sector must be done.

Thus, to achieve the goals within the framework of the implementation of the plan of actions it is crucial to observe the following principles:

- The need to prioritize concrete and appropriate actions to the capacity of absorption, assimilation and management of operators and able to offer answers tailored to their real needs and priorities;
- The need to adopt a pedagogy of participation, involving the administration and operators to ensure that changes and innovations suggested and undertaken are the result of a common work and reflect a shared vision of the development of the sector;
- The need to prioritize actions that can produce visible results in the short term though part of a strategy that allows to foresee lasting results and of multiplier effects;
- The need to pay special and particular attention to the participation and inclusion of women and youth in the process of modernization and expansion of the fishing activities.

An approach oriented that way will meet the major goals of the plan, ensuring a responsible action and complemented between the different stakeholders.

6.9 Development Goal

From the diagnosis and particularly from the SWOT analysis emerge a set of notes that guide the development strategy proposed for the short term, and that can be translated into:

Strengthen the economic and social contribution of the fisheries sector in the national economy, creating the conditions for an optimal and sustainable exploitation of the available and exploitable fisheries resources.

The focus is primarily the creation of conditions for increasing the competitiveness of the fisheries sector activities, both internally and in the main export markets of seafood products.

Thus, the actions should be centered primarily on intangible factors, such as quality improvement, strengthening the capacity of government agents and operators, supply chain and marketing improvement, strengthening awareness, marketing and research actions and introduction of modern capture technologies and fish processing. All this accompanied by objective measures to reduce costs and improve competitive capacity of the sector in order to provide conditions for a better use of the opportunities the global market offers.

In short, this is a challenge focused primarily on the improvement of the efficiency of processes, which includes cost reduction and improvement of the quality of supply thus ensuring greater profitability for the operators in their activities, through the creation and implementation of mechanisms of redistribution of the benefits generated in the value chain of the sector.

6.9.1 Specific Goals Of The Plan

To achieve the overall goal, three strategic measures compete that translate into specific goals to be pursued in the framework of the implementation of the action plan:

Specific Aim I

Strengthen the knowledge about fisheries dynamics in order to provide updated information to support the elaboration of acceptability measures of fishing effort, fleet modernization, renovation and adaptation, introduction of innovative capture methods and techniques and improvement of infrastructure conditions on the ground.

For achieving this specific goal, the following results compete:

Outcome I.1

Strengthened research, planning and fisheries management skills and improved knowledge about the potential of exploitable resources in the EEZ.

Outcome I.2

Strengthened productive capacity of operators and ensured the conditions for a balanced, economic and biologically sustainable exploitation.

Specific Aim II:

Improve the competitiveness of the fisheries sector through initiatives to promote and improve the quality of the products, expansion of the marketing channels and valorization of seafood products in order to make better use of the opportunities of the global market.

For achieving this goal, the following result compete:

Outcome II.1

Improved competitiveness of seafood products and guaranteed improvement of the quality of the products in order to make better use of the opportunities of the internal market, strengthening of self-sufficiency capacity and ensure the provision of employment and income opportunities offered within the sector.

Specific Aim III

Strengthen the mechanisms for inspection, control and management of the marine activities in the archipelago and ensure compliance with the standards of exploitation and extraction of fishery resources in accordance with the instructions and recommendations of the National Fisheries Resources Management.

For achieving this goal, the following result compete:

Outcome III.1

Improved capacity of inspection, control and management of the exploitation of fisheries resources. Established cooperation mechanisms involving the stakeholders and its operationalization ensured.

■ CHAPTER 7: CULTURE AND THE CREATIVE ECONOMY

7.1 Executive Summary

The present document seeks to demonstrate that not only is the Creative Economy a strong wealth- and quality of life-generating element, it also has potential – alongside the Green Economy – to become a vector of the country's sustainable development, as a result of its potential to activate and leverage other areas of the economy and of society. Indeed, this is why it is a strategic priority in countries of reference ranging from China to Iceland. Aware that Cape Verde could skip over the mistakes of the 20th Century and directly adopt the new models of the 21st, the focus is on the future and innovation.

More than a traditional economic sector, the Creative Economy is transversal because it encompasses any kind of venture, product or service whose value is generated by intangible attributes such as brand, creativity, design, and purpose, or meaning. Therefore, throughout the process of elaborating the revision of DTIS 2013, it became clear that the creative economy should not be confined to one chapter, but it is interwoven in all the topics covered in the Report.

The current situation demonstrates the need to expand models on the way to a new economy and society, and Cape Verde is well endowed to be a pioneering country in the world to adopt them, and thus becoming an international reference for the creative economy. This meets two needs: the country, putting itself in the world market and global imagination, and thus declare a new kind of independence: financial autonomy. And the world, which needs new models of development, now that the former has failed. In the words of the Minister of Culture: "Cape Verde has to invest in intangible assets, as the country has the possibility to be a laboratory of the new world economy."

Today it is possible to create a new economy that grows exponentially and not linearly; that is, by multiplication rather than by summation, and that through the combination of four vectors of the future, forming a cycle where one activates the other exponentially, allowing scope and unprecedented speed. This because the vectors of this new society and the new economy has an intangible nature, and intangible assets are not consumed or exhausted with use, but rather multiply. And one vector activates the other, exponentially.

- 1) *Intangible Resources*. The Creative Economy generates wealth and quality of life through knowledge, experience, artistic languages, branding attributes, human values. Intangibles are not exhausted but multiply with use. Moreover, intangible activities are the only ones able to meet all the Millennium Development Goals and generate not only financial results but also social, environmental and cultural.
- 2) *Information and Communication Technologies (ICTs)*. They are the number one strategic priority for the country, because through them the rest is possible, especially when dealing with a country that is already "networked": Archipelago + Diaspora. They may represent quick and low cost financial and operational solutions for many of Cape Verde.
- 3) *Network of Collaborative Processes*. Through management processes and production networks, that is, distributed and not centralized, it is possible to generate exponential results and gain

scale by connecting many small scale. The state does not have the resources or staff for the management of all local and national processes. However, its biggest social capital is: the ability to summon all sectors to be co-managers and co-employees, united in common cause to build their country and make it a reference.

- 4) *Concept of Wealth and Results Beyond the Monetary.* Experience shows that if we systematize, we can create flows of non-monetary resources. With the exchange of services, supplies, space, knowledge and time can facilitate processes with few monetary resources.

If Cape Verde opts to become a Global Co-Laboratory, based on sustainability, the creative economy, and networked collaborative processes, it can get its hands on the resource that have the highest value of all, for being the only one capable of making the impossible possible: a cause.

A cause that is able to unite local citizens and institutions, after all it is shared purpose and causes that have the real power to mobilize people for action. And causes can also attract globally the best minds, initiatives, and institutions to participate in a pioneering project that is extremely necessary in the current global context.

Cape Verde has exceptional conditions to achieve this: a country that is already geographically networked; a forward looking political leadership; reputation and credibility; geographic scale and population that allows innovative experiences. References are Bhutan with its Gross National Happiness (GNH), and the goal to be first organic country in the world. Or Iceland, which in 2008 broke paradigms and chose to invest their resources in activities related to the common welfare and not to save banks in crisis.

The transition to abundance begins with the country taking this global leadership and becoming the first parents of a creative and collaborative world.

7.2 Introduction

"A problem can't be solved with the same mind that created it"
Albert Einstein

*"Build an inclusive, just and prosperous nation, with opportunities for all" and "Shared prosperity for all"*¹⁷⁸.

A few years ago the main objectives of the Cape Verdean Government would sound as utopian phrases. Today, they are possible, thanks to the emergence of new models of development, networked and synthesized in the concept of "Economy of Abundance"¹⁷⁹. This abundance and the possibility of a future effectively sustainable result from passage of millennia where everything was organized around the material, tangible, finite to the **current world of the centrality of intangibles, such as network society + Creative Economy + collaborative processes + multidimensional wealth**. Prosperity can be shared by all if it is generated by all, from its many resources, history, characteristics, and ways of living; from their strengths, not of shortcomings so many times underlined. The current moment allows us to realize that the best way to "*fight against poverty*" is to reveal the existing wealth: identify assets and resources, in addition to finance, and how to best leverage them.

To point paths to Cape Verde it is important to understand the global historical moment, its features and opportunities. We have noticed then Cape Verde, considered one of the ten countries most reformers by "*Doing Business 2011*" of the World Bank is in tune and may be a Global Laboratory for practices linked to the spirit of these times, contained in the word "green". Diversity, sustainability, Creative Economy, innovation, citizenship, network, inclusion, resilience, collaboration, moderation and joy. Cape Verde is going through an intense process of reforms since 1991, and both society and the political system are open and ready, more than other countries, to the profound changes that can result from this Laboratory very appropriate in the global context. The purpose of this Introduction is to provide the overall context in which it is inserted, which we call "Economy of Abundance", with exponential possibilities of results. Subsequently, we make a relationship between Creative Economy and Sustainability issues and conclude by advancing a little in the proposal that guides all other: Cape Verde as a Global Laboratory – the first "networked" country and the first Creative and Green Economy¹⁸⁰, joining the two forces that are shaping the future.

¹⁷⁸ The main objectives of the Government of Cape Verde.

¹⁷⁹ See [Chris Anderson](http://www.slideshare.net/Frankwatching/the-economics-of-abundance) <http://www.slideshare.net/Frankwatching/the-economics-of-abundance>; Yochai Benkler. http://www.benkler.org/Benkler_Wealth_Of_Networks.pdf; P2P Foundation <http://p2pfoundation.net/?title=Special%3ASearch&profile=default&search=%22economy+of+abundance%22&fulltext=Search>

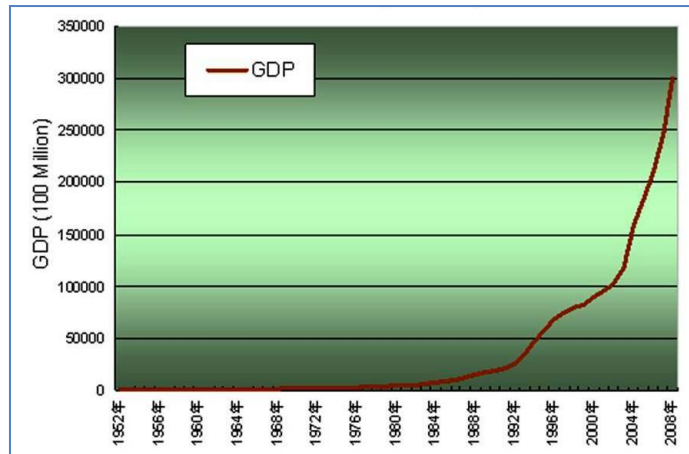
¹⁸⁰ Sustainable Economy, socially and environmentally. For the definition go to http://www.suapesquisa.com/ecologiasaude/economia_verde.htm

7.2.1 Our Logic: Intangibles And The Exponential Growth

Something new is emerging in society and in the economy. Out of linear systems, traditionally concentrated and controlled economy and politics have emerged new complex systems, distributed in network. In them we will seek the keys to enable the generation of income and quality of life that Cape Verde is building. These are contexts never experienced before by humanity in which advances occur exponentially and gain scale connecting a variety of small micro-level experiences.

With this we can achieve "*shared and sustainable prosperity for all*" – that is, "green" as in the name of the country. This is possible because the new paradigm of the centrality of the intangibles also allows **passing from the linear growth to exponential growth**. What does that mean? In the tangible universe, linear, $2 + 2 = 4$, and all our economy and politics work on this premise. But in the sum of knowledge, in the multiple connections that result of ICTs, in its resulting collaborative processes and in the several ways to optimize resources that they make possible it is noticed that $2 + 2$ is much more than 4. In an image presented by Peter Diamandis¹⁸¹ thirty linear steps lead us thirty meters beyond, while thirty exponentials steps (1.2 .4 .8, 16 etc.) are a billion meters or 26 laps on the globe. The inventor and futurist Ray Kurzweil¹⁸² says "*Due to the explosive nature of exponential growth, the 21st century will bring progress equivalent to 20,000 years in current speed of growth; approximately 1,000 times more than the 20th century*".

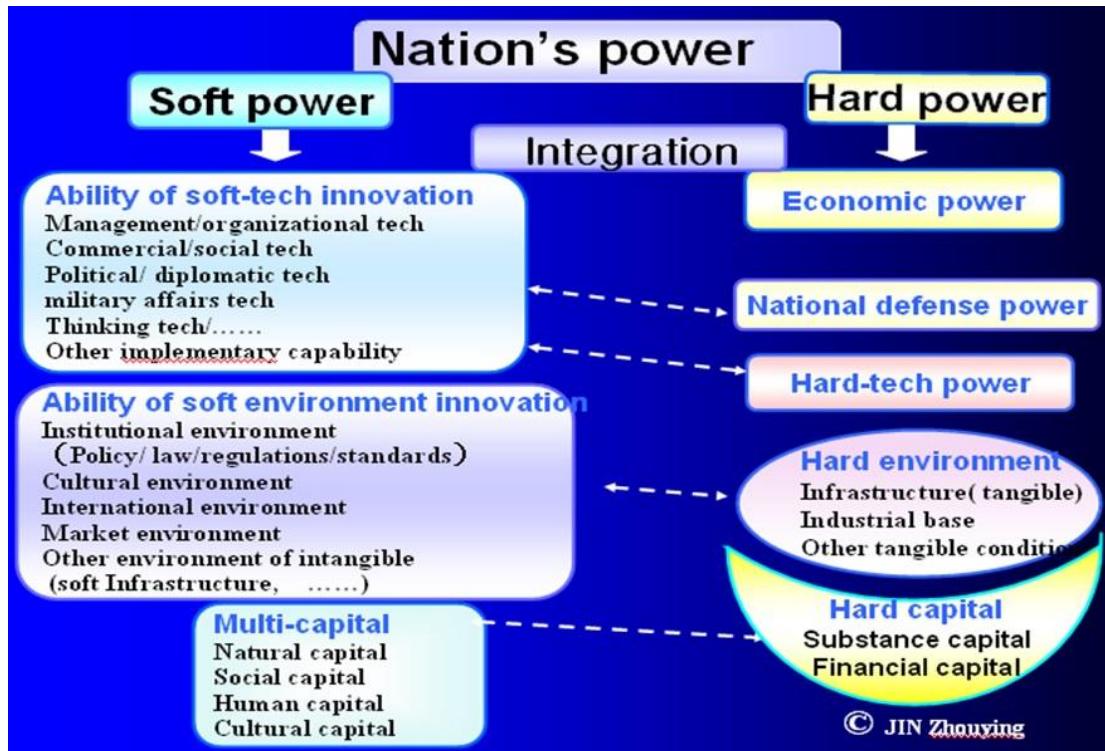
Figure 37 China's GDP Growth



¹⁸¹ In "Abundance", Peter Diamandis, Free Press, pg 34.

¹⁸² See Iolanda Évora study in <http://www.wfs.org/forecasts25/>

Figure 38 Soft and Hard Power



Exponential growth how? China's GDP growth is an example. In a futuristic meeting in 2009, the focal points of China, from futuristic network Millennium Project¹⁸³, have shown us that (1) the curve rises in 1988, moment the country builds its National Plan for Innovation¹⁸⁴, focusing not only in products, but especially in processes. (2) In simplified form, the Chinese Government considers two kinds of power, value, technologies, and environments: the "hard" (tangible, products) and "soft" (intangible, processes)¹⁸⁵. And the priority is in "soft": create favorable environment through policies (China is in nº 1 in incubators and incubated companies), education, regulation, and institutional support.

Combining the fact that intangible assets multiply with use, and the challenge of the country to generate wealth for more than one billion people, without burdening the environment, the Creative Economy and Green Economy are part of the ten strategic priorities since the five-year plan for 2005-2010¹⁸⁶. The result of very well-orchestrated public policy is that China is nowadays the world's largest exporter of creative goods and services.

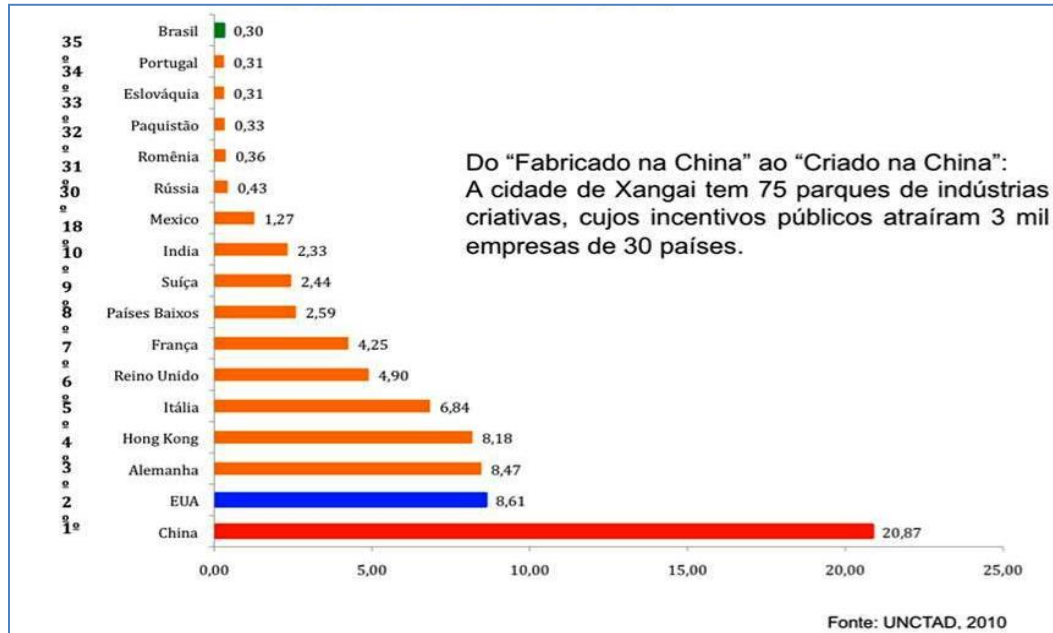
¹⁸³ <http://www.millennium-project.org/>. The author is connected to the network as founder of the Future Studies Unit (Núcleo de Estudos do Futuro), NEF.

¹⁸⁴ According to PPT by Dr. Hu Shuhua, Wuhan University of Technology, http://www.pucsp.br/icim/portugues/downloads/programa_icim%202009.pdf

¹⁸⁵ <http://www.millennium-project.org/millennium/SoftTechnology.pdf>

¹⁸⁶ <http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>

Figure 39 Ranking of Exporters of Creative Goods



A central question of this study is to verify that we are aware of this, prioritizing and investing in elements of the creative economy and networked society that allow this exponential growth. Trust and cooperation are at the root of the Cape Verdean culture, present in practice with names so inspiring as the **Mutual societies**¹⁸⁷ or the **Djunta-mon**¹⁸⁸ (join hands in Creole). These traditional collaborative and associative mechanisms are precious, they bring the essence of these new times and can be extended and updated, ensuring of the network reciprocity and sociability essential to the survival and the success of enterprises.

7.3 Virtuous Cycle Of The Economy Of Abundance

If in the tangible universe, our fingers are only $5 + 5 = 10$, in the exponential universe is $5^5 = 15,625$. Reaching for the future is easier, more than possible: we win exponential scale of opportunities, wealth, time and knowledge, through a **virtuous cycle of abundance** consisted of **four vectors** or pillars where one has the potential to enable the other. And if these vectors are themselves infinite and exponential, imagine when combined.

- **The first is of intangible resources** (culture, knowledge, creativity, brand attributes), which just doesn't exhaust but renew and multiply with the use. This fact alone should make the Creative Economy into strategic priority – at a time when the major impasse is how to go on generating income and quality of life if the planet is single, finite. Cape Verde has attributes and

¹⁸⁷ A mutuality is an association community based whose functioning is based on solidarity of the inhabitants of one region who pay a regular fee, in order for the members to have money in the moments of need.

¹⁸⁸ <http://pascal.iseg.utl.pt/~cesa/files/publicacoes/OP11.pdf>

characteristics that are a precious heritage, the basis for its branding as a country, and once recognized it will generate value for all types of product and process.

- But, if the atoms of the Earth are finite, **the bytes of new technologies are infinite and the second pillar**. With them we can create many virtual worlds and infinite ways to enhance, connect, recreate and interact.
- And this raises the **third pillar: the endless ways in which the network society organizes, and produces**.
- The fourth pillar is the key to in fact be possible to operate with the earlier pillars: a **multidimensional vision of wealth** that we simplify calling 4D Economy, because it considers resources and results not only in the financial dimension, but also in Social, Cultural and Environmental. A multidimensional notion of assets or resources has increasingly researchers, as Katzman¹⁸⁹ from CEPAL, United Nations / Uruguay or the staff of the National Institute for Space Research¹⁹⁰ (INPE) of Brazil, seeking ways to measure the social vulnerability and deal with poverty.

An economy of Abundance is possible, because each of these pillars is infinite and activates the other, allows it to pass from potential to reality.

The "Infinity 1," of intangible resources (culture, knowledge, creativity, experiences), has always existed and is abundant in countries and regions considered "poor". But the new technologies of "Infinity 2" allowed them to become visible and accessible turning their potential into reality. The combination of the two infinite raises the third, one of the new forms of organizing people, relationships, projects, creation and production, namely, the "network society". And finally, to make this process we need to "validate the intangible": develop metrics and indicators that allow recognizing, assessing, changing and monitoring resources and results, in addition to the financial/quantitative. And here's our fourth infinite: multidimensional indices of wealth. As we relate to other logics of production and distribution, the available systems, measurement, and quantification tools are not yet able to measure in fact the Creative Economy and collaborative economics. We see in the program of the Government VII Legislature 2011-2016: *"the need to work with other forms of wealth is also critical at a time of uncertainty regarding the global economy, which is important to be more independent."*

7.3.1 Gaining Scale Through Networked Local Microeconomics

Models of macroeconomics in scale had their importance and role in the mass society, but in the society of the niche and diversification other models are needed. Our biggest challenge is to promote this paradigm shift: from the focus on tangible, quantitative (infrastructure, financial market, competition) to focus on the intangible, qualitative (Creative Economy, new technologies, collaboration). Until this review of DTIS results in practices that generate results, it will take a minimum of 2 to 7 years. Considering the exponential speed of transformations, the revision must be made taking into account the conditions and characteristics of these times, where the scenarios change so quickly. The 2008 crisis

¹⁸⁹ <http://www.eclac.cl/deype/mecovi/docs/TALLER5/24.pdf>, see attachment.

¹⁹⁰ http://www.dpi.inpe.br/geocxnets/wiki/lib/exe/fetch.php?media=wiki:publications:anazawa_et_al_geografia_2012.pdf

leads Spain, partly indebted for policies focused on infrastructure, to come into a severe crisis. The Iceland¹⁹¹ in turn, by investing in the virtuous cycle of intangibles (Creative Economy + ICTs + focus on social) has become a global benchmark of post-crisis recovery. Hollywood annually produces 1,000 hours of content and has an audience of 2.6 billion people. YouTube, created in 2005, produces this amount of content in twenty-one minutes and have that same audience in twenty-one days.

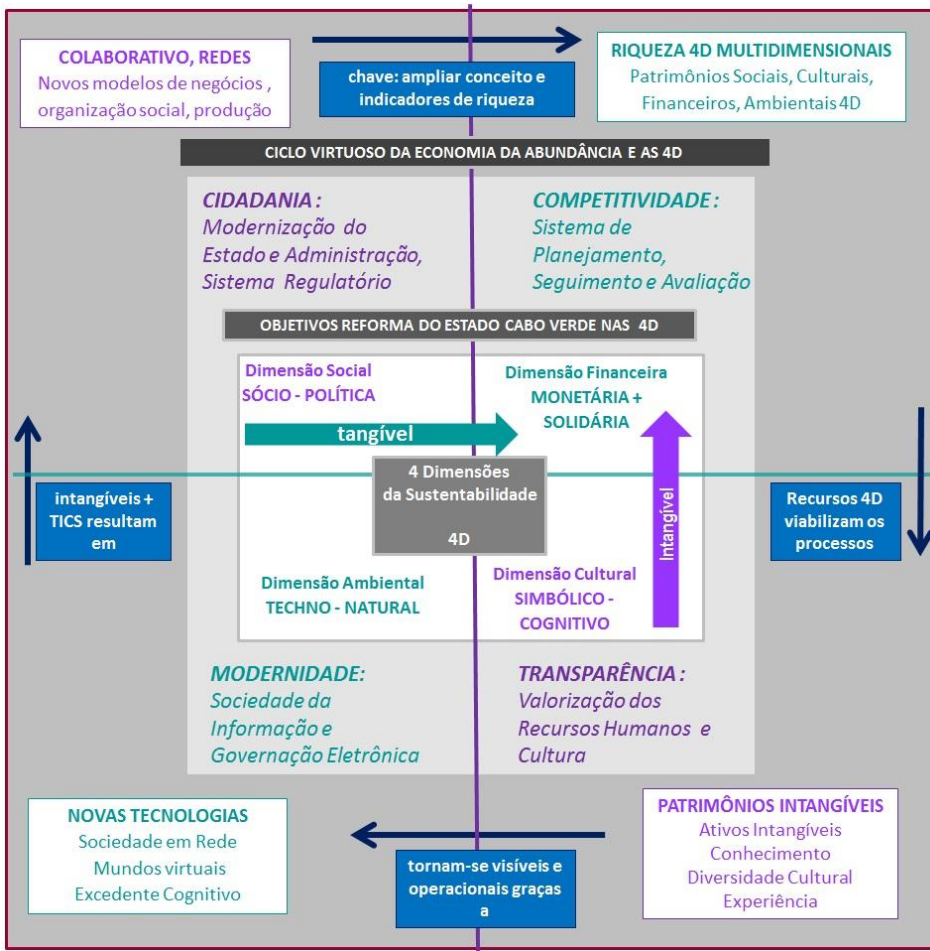
In this new scenario of the future, how to ensure the possibility of integrated trade generating quality of life for Cape Verde? This context shows us that the issue is not of scarcity but of accessibility: reveal and activate potential riches not accessed is our main goal. From it, the Opportunities, Action Matrix and Simulation will be organized, and will focus on the need for cultural changes so that this "look at Abundance" can happen. Classic examples of that logic of abundance are energy and knowledge. There is no shortage of energy; we only have not adopted (yet) technologies to fully access the energy of sun, wind, tides, human movement. Whereas it will soon be possible to have the Enernet¹⁹², a mesh of power distribution similar to the Internet, the objective of CV in becoming a country of 100% renewable energies is even more accessible and appropriate. There is no shortage of knowledge if we recognize the value of local knowledge and practices. Or if we use ICT to expand access to the existent global knowledge and gain scale by adding micro knowledge as Wikipedia.

Here is our key: for the first time in human history we can generate scale through the integration of several small. This possibility is also interesting as a transitional step, subject to immediate implementation, because we can move through the integration of many, small and diverse. It is possible to go by testing new models until the conditions are sufficient to extend the actions to more "mainstream" formats, or even to provide clearer the impact and functioning of this new economy of abundance, collaborative.

¹⁹¹ One among many issues. It should be noted that in crisis they have chosen to invest in people http://internacional.elpais.com/internacional/2012/03/09/actualidad/1331323885_752952.html

¹⁹² <http://www.youtube.com/watch?v=cA811EPzwLJ>; <http://www.fendel.com.br/enernet.html>.

Figure 40 Virtuous Cycle of the Creative Economy



The P2P Foundation, greater global database on networked collaborative processes, made an extraordinary study for the European Union, "Synthetic Overview of the Collaborative Economy"¹⁹³, showing its impact on business, Governments, civil society. To give an idea of the volume of resources which it can mobilize it refers to 2007 report from the Capital Trade for American Computer and Communications Industry Association¹⁹⁴, quantifying only results of shared use of information and

digital systems. It shows that the contribution of industries based on "Fair Use" for the U.S. economy reaches \$ 4.4 trillion, or one sixth of GDP.

How can we access this latent abundance? By knowing the new practices and expanding our concepts and paradigms. Quoting Amílcar Cabral when commenting on the crisis in Africa, "It seems to be more than a crisis of growth; it is mainly a crisis of knowledge".

The Creative Economy is generating unique experiences, which depend on diversity and hybridism, essence of Creole culture. The great difficulty, a legacy from our colonization, is to recognize what the country, its people and communities have of its own, their uniqueness, because this is their greatest asset and usually not seen. In the words of the Prime Minister: "Cape Verde Belongings" or the "Differential of the people we are". This is the great difficulty as well as the great opportunity. A national campaign for recognition and valorization at once engages the public in this process of economic abundance and serves to build the branding of Cape Verde and all of its products. It is not just to develop the culture, but rather to develop the country through culture.

¹⁹³ [http://p2pfoundation.net/Synthetic Overview of the Collaborative Economy](http://p2pfoundation.net/Synthetic_Overview_of_the_Collaborative_Economy).

¹⁹⁴ http://www.wired.com/images_blogs/threatlevel/2010/04/fairuseeconomy.pdf. Pg 6.

7.3.2 Resources On Four Dimensions Of Sustainability

To support the proposals we put forward in this document it is necessary to present the tools or assumptions that guide us. To deal with the techno-natural universe we have created tools: metrics, coins, indicators, lenses to see the macro and the micro. Lenses which were useful to dissect and understand the tangible *universe of products and forms* leading to *analytical, specific, compartmentalized thought and action*. In the context of the centrality of the intangible assets we need the same: other metrics and ways to evaluate, "lenses" that allow validating the intangible, seeing abundance and diversity. In the same way that the 3D glasses allow us a sensory experience of greater depth, we need "glasses" to understand the dynamics of the *intangible universe (society and culture) through processes and function, purpose. A systemic, synthetic, convergent vision*. Didactically we'll call these "4D, for dealing with resources, results, goals and systemic processes that consider equally the four dimensions of sustainability: the tangible (Environmental and Financial Dimensions) and intangible (Social and Cultural Dimensions).

These four dimensions relate to the aforementioned Virtuous Cycle of the Economy of Abundance, systematized from the observation of good practices in public administration, companies, NGOs, projects. Why are they the best practices? Because they activate and create flows among these four dimensions, what enables a real sustainability context. It should be noted that these 4D are also present in the strategic objectives of the State reform: *Citizenship, Transparency, Competitiveness, and Modernity*.

The program of the Government of CV states: "*we have only one option: to compete based on high productivity and innovation*"¹⁹⁵. If our ultimate goal is to increase trade, and trade is flow, we need to identify what we have, what are the 4D¹⁹⁶ resources of the country that can be connected and exchanged, generating these flows. This is our logic: we will always try to identify the resources or 4D assets that already exist and how to optimize them, remembering always to consider the surplus, what is little used or wasted.

Most of the proposals of the Ministry of Culture are already based on the logic of abundance, doing a lot with little as they identify pre-existing resources, integrates them and generate flows. Example is the National Network of Venues that qualifies and integrates underutilized spaces, instead of creating new ones; or the National System of Art Education, which creates a system through integration of existing art schools, thus resulting in their empowerment and improvement. We follow in this logic proposed by them by checking always what already exists that can be connected to generate mutual activation and thus lead to the possibility of exponential expansion. For example: on the one hand we have the need to enhance the creative entrepreneurs and in the other the need to effectively prepare students for the work and practical action. Why not join the two and promote the exchange of expertise and the mutually reinforcing?

The Creative Economy can be a solution for sustainable development for the country, being a factor of progress and competitiveness for all areas not just those related to arts and culture, since having an

¹⁹⁵ pg 34 Government Programme VIII Legislature 2011-2016.

¹⁹⁶ Considering resources of knowledge, non occupied spaces, country attributes, exchanges, labour hours, etc. More information on this approach in <http://laladeheinzelin.com.br/wp-content/uploads/2012/09/Economia-Criativa-%C3%B3culos-4-D-e-uma-m%C3%A3ozinha-para-ter-futuros-sustent%C3%A1veis.pdf>

integrated and cross action between sectors. This need of integrated governance, usually absent, is the great weakness and the great opportunity because when it exists the progresses are huge.

Identifying surplus and creating flows that activate them, we can create internal markets and therefore implement the production, which then can be expanded externally. Working exclusively for the foreign market is not advisable, because it generates a wealth that is not anchored in daily life. In addition, the value of a process or product will depend on it to be genuine, meaningful and diverse. And this will only happen if it makes sense also for internal stakeholders. The flavors and knowledge, celebrations and Cape Verdean culture must be before enjoyed by the population and therefore will be more able to mobilize international attention. Work for the population and the Cape Verdeans market, resulting in the activation of external markets is a theme that we will discuss very often.

We will here consider three fields of action, ranging in crescent scale of spanning paving the way to generate business for Cape Verde. The first is the promotion of the Arts and Creative Industry sectors, while languages and sectors. The approaches proposed here are based on the vision of the Ministry of Culture, based on the microeconomics. The second field, which perhaps deserves the name "Creative Economy", is the intangible values and attributes generating value to all kinds of product and service of Cape Verde. The third is that of cultural change, of personal and institutional mindset, so that the country can actually take advantage of the "delay" and turn it into an opportunity, such as skipping the 20th century and going straight for the 21st century with its new economy based on intangibles, ICTs and collaborative processes. This cultural change does not necessarily imply a break with previous paradigms, but expansion.

Considering that the function that only the State can exercise is to articulate and create favorable environment, we will focus our efforts and suggestions to check what kind of policies and actions can contribute simultaneously to all sectors. With them we believe that it will be possible to generate spin-offs that can meet the isolated needs of sectors. As the diversity is the great vector of competitiveness, our approach is territorial, to ensure that the uniqueness of each island is identified and reinforced.

7.3.3 Cape Verde, Birthplace Of A New Development Model

"Cape Verde is global, network nation without borders"¹⁹⁷

So that the transition towards a sustainable society happens another model is needed, which allies the local and global, act on a possible scale, feasible in the short term and with few resources. An inclusive and flexible model; where quality of life is not synonymous with excess; where moderation is virtue and not suffering; where diversity is not tolerated but celebrated, aware that it is stemming the creativity and joy. These are features of Cape Verde and the Creole culture.

Cape Verde has conditions that other countries do not have and can take advantage of the exponential rate of change we are living to overcome the mistakes of the 20th century and go directly to the 21ST century. It has all the advantages for this, starting with those linked to social capital-the only one able to activate the other forms of capital. Credibility, accountability, a team of young, capable Government, admired and respected by the population. It is a country where corruption does not consume resources,

¹⁹⁷ Pg 18, Government Programme.

relationships and opportunities. Cape Verde is scarce in currency and natural resources, but abundant in time, trust and affection – resources that enabled through appropriate policies can generate much wealth and quality of life; a country of beauty and resilience, haughty, but not arrogant; Where diversity, coexistence between differences, sustainable range are the everyday life. A natural networked country can turn this problem into solution if it has ICT as a strategic priority.

More than technique, the contribution of culture and of intangibles for the country at this time would be epic, mobilizing. After independence the Reforesting process engaged the nation in making it territorially "green". Now, culture and the Creative Economy can mobilize for a cause: to generate "green networked" society, by revealing its wealth and potentials, connecting them and enabling them to generate flows of social, cultural, environmental and financial abundance.

By the current management of the Ministry of Culture the Government of CV has given greater value to culture, placing it as the central element. Now we need to go beyond, enabling its transversal action along to other department of Government, all organized around the shared goal of having the Creative Economy as a strategy of sustainable development for the country. Through *culture as mean* – since from the intangibles are derived the riches of the 21st century and *culture as the goal* -because it is through it that we can promote the change of mentalities and habits.

In Creative Economy products and services only acquire value when attributes and competitive advantages are evident. The Culture, if in conjunction with other areas, has the potential to mobilize the society to identify its attributes, build its brand and create narratives that enhance that Cape Verdean differentials are those that the world needs. The possibilities are many: "Cape Verde networked country"; "Cape Verde Portal of the World," "Cape Verde, Collaborative Country" "Cape Verde Makes Sense", "Creole Culture, Crio-lab", etc.

The sum of these factors results in the opportunity to make Cape Verde the laboratory for the new model of sustainable development. A Green and networked Co-Lab? Co-Lab of the Economy of Abundance? This could be both the branding of the country, of its products and services and the element that unites and guides the other actions. Marine or horticultural products distinguished by having all its stages of production and marketing carried out sustainably. Micro companies that work in mutual support network and benefit from the collaborative, as sharing space (co-working), knowledge (crowd sourcing), sources (crowd funding). Cultural, solidarity, experience, youth tourism. New technologies, Informatization, Systems and Governance based on Fair Use, free circulation of knowledge and free tools.

The advantage of this type of process is that it would be able to:

- Reinforce the existing credibility, which attracts interest in products, investment, and credit.
- Attract other types of investments and support, strategic at the time the country will leave the participation in the Enhanced Integrated Framework, hindering access to donations.
- Enable partnerships and technology transfers, since most of the world's leading experiences would like to participate in this Green Co-Lab.
- Enhance the image of CV through attributes that reflect the "Creole" and the country, such as: network, sustainability, green, wellbeing, diverse, reliable, make sense, common sense.
- Reinforce the image and branding of Cape Verde since the attributes above distinguish it from any other country. From the cultural –touristic point of view, for example, going beyond a "sun and beach" destination is a huge advantage.

- Awakening in potential partners, consumers and tourists the wish to participate in the Green Co-Lab and the interest in Cape Verde products and services, ensuring its circulation and visibility.
- Generate spontaneous qualified and costless media. A small example: the simple and sustainable posture of the Uruguayan President's José Mujica doesn't just makes him a hero to the younger generations but also allows him to have 34.9 times more entries in English on a Google search than his predecessor.

All this results in added value to the activities of all other areas of trade, and in increasing flows of all kinds of Cape Verdean product and service. Those possibilities depend on (1) the recognition of the centrality of culture and the Creative Economy in the 21st century and (2) access and infrastructure of information and communication technologies as priority number 1 in the country.

7.4 General Vision Of The Sector

7.4.1 Definition, Background and Evolution

Because it is a new area, transversal, even difficult to understand and whose real potential as an engine of development is not yet visible we will devote space to better explain it, situate its development, examples and reasons for which is strategic.

The Creative Economy is a new paradigm, offering development opportunities with the characteristics of future, consolidating society and economy based on sustainable models and more efficient socially, economically, environmentally and culturally. This new form of development has been adopted by an increasing number of countries and is based not on natural resources, increasingly scarce, but in the very abundant human and cultural resources, which has been called intangible resources and are the basis of the Creative Economy (EC).

Culture, knowledge, creativity, national values are the Creative Economy raw material: resources that are abundant and, instead of being consumed with use, multiply and renew as usage. Hence the fact, for example, it was adopted as a path of development for a country like China, with the challenge of maintaining social and economic stability of a billion people. Further we will develop the evolution of the concept, which initially covered sectors linked to art and creative processes (Cultural Industry, Creative Industry,); then extends to Creative Cities and Territories and finally widens when intangible assets becomes the elements which generate value for any type of product or services. As all of this is new, the concepts are still under construction, but some authors consider that the Creative Economy is an evolution of the Knowledge Economy, since it is clear that the information is the means, not the goal, and only becomes functional when applied through creativity to achieve purposes. Economist Eduardo Giannetti da Fonseca says "we are a society obese of information and starving for meaning".

The Creative Economy was adopted as a strategy of development by several countries since 1997, when they constituted one of the bases of the economy of the United Kingdom. Why did it become a priority? First because the social, economic, environmental and cultural crisis we are globally living are concrete expressions that the traditional model of generating or measuring wealth need to evolve. To paraphrase Amartya Sen, if development means, above all, quality of life and expansion of choices this can only be

achieved through activities that not only generate financial capital but also strengthen the social capital, qualify the human capital and optimize the environmental capital.

Development policies of the 20th century, based on the traditional economy which explores and transforms the natural resources, have resulted in increased social and economic inequality; global warming and ecological crisis. Despite the increase in GDP they did not generate work and quality of life for the population – and this is the key to sustainable development. The path was initiated by developed countries and the countries that become emerging in the global economy of the 21st century are fortunate enough to be able to do it in another context, more attune with the future: going beyond the Creative Industry and considering the Creative Economy as an ecosystem based on the abundant and infinite intangible resources: culture, knowledge, creativity, experiences, brand value. Below are some examples:

- In the United Kingdom, the first country embracing it in fact as a strategy, the Creative Economy already equates to the financial market. In 2004 it had average annual growth of 8%, compared with 2.6 for the economy as a whole¹⁹⁸.
- According to the UNCTAD, the EC grows twice more than industry and four times more than manufacture. Industries like tourism and entertainment grow six times more than other sectors.
- According to the *Dossier Economia Criativa, do Inova Fórum, Portugal*, the growth of the sector in Europe, from 1999 to 2003, was 19.7%, representing 12.3% growth greater than the general European economy.
- Study published by Hege Aasgaard, in Norway, MIMETA Center, estimates that Africa accounts for only 1% of world trade of creative goods and services, but the data is negligible since according to them no less than 70 to 95% of the results on the African continent are raised by SMEs.
- As a result of good policies and governance, Barcelona has 25% of its GDP originated from the Creative Economy¹⁹⁹.
- In the U.S., unemployment rose in all categories, but workers in the creative sectors were the least losing jobs and income in the years before and after the economic crisis of 2008. In the sectors that employ hard labor and unskilled unemployment rose from 5% to 9.3%, double of the creative class²⁰⁰.
- Also in Brazil, the average income of the creative class is almost three times higher than the average income of Brazilian workers.²⁰¹ Fashion is the largest employer of female labor.

These data should be taken into consideration but certainly they are incomplete given the difficulty of measuring the Creative Economy and its potential to boost other sectors. In Brazil, a 2010 survey of Federation of Industries of Rio de Janeiro (FIRJAN)²⁰², was carried out with methods that can be a good reference: the approach is extended to a chain, coalesced into three main spheres. First, there is the so-called core of the Creative Economy, consisting of thirteen segments of services. In the sequel come related areas, consisting of suppliers of goods and services required for the functioning of the core

¹⁹⁸ See the full study by Lidia Goldenstein in

<http://www.comgas.com.br/hotsites/pesquisaedesenvolvimento/pdf/LidiaGoldstein.pdf>

¹⁹⁹ Jordi Pardo et al, Barcelona Media.

²⁰⁰ Cambridge Journal of Regions, Economy and Society, 2012.

²⁰¹ FIRJAN, Federation of Rio de Janeiro Industries, 2010.

²⁰² <http://www.firjan.org.br/EconomiaCriativa/VersaoImpressa/index.html>

segments. Finally, the third group of activities, also of provision, but in a more indirect way, through support. In the final outcome the Creative Economy corresponds to 18% of Brazilian GDP and accounts for 21.8% of formal jobs in the country.

7.4.2 Why is the Creative Economy Strategic?

Culture is considered a priority sector for Cape Verde since 2001. Recently, it is listed as one of the pillars of development and one of the priority sectors of the national economy in the Strategic Document for Growth and Poverty Reduction 2011-2016, DECRP III. The Creative Economy is already part of the Cape Verdean Government language, but we must expand its definition and actions beyond the field of Arts and Culture. In countries where it has advanced was thanks to coordinated action among various ministries. The Ministry of Culture is the catalyst, the heart and soul of the Creative Economy processes but it will fulfill its role of generating income and development on a national scale, if it is approached in an integrated manner, through any Institution that aggregates the other areas, as an Agency, a priority in our Action Matrix.

To better see the reasons why EC should from this DTIS, become a priority strategy for Cape Verde, a series of arguments are listed below, organized by topic:

Economy

- a) Is the guarantee of competitive advantage of a country, which is crucial in times of globalization.
- b) Has growth potential greater than the other sectors.
- c) Generates market through social and productive inclusion, rather than just compete for it.
- d) We note that small and micro-enterprises are always guarantee of economic and social health and most of the creative business are SMEs.
- e) Has great interface with the Solidary Economy, since the increase on the use of non-monetary forms of capital is a tendency for this century.
- f) Previous economic models of industrialization and commodities have not solved the issue of poverty, which can perhaps be best resolved by the Creative Economy.

Employment and income

- a) Generates employment, income and foreign exchange in a simple and, effective way and much cheaper as compared to other forms of income generation, due to the low cost per job created.
- b) New way of labour, meeting the needs identified as future trends:
 - a. Gender and minorities-with easy inclusion of women, elderly, disabled. It is proven that supporting women brings greater results, extensive to their entire community.
 - b. Simplification of production spaces – EC usually does not require costly and specific facilities (such as a factory), and can often be done at home or even in public spaces. It can be accomplished in many different places, flexibly, without many conditions and infrastructure.
- c) Positive impact in other economic activities, acting as a catalyst for other sectors.
- d) Besides the creative business themselves, it also adds value to services and products though their intangible attributes).

Socio-environmental sustainability

a) Focus on sustainable development rather than mere economic growth.

Since the planet is one, it is not possible to think about its sustainability and go on with traditional economic models based on tangible, finite resources. Intangibles are resource that does not end, but renews and multiplies with its use. They are particularly abundant in emerging countries, of great cultural diversity where the traditional knowledge and practice are still preserved

b) Activity that has simultaneously positive economic— social, environmental and cultural impacts, allowing prosperity and political stability.

c) New digital technologies and communication reveal, connect and multiply the intangible heritage.

Local development

a) Reduces rates of violence.

b) Key in the urban or rural process of revitalization and/or qualification.

c) Initiatives based upon local differentials generate work and distribute income thus leading to economic, social, environmental and cultural development.

d) Large potential offered by the economy of experience, as is the case of the segments linked to tourism, entertainment, beauty and lifestyle, leisure and "edutainment" (education combined with entertainment).

Social and education

a) Qualifies the human capital while generating income. It is known today that qualified human capital is equally or more important than monetary capital.

b) Enhances social exchanges – once the human capital is qualified it creates conditions for what we need: the strengthening of the social capital, the ability of integrated action. The lack of social capital is the main factor that prevents us from turning our potentials and resources into wealth.

c) Raises self-esteem and, in doing so, strengthen ties and identity. There are a number of studies that show that if there is no self-esteem there will have no development, since it depends on the appreciation of what is unique, singular.

d) Develops citizenship and core competencies that are extremely important in the various sectors of society, including the business. They are: cooperation, perception of the differences as a solution and not as a problem; creativity, innovation and adaptation.

e) Complement to formal education: through the association with culture the educational content are better understood and the cultural heritage is preserved.

Politics and Sovereignty

a) Due to globalization and mass media is strategic to development policies since it protects and generates income through what has more value in the future: identity and cultural diversity.

b) Support for national identity and sovereignty. We emphasize that globalization causes the reverse movement: the appreciation of what is unique, diversified, original and therefore include local and traditional knowledge and practices. The cultural monopoly, by contrast, acts as a factor that destroys identity and sovereignty.

(c). It is the only one of the so-called "economic" sectors that has interfaces with all eight Millennium Development Goals.

- d) Integrating function between sectors, due to its cross-cutting feature. This is a key feature: the success of any venture, in several instances of society, relies on integrated action. This action is still very difficult, because all our institutions, and even the knowledge itself, are compartmentalized.
- e) Integrates regions and communities, which further strengthens the convergence between the productive sectors, Governments, academia and civil society organizations.
- f) Integrated action among sectors generates new working and governance models, more efficient and collaborative.

7.4.3 Evolution: Creative Industries, Creative Cities and Territories, Creative Economy, Economics of Abundance

In its early days, in the mid 90's it was called the Creative Industry, a sectorial approach. According to UNCTAD²⁰³ the sectors included are organized into four large chunks.

- In "*Tradition*" are included the cultural equipment, such as museums, libraries, archaeological sites, cultural centers and Traditional Cultural Expressions, such as festivals, celebrations, crafts.
- In the "*Arts*" are the Visual Arts, such as painting, sculpture, photography and antiques and the Performing Arts, such as music, theater, dance, and circus.
- In "*Media*" we have Publishing Printed Media, with books, newspapers and other publications; Audiovisual, like film, television, radio, video; and New Media as software, internet, video games, digital content.
- And finally the "*Functional Creations*": Design - interior, graphic, fashion, toys and *Creative Services* as architecture, advertising and entertainment.

This model, more connected to the arts sector and focusing on products, expanded through the diffusion and export of methodologies of action developed primarily in the United Kingdom, a country that successfully choose the creative industry as its axis of growth.

Nowadays, with the distance of time and experience, it is possible to understand that some aspects of these methodologies were a transposition of the traditional industrial economy style based on property, plant and equipment. Some of them: organize clusters bringing together companies in the same sector; strongly linked to the mass media and a centralized "star system" culture; individual entrepreneurs competing for markets and with the central objective of economic growth. Intellectual property is another example: restricted access to knowledge as if this were worn or consumed. In the logic of the tangibles, little access means high value (e.g. jewelry). In the logic of the intangibles is the opposite: the more access the most value (e.g. Facebook).

The Creative Industries sectorial approach (specialized and concentrated feature) for not prioritizing the territory often generates more inequality and speculation. It is the case of cinema in the United States, which although not the largest producer holds the market - by dominating the circuits that distribute and advertise. Or the real estate speculation and the exclusion of local communities that follows the implementation of mega exogenous projects such as the famous Guggenheim Bilbao. From the years 2000 policies of development adopt increasingly territorial approaches for its more efficient results - even if slower and often laborious. Efficient because territorial action allows greater community

²⁰³ United Nations Conference on Trade and Development (UNCTAD), 2012.

participation, considers the economy as an ecosystem, is closer to the real needs and opportunities of the community, and therefore may activate the territory, with its peculiarity and available resources.

Following this trend, we move from the Creative Industry to the notion of *Creative Cities and Territories (diversified and distributed feature)*. The essence of the territorial approach is the recognition and appreciation of local attributes; systemic, integrated and closer to the community action; and especially the fact that creative activities act as a catalyst of other activities, activating them. According to a recent study from researchers at the University of Valencia²⁰⁴, an increase of 1% in the proportion of jobs in creative services increments between € 1,000 and € 1,600 of per capita GDP. Creative Cities and Territories have also a great relationship with what is called "Economy of Experience": the perception that today one of the great engines of the economy is not so much the product or service itself, but the type of differentiated experience that it generates. Example: if the raw material (coffee bean) is worth \$ 0.10 the kilo; the product (coffee) is worth \$ 0.30 and the service, depending on the experience offered, can vary from \$ 1.00 to \$ 15.00²⁰⁵. The experience generates value through enjoying, not consumption or possession, reason why tourism & entertainment (that "sell" experience ...) are segments that grow six times more than traditional sectors (UNCTAD, 2008).

Branding, design, globalization and its counterpoint – valorization of the local and diversified - turned the intangibles into the great generator of value, by differentiating and qualifying all sorts of products and services, not only those directly linked to creative and artistic. It was noted that, in addition to the included sectors as Creative Industries existed a larger scope. The Economist Ladislau Dowbor²⁰⁶ estimates that on average 75% of the value of a product is in their intangible assets. A mere observation of the relationship between market to book ratio of companies in the S&P 500 demonstrates the growing participation in the corporate value of a parcel not explained by traditional accounting. This portion has been associated with the expression "intangible value". In other words, nowadays, most of the value of the companies is represented by brands, reputation, P&D, innovativeness, loyalty of customers and employees etc., which allow the organization to produce a higher value creation²⁰⁷. The fact companies that have their capital traded on the stock exchange are obliged to make Balance also of their Intangible Assets²⁰⁸ shows that their future depends mainly of these intangible assets-because they are the ones that guarantee its longevity, credibility and competitiveness²⁰⁹.

There was then a need to expand the concept. Some researchers, among them the author, consider that the Creative Economy, in simplified definition may refer to an economy that finds in the intangibles its raw material. The traditional economy has as raw material the tangibles: finite, consumed with use and with linear growth. The intangibles of the Creative Economy are abundant, multiply with use and grow exponentially. Traditional industry can generate positive financial results but small or even negative social, cultural and environmental results. Creative Economy tends to generate positive results in the

²⁰⁴ Source: *La cultura como factor de innovación económica y social* (2012).

²⁰⁵ See the *Espetáculo dos Negócios* by [B. Joseph Pine II](#), [James H. Gilmore](#)

²⁰⁶ <http://dowbor.org/blog/wp-content/uploads/2012/06/riscos-e-oportunidades.pdf> pg 16.

²⁰⁷ http://www.capitalaberto.com.br/ler_artigo.php?pag=2&i=1262&sec=25

²⁰⁸ For more information on evaluation of Intangibles we recommend the research by Eduardo Rathfingerl from Banco Nacional de Desenvolvimento Econômico e Social, and by Daniel Domeneghetti, from Prêmio Intangíveis Brasil.

²⁰⁹ See more in "Ativos Intangíveis - o Real Valor das Empresas - Daniel Domeneghetti", and http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/conhecimento/livro_brasil_em_transicao/Brasil_em_transicao_cap09.pdf

four dimensions of sustainability. To generate a job in the automotive industry can cost almost US\$ 100,000 .00. To generate a job in arts and crafts costs US\$ 75.00²¹⁰.

Before it was considered that a cultural product, for instance a craft, was itself the Creative Economy. Then it became clear that the Creative Economy is the process by which this product can generate wealth and quality of life insofar as actors from other areas attend the cycle generating value and activating scopes in increasing scale. The craft goes beyond the cultural product and becomes creative economy when enhanced by Design; has its advantages and potential revealed by Marketing; its attributes and its story told by Communication and Advertising; is accessible through ICTS; marketed and distributed by Administration and Economy and so on.

In other words, for the marketing of the Cape Verdean Creative Economy products and services we need to configure an ecosystem to create this cycle of value creation through the association with design, branding, communication, administration, international relations etc. And the State is the only one who has the possibility to summon, mobilize and integrate areas. We need to move from products approach to a process approach; from sectorial to territorial strategies and beyond, reaching an ecosystemic vision.

7.4.4 Review of 2008 DTIS, its Action Matrix and implementation progress

Since the 2008 DTIS there has been a strong shift in the global context, accelerated by the network society. The main one is the progressive emphasis on territorial and in considering Creative Economy as an ecosystem rather than as a set of artistic languages. Reflection of this is the fact that the original document proposes more strategies to "take care of fruits" (support some artistic products) than "to take care of the Orchard" (create favorable environment for the development of all sectors). Or even the issue of intellectual property and copyright upon the actual evidence that the free flow of knowledge generates exponential wealth. The approach of 2008 still considers culture as "cherry", what will add value to tourism for example, and not as "the cake", like a sector that does not only generates wealth as it activates the development of others. Its proposals reveal a misunderstanding: in the same way that the Ministry of Health does not meet the demands of the doctors, but the health of the population, the culture-related areas do not work for the artist, but rather to the population.

The 2008 Action Matrix proposes only three actions and these do not have a structural character. While the Strategic Intersectorial Plan for Culture (PLEI), developed by the Ministry of Culture and summarized in the Creative Economies' Cluster proposal designs the proposals of all its Nuclei and Directions, only after hard work done in 18 municipalities, involving the Municipalities and local partners throughout 2011 and 2012. It can be a good guide about opportunities and constraints specific to each creative sector and suggestions herein are intended to better serve it. In the PLEI activities are designed in six strategic areas which can be integrated into this ecosystem: 1) Micro Economy of Culture; 2) Cultural Heritage and Tourism, 3) Improvement of the Collection, 4) Research and Management of Cultural Heritage and Tourism, 5) National Arts Promotion 6) Creative Industries.

²¹⁰ Source: *Informação UNICA - Ano 3 - Nº 36 - Setembro de 2000.*

The 2008 study underscores the importance of creating mechanisms that allow Culture to really turn into a Pillar of Strategic Transformation. This is still needed, and is what we try to do in this study.

7.5 Major Institutions And Their Roles

"We want to build a country open to the world, with a strong production system, based on its human capital, technological abilities and its culture".

Being the DTIS part of a project led by the State, there is a need to clarify what its role and relationship with the private sector and civil society. To achieve the goal of *"Shared Prosperity for all"* we believe that the due to the State limited resources and staff it must prioritize investment in what only it can do. Its role is creating the favorable environment by regulations and fostering. And especially the role of the Articulator, summoning and integrating the other actors around common causes. Only the State can orchestrate its various instances in integrated and systemic processes and only it has wide access to businesses, academia, and civil society. The State shall also identify resources and opportunities and activates them through connection and flows. Or act as a guarantor, the one who gives the go ahead, recognizing and empowering. It is not recommended that the State act as a producer or operator - in a creative ecosystem the execution and circulation should be conducted by the entrepreneurs. Research and studies should be carried out by Academia and institutes. A good "cement" is the Third Sector, transversal by nature, once its processes are simultaneously social, cultural, entrepreneurial and educational. The social entrepreneurs and their social technologies sum up the best of two worlds: endeavours with the purpose of inclusion and quality of life. Thus the State becomes the catalyst of social flows, through integrated action of the civil society, public and private sector; flows and better use of technological infrastructure and natural resources; flows of currency and available time.

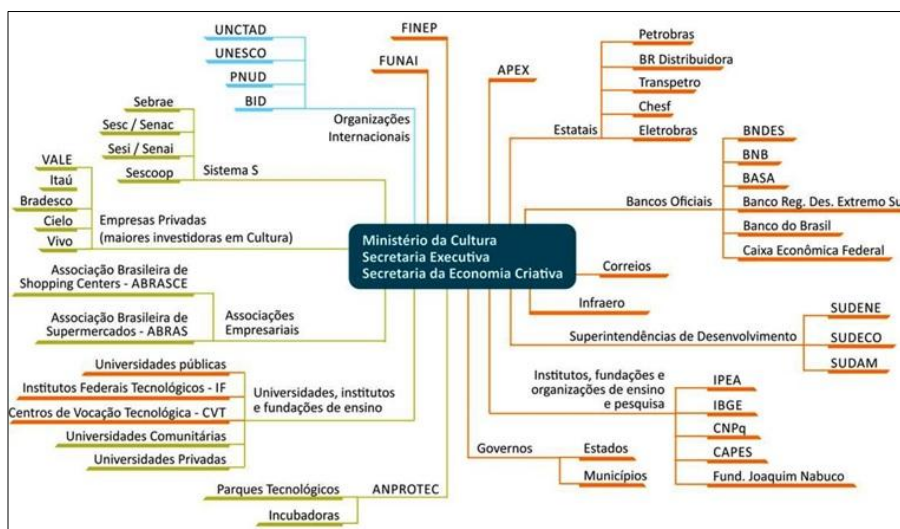
Transversal action creating favorable environment for all sectors also avoids working on the logic of "one-stop policy", pulverizing resources to meet small demands of the sectors or "taking care of the fruit instead of the Orchard." The main challenge here, and perhaps the most difficult, is not technical,

but cultural. Acting in the context of the economics of abundance requires a change of perspective about what to prioritize and adopt.

Institutions and programs that play priority role for the Creative Economy are those that promote integrated and systemic action, those capable of fostering the creative ecosystem.

Regarding the Government of Cape

Figure 41 Creative Economy Ecosystem, Brazil Example



Verde we consider particularly strategic those connected to Coordination Unit of the State Reform (UCRE); Strategic Policy Centre (EPC); National Implementation Unit (NIU); Operational Unit of the Society Information (NOSI); Cape Verdean Agency of Investment Promotion; Agency for the Development of Enterprise and Innovation; industry associations such as Chambers of Commerce, Industry, Tourism and others; Institute of Employment and Vocational Training.

It turns out that the key to success in the Creative Economy (as in the United Kingdom or China) is work done through inter-ministerial groups that also combine the private sector, civil society and academia. The State can be the one to convene and create the conditions for this convergence takes place.

The role and importance of the Ministry of Culture should be reviewed, because it is much more than a Ministry of the Arts, and that already happens in Cape Verde. The MC has innovative and transversal programs of exceptional quality. Maybe something like naming it as “Ministry of Arts and Culture” would show the most fundamental part of its job: to be responsible both for artistic languages as for its broader and more structural function: to promote changes in mentality; preserve and enhance the way of life; reveal values and Cape Verdean attributes that can be applied to any sort of product and service.

The Creative Economy, for its transversal and integrated character, ideally is not charge of a specific Ministry but of an Agency that brings together all Ministries, since the ultimate goal is not to develop the CE, but rather to generate sustainable development for the country through it. It is important to emphasize that the role of the Agency and all partners is to create a favorable environment, nourish the ecosystem and create networked and distributed processes. Any type of centralization and procedure that impedes the autonomy of local actors will have the opposite effect: it would generate more scarcity and not abundance.

7.5.1 Main Elements of Competitiveness

In the section dedicated to Opportunities, we indicate which sectors in Cape Verde have the greatest potential at the moment. In the Action Matrix, we identify how to foster them. But the central axis of this study is not so much to list "fruits", as for example, the wine from Fogo Island, but the importance of the "Orchard" in which it is inserted: organic, family production, depicting the uniqueness of its territory. The Simulation is an exercise that allows understanding of the elements we refer to as an ecosystem.

This ecosystem is built from four major forces that are shaping the future and suggest opportunities for Cape Verde, mainly by turning its constraints into opportunities, thus generating wealth through the potential of culture and the Creative Economy.

1) **The progressive centrality of Intangibles.** As stated in 2009 DTIS of Cape Verde, creole culture is a rare combination of Africa, Europe and Latin America, diverse and sustainable in its essence. This is the time to create strategies so that it can be the vector of development of the country, not just through the artistic products and services but differentiating and valuing all Cape Verdean products and services. And creating "green" models that result in a culture for sustainability increasingly demanded by the world.

2) **A networked world, thanks to information and communication technologies.** Being formed by an archipelago and Diaspora, Cape Verde is already a network country and should take advantage of this as

both differential and modus operandi. Therefore, the TICs should be a national strategic priority. With them it is possible to take advantage of the opportunities of the mobility, of virtual, and of the remote.

3) **The collaborative processes.** These are already part of Cape Verdean culture and if redeemed and amplified through the network society, can cause the growth of the country reach exponential levels.

4) **Re-evaluation of what is Value, wealth and resources** in addition to the quantitative, numerical, monetary. Cape Verde, by its scale and characteristics can be the first to actually implement new metrics and indicators, which is already noted for his interest in associate indexes as the GNH²¹¹, Gross National Happiness, to its processes.

This ecosystem that integrates culture and knowledge, new technologies, collaborative network processes, and multidimensional notion of wealth we here call by the Economy of Abundance, an economy driven by intangible that goes beyond the bounds of the Creative Economy. This is the ecosystem that we have considered in the proposals presented in this study. This is the time, since it is now actually possible to perceive and act within a creative ecosystem, taking into account that both the resources and the tools can be revealed and enabled by new technologies and collaborative processes.

7.6 Opportunities

“The fact it is an archipelago shall challenge the government. Since to manage a group of islands is not the same as managing a continuous country. An archipelago should be seen as a unity that is more than the mere sum of parts. The archipelago specific management, the network view, the strategy of distribution and access, the micro as an expression of the macro and the macro as a dynamic synthesis of micro constitute the force of any project that one wants to implement in the country.” – Mario Lúcio Sousa, Minister of Culture

This section is organized in four groups. In the first one, we relate the criteria that organized our thoughts. Then, we present the characteristics and attributes of Cape Verde that can serve as the basis for the creation of products and services. Subsequently, the opportunities of Cape Verde as a Green Co-Laboratory and finally in which sectors all this can be applied.

7.6.1 Criteria in the Selection Of Opportunities

The topics in this section are only mentioned without elaborating, because that would be too long for the context of this document. Opportunities were organized according to the criteria below:

- 1) Check the characteristics of CV and how what apparently seems a problem can become a solution.
- 2) Check what are the world demands that are not met, go beyond the ordinary, and that currently could be supplied by CV. We identify a few:

²¹¹ **Felicidade Interna Bruta (FIB)** or **Gross National Happiness (GNH)** measures the richness of a country from satisfaction of their population. Created in Bhutan, several countries are developing the process to implement it as an alternative to GDP.

- *Make sense – “Cabo Verde makes sense”*. The activities related to culture provide an answer to the "search for meaning" we live in today. Meaning both in regard to sensory experiences as to experiences that give a meaning to life.
 - *Common sense, sustainable*. Sensible attitudes, in the right measure, apart from the "excess" that has become synonymous of comfort and pleasure. Sustainability in all respects.
 - *Relationships of trust, collaborative*. Ethics, empathy, confidence in self and in others, believe that fair is possible. Competitiveness through collaboration.
 - *Make together, collective, celebration, reconciliation*. As a counterpoint to the prevailing individualism and isolation.
 - *Make different and make a difference*. As a counterpoint to the standardization and lack of purpose.
- 3) We will focus on the macro opportunities, addressing the Creative Economy ecosystem or that care for the "orchard" and not of specific fruits, according to the metaphor that we adopt herein. Ensuring this favorable terrain, all creative activities have the potential to flourish. Territorial approach, rather than sectorial.
- It is verified that most of the creative sectors have similar opportunities (e.g. niches originated from local cultural diversity; combination of traditional and modern) and similar constraints (movement, communication). Our contribution is directed to these opportunities and constraints common to artistic languages.
 - Both the opportunities and specific constraints of each sector can be found in the detailed reports of the Ministry of Culture.

7.6.2 Attributes of Cape Verde

1) Geography network: archipelago plus diaspora

- If the etymological root of the word island, "isola", is the same as isolation, which opportunity that shows? The "islands", for their isolation, make different, with autonomy and creativity: the ancient Minoan civilization of Crete, more advanced than the territorial Greek Mycenaean; the United Kingdom, unique even in using their own metrics, not by chance the first to adopt the Creative Economy as a development strategy; Iceland, reference in innovation in the post crisis recovery.
- Being a network country nothing better than to make use of all the resources of dematerialization, remote work, trade and online relations that the network society offers.

2) Limits on the tangible point the intangible as strategy.

- In the absence of tangible resources - natural resources, infrastructure, currency - is even more obvious how appropriate is to use intangibles as raw material for the country's development. Noting once again that we are referring to the combination Creative Economy + ICT + Collaborative Processes + Multidimensional Wealth.

3) Diversity, uniqueness, Creole culture

- For the Creative Economy the most important factor to generate products and services is diversity. Cape Verde is a very unique country, besides the cradle of the Creole culture with all that it represents of hybridity, inclusion, flexibility and innovation.
- Economy of Experience. Recalling what we put in the section "Vision of the Sector", one of the keys to the economy of Cape Verde is to associate any type of product or service to the

attributes and characteristics of the country. As such, unique experiences are generated and they will be more differentiated and valued.

4) Shortage of space, plenty of time

Indeed, time is the only resource that is scarce and is not renewed. Cape Verde may be short in space, but is abundant in time, which in turn is another form of currency. There are many studies²¹² that show that communities that invest time, participating in the communal activities, develop greater social capital. And social capital has the ability to activate the other forms of capital. If a country has time, it is a rich country, provided you know how to invest it.

- It is advisable to create contexts as described in the section “Simulation”, where the population is offered several mechanisms to better leverage their time, knowledge and will.
- If twentieth century entertainment was intended to "spend time", twenty-first century asks for an entertainment that "uses time" for the common good, or that allows its full enjoyment in meaningful activities.

5) Geographical and population scales

The smallness of the land area and of the Cape Verdean population are an opportunity if perceived through the lens of innovation, because the adoption of new models is much more difficult in large and populous countries. Cape Verde has conditions to achieve results on a national scale from micro and sustainable local experiences.

- Allows to perform in a more human scale and through innovative processes.
- Allows to generate and distribute income through local actions.
- Allows to organize integrated actions between government, private sector and creative entrepreneurs.
- This convergence of actions allows to optimize available resources.

6) Politics and governance

- In the near future, reputation will be considered the most valuable currency. This is an abundant currency in Cape Verde, as evidenced by the recognition, either through multilateral community or even in sports, as occurred recently with soccer. With a good reputation it is possible to form alliances and summon all areas to participate in a common project of the country.
- Another differential of much value is to have political and economic stability and a young, respected and open government.
- Historically, it turns out that Cape Verde has always been unique and did different in politics and on several management fronts of the country, which is why it is appropriate to adopt the "do differently" as a feature.

7) Population predominantly young

As more and more European countries are of elderly people, Cape Verde is fortunate to be a country of young. If the models of education and development are not updated, these young people are a problem. But, adopting the new collaborative models, with intensive use of the new technologies, they become the solution.

- Creative Economies areas have a huge capacity to absorb the young people skills.
- For young people, collaborative processes are natural. When there are no ways to participate in the search for collective solutions, the energy of young people turn to wrongdoing. Note that collective action, challenges, risk, belonging to a group are elements present both in the crime

²¹² Check the videos or books by Clay Shirky talking about “cognitive surplus” or the studies of Bernard Lietaer.

as in participatory processes of co-creation, where it is more appropriate to direct time, talent and enthusiasm.

- Since ICT is the country's number one priority, young people can be the target audience as well as partners in networking, software development, and digital inclusion of other young people, children and the elderly. They are, therefore, the means and the goal.
- "By young, to young, with young people." This is a point that can guide activities, products and services. Tourism, culture, endeavors undertaken by young people for young people.
- Because they are more adaptable, young people are better prepared to deal with other forms of management such as online payment, self-management, and participative management.

8) Hybridity in all its forms (inspired by a creole culture)

Below, we list some examples of how this attribute can translate into products and services.

- There is a trend that cultural spaces become increasingly Multifunctional Spaces that bring together various languages and are simultaneously places of training, creation and display, replacing the old mono-functional models of theaters or museums.
- One of the keys of the Creative Economy is the circulation, which will be more secure if mixed circuits are created, that is, for simultaneous distribution of products from various languages. Street vending or in hotel displays (stylized with design) can offer music, design, gastronomy, a list of tours and cultural activities.
- Innovation in circulation: (1) Map and integrate existing structures, such as the case of the National Network of Venues from the Ministry of Culture, (2) As mobility is a characteristic of the future, prioritize mobile distribution networks through displays, stands, etc. of stylized design. (3) The e-market is strategic, because CV is a "network country."
- Mixed cultural experiences reflecting both the mix of Cape Verde people as its multi-talent characteristic. It appears there is greater potential of engagement when cultural experiences integrate multiple languages. Gastronomic venues + music concerts + fashion shows + publications, more, more.
- Reveal and make use of these multiple talents that characterize the Cape Verdean people as Cape Verde brand: Amílcar Cabral, political leader and poet; Minister of Culture, lawyer, musician, sculptor and artist; a great number of ministry staff are also poets, musicians, web designers etc.
- Even Cape Verdean weaving (*panaria*), with its geometry in black and white, reflects the quest for integration between polarities that characterizes the country. Besides the obvious black and white, it represents tradition and vanguard, isolation and connectivity, abundance and resilience.
- Cape Verdean weaving can be the basis for the iconography of the country, applied to the various products, spaces and communication tools. As we are talking about the network country, nothing more appropriate than start with the loom and adopt the mesh as a symbol.

9) "Morabeza"

Reception, hospitality, kindness, empathy, attributes contained within the word "morabeza", represent much of what the world wants right now and Cape Verde has to offer.

- When embodying "morabeza", the products, services and entrepreneurs possess strong elements of value creation and establishment of linkages to generate market.
- Colonization of Cape Verde does not come as a result of the massacre from original populations, but more of a mix between Portuguese and Africans. Furthermore, Cape Verdean slaves were evangelized, taught rudiments of Portuguese and of a trade and, because of their better education, acted as "hubs" among the European, American and African. This makes Cape Verde

the country that is not spiteful, one more mastery and attribute to generate value to their products and services.

10) History and culture

- Cape Verde has a foundation and consistency in its political and social history, in addition to the wealth of its legends that once revealed may serve as factors of attraction and legitimacy for their products and services.
- Collaborative Culture is part of the Cape Verdean culture. Being part of, autonomy, belonging and connection are elements of participatory culture and can base the design of creative endeavors.

7.6.3 Green Co-Laboratory or the Creative and Collaborative Economy

Below, we list some opportunities for Cape Verde to become the first country to have "sustainable" and "green" not as a mere adjective, but as an element that guides all its practices. Our main finding in this study is that here lies the main opportunity for Cape Verde, because all others can derive from it: invite the most innovative practices of various countries; adapt and implement methodologies; organize results; becoming a global experiment of the economy of abundance, revealing the close relationship between culture and sustainability.

It is worth mentioning that during the process of consultation and research to support this study, every time one mentioned "Cape Verde" the reaction was of interest and sympathy, people from many countries know and recognize the differential of this small country. Much of the institutions consulted are available to be part of this global experiment.

- 1) All the attributes and characteristics listed above are the solution and not the problem in the context of a co-laboratory.
- 2) Possibility of international partnerships that share the cause and allow technology transfers between countries. It is possible to engage all leaders of digital culture, P2P production, free media, the arts, permaculture, fair trade, etc.
- 3) Developed countries are devoting huge amounts of time and resources to fix past mistakes. Whilst Cape Verde can meet its needs by creating sustainable infrastructure and processes from the beginning, skipping the mistakes of the twentieth century and going directly to the twenty-first century.
- 4) An experiment of this kind would give great visibility and exposure to Cape Verde and its products. No form of advertising or marketing would be so efficient, impactful and low cost, as that which a beautiful cause can mobilize.
- 5) Naturally, the system of International Cooperation accompanies the world in its transformation processes and thus requires new procedures and indicators, which may result from this Co-Laboratory.

7.6.4 Sectors, Services And Priority Products

Within the concept we defend throughout this document, develop arts and culture is taking care of the "orchard" (favorable environment for the Creative Economy) and the result will be various fruits (creative products and services). There is hardly artistic production or market if this is not inserted in a

broader context. For this reason, the examples below are not related exclusively to the artistic languages but to all that is connected to culture in its broadest sense.

1) Create an ICT infrastructure

Pointing out that this is a *sine qua non* condition for everything else to become possible. It is critical that it is implemented using the facilities of the opensource and collaborative society to ensure autonomy from monopoly products, services, digital content and communications groups.

- For data transmission networks, an example (see section “Simulation”) is Wi-Fi Cloud to transmit data generated by computers from the program One Laptop Per Child.
- ICT-based micro business should be encouraged to ensure the passageway needed to access communication. For example, Internet cafes, or even the possibility of street vendors selling mobile minutes for use, as it happens in Colombia, India and other countries. This last example shows a rudimentary way, but inexpensive and fast, to generate income (sale of mobile minutes) relieving the State's need to invest in heavy infrastructure (as to install and maintain a network of payphones).
- The passageway and democratization of access to ICT in all municipalities are a guarantee to bring job opportunities to candidates, as the experience of mobile4good²¹³, whose service KAZI 560 using mobile phones in Kenya connected 60,000 workers to potential opportunities.
- The establishment of multifunctional workshops using 3D printers must be stimulated for production and manufacturing. This enables that with low cost and with little displacement, the islands may produce locally a portion of what they need. There is an interesting reference to the designer Markus Kayser²¹⁴ who created a 3D printer that makes glass pieces using sand and desert sun.
- If there is sufficient ICT infrastructure to connect people it is possible to produce and circulate content and thus make use of community radio and television as a creative tool of development and social cohesion.

2) Arts, culture and tourism for the common good

Entertainment, tourism, arts and encounter, when stepped away from their character of celebration or from their intention of exchange and construction of a sense of the collective, cease to be synesthesia - all senses working together - and become anesthesia. Instead of giving meaning to life and to the collective, they numb and empty of meaning. The creative opportunities are immense when art, besides being an end in itself, becomes a means, namely artistic languages to deal with issues of all other areas of society (health, education, security, management, leadership).

- Products and services that are more "experience" than consumption. There is a growing interest in "enjoying" more than in "having". Products can be pirated, but unique and meaningful experiences cannot. And therefore has no price.
- In the case of tourism, we have cultural, social, fraternal, youth, of cause. The possibilities are many, but what they have in common is the focus on the purpose and the improvement of both the community hosting as the tourist enjoying.
- Artistic, cultural and calendar activities should primarily be aimed at domestic audience and then will be able to attract external audiences.
- Cultural enterprises can be derived from everyday, urban and rural life through the Production Associated to Tourism (see more in the section “Simulation”), resulting in tourist itineraries.

²¹³ <http://oneworldgroup.org/mobile4good-kazi560-kenya>

²¹⁴ <http://www.thisiscolossal.com/2011/06/markus-kayser-builds-a-solar-powered-3d-printer-that-prints-glass-from-sand-and-a-sun-powered-laser-cutter/>

- The conclusion is that it is essential to foster all sorts of intermediaries because they are the links that create the chain of the Creative Economy: marketing agents for music, literature, crafts, fashion and gastronomy. Like that it is timely the creation of local tourism agencies to ensure the activities' cultural profile and that the resources spent on tourism stay in the country.

3) Innovation in financing and legal-tax framework

To enable new forms of creative production, which seize the opportunities for exponential growth as the economy of abundance offers, one must simultaneously adjust the legal-tax framework, a task to which only the State can engage. Some examples:

- Regarding accountability, the Ibero-American countries have adopted as practice the verification of procedures, which results in tremendous paperwork and time consumption, teams, etc., in the verification of each contract, issued note, expense done. As for the Anglo-Saxon countries, they adopt a more efficient mechanism, verifying the result. I.e.: a project funded to perform 10 shows is supervised proving that it was carried out and not through proof of expenses for its realization.
- The laws of patronage (tax incentive for Culture) can now be created without the errors incurred in other countries, which resulted in market distortion whether because the companies that allocated taxes became the policy formulators or even the fact of having a production fully financed, regardless of the results achieved, resulted in distortion and poor quality in the artistic sector.
- It is recommended that any funds given by the State to artistic groups be linked to results obtained (as public) and to counterparts (as workshops), thus avoiding the failings that originate from support.
- There are more results when support is greater for distribution and diffusion, not so much for production, as is the case of the Argentine cinema.
- All kinds of partnerships should be encouraged. From simple consumer cooperatives to exercise collaboration, trust and reduce costs to the rescue and update of collaborative processes inherent in the Cape Verdean culture, like mutuality or "*Djunta-mon*".
- The State has a great power to activate the economy through government procurement and contracting of SMEs and social suppliers as a factor of income distribution, local empowerment and endorsement.

4) Sustainability as guiding element of all actions

- Following international movements that propose replacing GDP as a metric for other forms that are more comprehensive to measure quality of life, Cape Verde can innovate by adopting indexes more similar to GNH - Gross National Happiness, created in Bhutan, and in the process of discussion and research in other countries (Canada, France, Brazil, among others).
- Culture for sustainability. Artistic languages applied to creating a sustainable culture.
- Cooperative games and playfulness as a tool to work sustainable concepts.
- Family and organic farming, permaculture for food crafting and differentiated gastronomy.

- Adopt sustainable construction techniques, building with soil and the like are opportunities for the sectors of architecture and urbanism in Cape Verde, both in the urban as in rural areas.
- Recycling offers many opportunities and should be a priority, especially considering that in the islands, the entry and exit of materials is more complicated. It can be done at the micro level, through collectors or use of recycled materials in crafts and at the macro scale, with industrial recycling of solid waste, a growing market²¹⁵.

5) Wellbeing and beauty

The economy of the experience associated with beauty, wellbeing and personal care is an opportunity for Cape Verde. It is also an attribute to be worked, anchored in the beauty of the nature and of its people, one more product of hybridization. While in the tourism and leisure industry, comfort and pleasure are associated with excesses, the opportunity is in creating products and services in tune with the future: in the right measure, quality not quantity, healthy/organic, ethnic, niche, gourmet product and “fair trade”.

- Differentiated, natural and light Gastronomy. Sugar-free foods, gluten free and corn-based foods (so traditional in the islands). Craft food should be incorporated into other craft fronts; wine from Fogo Island, sugarcane/*grogue* (sugarcane-based alcoholic drink); livestock - goat cheese; meat and *linguiça de terra* (pork meat-based sausage); coffee, sweets, jellies, jams, preserves, purees, punch and various liqueurs of herbs and fruits; corn-base pastry of São Domingos, the couscous that can be frozen, canned sausage, *cachupa* (corn-based dish) and *feijoada* (bean stew) *cachupa* and the sector of fresh horticultural products.
- Beach associated with wellbeing. Personal care activities offered at the beach, such as massage, manicure, gymnastics and physical activities, taking advantage of the fitness equipment existing at plazas and beaches;
- Herbal therapeutic and cosmetics. There is huge opportunity there, just see, for example, the importance and space occupied by the medicinal herbs in the public markets. Besides the traditional knowledge for their use, it is a precious heritage to be better used, for example through association with the universities for its systematization.

6) Public space and celebration

In the twentieth century there was a tendency to isolate privatize and isolate cultural activities and close inside walls everything that referred to reconciliation, being together and celebration. Thus contributed to increased violence, loss of traditions, income concentration and endemic depression. To avoid incurring on these errors, Cape Verde can prioritize the street, the public space and the open in its activities. With this, one can have safer, more confident and collaborative cities and communities. And of course, more happy, fun and attractive.

- The Cape Verdean music, internationally known, is one of the languages with the greatest potential to leverage others. Through it, one can boost fashion, publications, audiovisual, crafts and cuisine.

²¹⁵ We were approached by http://www.recycle.net/pm_home.asp, which makes the bridge between supply and who demands residues, interested in contacting entrepreneurs in Cape Verde.

- Tradition and popular culture. In Cape Verde there are still pilgrimage festivals and other traditional practices that maintain social ties, differentiate and value communities and, if combined with contemporary languages, can be sources of constant renewal language.
- The creation of local calendars and their diffusion are primary opportunities that organize the territory, show their wealth and leverage other types of business.
- The Creative District proposed by the Ministry of Culture is an ideal convergence of these opportunities.

7) **Edutainment, new sustainable education**

Culture and education are two sides of the same coin. Reforms in education are critical so that one can take full advantage of the opportunities highlighted by this time of new models and an economy of abundance. By implementing the above-mentioned items, Cape Verde has the opportunity to develop and eventually export, methodologies that combine arts, sustainability and social action. Some examples:

- Avoid mono teaching and single curriculum and preferably with the possibility of having masters of traditional culture teaching in schools. Mozambique and its curriculum is a reference.
- Emphasis on technical education, the importance of which has been relegated. Consider, for example, that all kind of crafts represent an enormous opportunity of work in the future and are being lost due to lack of knowledge transmission.
- Recognition of masters of popular culture.
- Collaborative and Creative Economy projects in a school-community collaboration that foster entrepreneurship, turning visible, accessible and distributing the local production. This possibility of strengthening the intra-classes market is detailed in the section "Simulation".

7.7 Simulating Creative and Collaborative Ecosystems

Microeconomics gaining scale through networking and collaborative processes

"Turn ourselves into cultural agents rather than be simply cultural products" - Amílcar Cabral

7.7.1 What Is Our Point?

This section is intended to provide examples, through simulation, that make understandable what has been proposed conceptually. In order to make easier for the reader to become familiar with the type of creative entrepreneurship or Project that enables what we have called "economics of abundance", combining intangible assets + ITC + collaborative processes + multidimensional wealth.

To construct it we keep in mind the following points:

- For creative ventures to go ahead we need a systemic vision, we need to create an ecosystem that covers other needs, from transport to organic production. It is presumed that the presented methodologies impact directly or indirectly on the Creative Economy. This systemic view is being practiced in Permaculture²¹⁶, originally "permanent agriculture" after drifting for "permanent culture", uniting ancient cultures with the knowledge of modern science. It's the kind of approach that serves the purposes of Cape Verdeans. The experiences proposed here are exercises that reflect this concept to the creative aspect: one activity leverages another, creating virtuous cycles as of nature. Marketable products and services are the visible tip of the iceberg, sustained throughout the productive ecosystem that is underneath. Following in analogies, to generate the fruits it is needed to take care of the entire orchard, create favorable environment.
- We consider that in this ecosystem the flows of products and services are directed primarily to broaden the market and local purchasing power, hence the focus on microeconomics, following the vision identified by the Ministry of culture. We believe that the 21ST century will clearly show that there is more economic health when we turn inward rather than outward. We prioritize activities able to generate and distribute income, generating domestic market as well. To this internal market we add the Diaspora, tourists and the global market, enabled by heavy use of online services.
- Gain scale by the combination of microeconomics sites aiming at verifying the hypothesis is valid, that is possible to achieve significant percentages of GDP through the summation of several small businesses
- This scale can be achieved, and the ecosystem structure, provided there is massive investments in TICs. New technologies allow all instances of the country (government, business, microeconomics, third sector, families, individuals) can overcome all the structural constraints that the country faces - transportation, geography, small size of both territory and market. This

²¹⁶ Permaculture (concept created in Australia in 70 years, by Bill Mollison) is a design system for creating sustainable human and productive environments in balance and harmony with nature. Does not fit in any academic discipline being in practice a trans disciplinary knowledge framework, ranging from agriculture, to architecture, natural sciences, economics, etc.

means designing policies that ensure access to ICTs and the Internet. First aspect at "hardware": lower costs of communication, equipment, connections, preferably through adoption of cutting-edge models (open source, peer-to-peer or p2p) allowing autonomy from industry giants, and independence from other countries. Then the issue "software" creating conditions and spaces for the entire population, especially children and young people can dominate the language of ICTs.

- Meet separately industry needs appointed by PLEI would be unworkable, because of time, resources and lack of teams. And, anyway, it is noted that there are better results when the State invests in processes that foster the Creative Economy sector as a whole, since all languages have the same intrinsic problems. For example, training, mobility, visibility, marketing, systemization of data. We look for references that due to their transverse and Multilanguage's approach meet this need to respond to various languages and artistic sectors simultaneously.
- These are experiences and innovative technologies, which are not accessible in the traditional sources, and that can complement the modalities of production, distribution and consumption, more widely known and disseminated. Most of them is Brazilian, not just by the familiarity of the author, but because as well as the United Kingdom is a source of methodologies for the creative industries, Brazil is a storehouse of experience of the Creative Economy "for social good"²¹⁷, this is using the strength of the technologies, of new media and innovative thinking to the confrontation and social problems solution.
- Within the proposal of Cape Verde becoming a Co-Laboratory of Sustainable Practices, several experiences were contacted and showed interest in cooperating with the Government of Cape Verde. This may be important to facilitate international cooperation through technology transfers, and not monetary resources.
- By way of illustration, and to estimate the magnitude of what this microeconomics may cause in terms of scale, we include some rudimentary estimates of potential revenue, starting from very small amounts suggested by local teams. Even without considering the economy's full complexity they fulfill the role of "making perceivable the intangibles", and allow us to see the exponential nature of Creative Economy + collaborative, as well as the fact that new technologies allow us to gain the macro scale through networked local microeconomics. Through these estimates it is possible to identify other opportunities that might generate new simulations of revenue and, therefore, to support the construction of policies and their prioritization.

All suggestions are based, or are adapted from existing and successful methodologies and projects rather than mere utopia. The examples always bring the reference, so that, if necessary, there is greater deepening. Going deeper into them would be too much extensive for the present report. These experiences and methodologies hereby presented are based as follows:

(1) Logic of the economics of abundance, matching intangible assets + ITC + collaborative processes + multidimensional wealth²¹⁸, as shown in the introduction. Elements that in themselves grow exponentially and combined, even more. Are principles that are at the root of the Cape Verdean culture, for example, in the traditional solidarity practices as the *Djunta-mon*.²¹⁹

²¹⁷ <http://socialgoodbrasil.org.br/sobre-o-programa-social-good-brasil>

²¹⁸ See the author's book chapter in which this process is described.

http://www.fundacaotelefonica.org.br/docs/Economia_Criativa-um_olhar_para_projetos_brasileiros.pdf

²¹⁹ See study of Yolande Évora in <http://www.wfs.org/forecasts25>

(2) We believe that the Creative Economy ecosystem in Cape Verde will advance if there is a favorable environment, i.e. a set of disciplinary strategies that allow its existence. The State is the Activator, Connector, and Facilitator of this favorable environment, using their tools to unite potential of public and private sector, civil society, academy. This will prevent the tendency to State "Director", one who performs to supply shortages, and that could end up competing with creative entrepreneurs. As says H.E.P.M. José Maria Neves "(...) *the political elite should commit itself to achieving the common welfare. Put themselves in the service of citizens, providing the country's resources for the benefit of the people and development*"²²⁰

(3) In intangible assets and in collaborative logic what is required is the access: there is no need to "have", but rather "use". If a community takes care and manages an abandoned shed, turning it into a community cultural center, she has the use, not ownership. The State is Facilitator because it uses its staff and credibility to ensure access and create partnerships.

(4) The processes described are inspired by the Intelligent Distributed Networks²²¹ and Mesh, such as the internet. Explaining it in a simplified form: as a Mesh network (distributed, p2p – which means direct contact between people) every new user is autonomous, and is also one more "little piece of the road" through where data flows. The more people on the internet, the more data flows. As an Intelligent Network, it organizes its data flows by checking which computers are connected and have space to "serve as a road" at any time. This sort of network allows a sum of small opportunities to gain scale through intelligent systems which, upon intersecting the available offer with the demand, generate flows. This is the key to a business trend that was called in the US as "Mesh"²²² - businesses that arise from the identification of surpluses and creation of systems for their sharing and use. That's what makes, for example, the National Network of Concert Halls created by the Ministry of Culture: to meet the demand for cultural spaces, in a scenario of limited resources, the Ministry has identified, connected, and qualified already existing spaces, creating a network through which circulate shows.

(5) In order to create these flows (after all trade and value generation are, in synthesis, flows...) we start from what exists, the surpluses or resources in the four dimensions: financial, environmental, social and cultural (more about these 4D in the Introduction). After verifying what is available, we check how they might be combined to generate results in the short term and with little spending. We changed the optics from what's missing to what's the potential, from fighting against poverty to the revelation of the wealth that is invisible. And to be able to do so, we seek to "validate the intangibles".

(6) Not only we will identify resources in the four dimensions as we have goals within the same "4D" as the systematization of best practices allowed us to observe that their goals and outcomes go through all dimensions of sustainability. Briefly, some of them are, as follows:

- *Financial Perspective:* build trade channels + develop an entrepreneurial culture + generate creative businesses in the neighborhood + expertize + optimize resources + productive inclusion of women and youth.
- *Social Perspective:* strengthen social mesh + foster collaborative culture + partnerships public sector, private sector, Academy, society + reduce violence and risk situation + citizenship.

²²⁰ In Nós Genti, Edition 4, September 2012, page 70.

²²¹ <http://www.redeinteligente.com/2010/07/07/tendencia-e-descentralizar-distribuicao/>

²²² See the book Mesh, by Liza Gansky or <http://meshing.it/> with thousands of examples of business.

- *Cultural Perspective*: recognize, develop and produce local knowledge + generate methodologies + enhance local identity + preserve and optimize knowledge, practices, crafts + digital inclusion.
- *Environment Perspective*: sustainability + environmental care + optimize existing structures and equipment + create ICT networks + health and wellbeing.

(7) We will work with business concepts that come out of 20th century logic and already have sustainable and systemic vision. The examples to be followed are, as a priority social technologies already tested, systematized, and available, which can be transferred or adapted to the context of Cape Verde – a solution to obtain international support without direct involvement of resources. There are plenty of available social technologies, such as those focusing on local development (see the **Banco de Tecnologias Sociais** of the Bank of Brazil Foundation²²³) or the fantastic asset of what is generated by social entrepreneurs, with their ability to do a lot with little (see the **Ashoka network**²²⁴ or the movie "Who Cares?"²²⁵).

(8) Being sustainability the north of everything that is being searched, especially in the context of the Green Laboratory, the developments caused by the process can be turned into social-business²²⁶ - ventures that, through their core business, provide solutions to social problems, using market mechanisms, as **Business for Benefit**²²⁷, **B Corporations**²²⁸ or **B System** in Latin America²²⁹.

Note: The following examples point to possibilities, primarily for those who will be responsible for action, to design programs and project proposals. For others who wish to skip reading this section, proceed directly to 7.7.11, the conclusion of the simulation.

7.7.2 How to Finance?

The State is the only one able to create policies and tax legal framework that results in more just and democratic flow of credit. Some examples:

Cultural Diversity Credits. Carbon Credits are already widely adopted: to balance their CO2 emissions, institutions and events pay in order for sustainable management or reforestation to offset the imbalance caused by their activities. Similarly, "Diversity Credits" could be created. A blockbuster movie that occupies all cinemas, the celebrities magazine, the all-inclusive holiday, weakens cultural diversity, pays a tax. This may constitute a fund that finances activities everything that strengthens cultural diversity.

Pro Culture Tourism Tax: a seed money. Taxes for the tourism sector are still controversial, but in a future scenario they will probably be increasingly meaningful. If tourism is possible through the enjoyment of a country "hardware", such as its nature, or its "software", such as culture, how will they be "paid" to ensure their preservation? It is likely and desirable that both the tourism industry and the tourists become even more aware of their validity, especially considering that for a tourist \$ 10.00 does

²²³ <http://www.fbb.org.br/tecnologiasocial/banco-de-tecnologias-sociais/>

²²⁴ <https://www.ashoka.org/>

²²⁵ <http://www.whocaresthefilm.com/TheMovie.aspx>

²²⁶ http://www.artemis.org.br/entenda_o_conceito.php

²²⁷ <http://hbr.org/2011/11/the-for-benefit-enterprise/ar/1>

²²⁸ <http://www.bcorporation.net/>

²²⁹ <http://www.sistemab.org/>

not make much difference, but for the country it might make huge difference. There is a room occupancy tax already, nothing fairer than creating a pro Culture tax. In 2014 are estimated 700,000 tourists in Cape Verde. At a rate of \$10.00, we have **\$ 7,000,000.00**. We assume that 10% of this total amount will cover expenditures, and the rest can be applied in the Creative Economy.

FAAC - Bank of Culture²³⁰. Innovative project created in Cape Verde, perhaps inspired by the Institute for the Funding of Cinema and Cultural Industries (*Institut pour Le Financement Du Cinéma et des Industries Culturelles*²³¹). Although the action is little it represents a reference to the world in solving many of the barriers to financing creative industries. It delegates the operation to commercial banks, while the Ministry of Culture acts both as a guarantee, the guarantor, as the assessment of who is able to receive credit. One of its procedures to constitute guarantee to lending to the sector. With 30% of the amounts generated by this tax, \$ 2,100,000.00 it would be possible to guarantee the funding of \$ 10,000.00 for 210 ventures. Estimating that the loan generates in 3 years the double of the received amount, we have a possibility of revenues of **\$ 4.200.000,00**.

Micro credit for the "Our Environment, Our business Program", part of *Microeconomics/ Creative Neighborhood component*. The unemployment rate in Cape Verde, in 2011²³², was 12.2% according to the National Institute of Statistics (INE), or, approximately 61,000 people. Brazilian references from the People's bank (*Banco do Povo*) show that with a \$ 300 microcredit we generate one job. With 60% of the Pro Culture Tax one may offer microcredit of \$ 400.00 to 10,500 people, or 17.2 % of the unemployed of Cape Verde who are willing to move to the creative sector. If these generate with their work a monthly income of \$ 200.00, by the end of one year we may have a total revenue of **\$ 25,200,000.00**.

Funds generated by Patronage Laws. These laws are intended to address to cultural activities a portion of corporate taxes, at federal, state or municipal level. They perform better when they feed Funds with shared management - government, businesses and creative entrepreneurs, and democratic access through edicts. The more local is the selection of projects, the greater is their positive impact on communities²³³.

P2P Funding. Another interesting process is direct credit, P2P, directly between people, a growing trend²³⁴. A reference is the **KIWA**²³⁵, with almost one and a half million users and flows of over USD 400 million. Visualizing the flow of funding in its first five years the impact becomes more evident²³⁶.

²³⁰ Brochure *FAAC/Banco da Cultura – Fundo Autónimo de Apoio à Cultura*, Ministry of Culture, Praia, 2012.

²³¹ <http://www.ifcic.fr/>

²³² Page 15, <http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/PDF/Cabo%20Verde.pdf>

²³³ <http://www.cultura.gov.br/site/wp-content/uploads/2011/09/Plano-da-Secretaria-da-Economia-Criativa.pdf> e <http://www.blogacesso.com.br/?p=4736>. In Brazil we have federal level, with tax income deduction <http://www.brasil.gov.br/sobre/cultura/Regulamentacao-e-incentivo/lei-rouanet>; state level with goods circulation tax http://www.fazenda.sp.gov.br/download/pac/manual_pac_pie.pdf; or municipal level with the services and real estate tax

<http://portal.pmf.sc.gov.br/entidades/receita/?cms=lei+municipal+de+incentivo+a+cultura>. Studies on their impact might be seen here: http://www.culturaemercado.com.br/wp-content/uploads/2011/05/ROUANET_FINAL21.pdf

²³⁴ Learn more experiences in <http://www.lendacademy.com>; <http://lendinghub.com.au/> or <http://www.lendio.com/loan-types/peer-to-peer/>

²³⁵ <http://www.kiva.org/about/stats>

Crowd Funding / Collaborative Funding. A growing trend at the moment is the collaborative funding, with much success for creative endeavors²³⁷, which is in harmony with Capeverdean practices such as mutuality and should be promoted by campaigns. At Crowdsourcing.org²³⁸ can be found 2,037 sites that do this. Any citizen who believes in a project may cooperate to make it feasible, directly, without intermediaries or bureaucracy, moreover getting benefits²³⁹. The possibilities may enlarge with the participation of development Institutions: if the group is able to raise an amount X, the institutions bring in another X counterpart (recurrent practice in the third sector).

With two years of existence the **Catharse** grew 268% in a year, and in 2012 were funded \$ 1,898,000.00²⁴⁰. One of the arrangements is to be a partner of the project, which began with fans who want to finance the organization of shows of their idols (specialized portals exist on it²⁴¹). If, with a stimulus from the Diaspora department 0.001 of Diaspora and local population, or 1,000 people, finance projects with \$ 15.00 per month, we have a Fund of \$ 180,000.00. The impressive collaborative processes experiences show that projects are implemented with an average of 30% in monetary resources, and 70% in non-monetary resources, such as time, spaces and equipment exchanges. This means that collaborative entrepreneurship may transform these \$ 180,000.00 in businesses worth \$ 600,000.00.

7.7.3 What Sort Of Systemic Solution?

In the framework of network businesses, which identify available surpluses and create systems to take advantage of them we may find the inspiration to solve a major part of the infrastructure problems that block Cape Verde's development. Let us imagine for example the idle hours of cars. Indeed, there are many businesses, such as the **Zipcar**²⁴², present in four countries and dozens of cities, in which registered users use these overflow hours, thus fore, paying the owner of the car and the business. Imagine the potential of this logic when extended to all kinds of spaces, surplus equipment, tools, or even time to share knowledge. Distribution is a key element for Creative Economy. Therefore, we may simulate situations even provisional, of people and cargo inter island transportation.

²³⁶ <http://vimeo.com/28413747>

²³⁷ Ibero America <http://goteo.org/>; two examples from Brazil <http://www.benfeitoria.com/>; <http://catarse.me/en>

²³⁸ <http://www.crowdsourcing.org/directory>

²³⁹ <http://www.dcomercio.com.br/index.php/economia/sub-menu-economia/86291-em-busca-da-felicidade-interna-bruta>

²⁴⁰ <http://startups.ig.com.br/2013/catarse-plataforma-de-financiamento-coletivo-pioneira-no-brasil-completa-dois-anos-e-mostra-numeros/>

²⁴¹ <http://www.ativaai.com.br>

²⁴² <http://www.zipcar.com/> e http://www.zipcar.com/cities?return_url=

Digital manufacturing and new forms of production. 3D Printers create three-dimensional objects by overlaying layers made with different types of materials (glass, polymer, metal). Today there are affordable, with rates from \$ 500.00. With them you can produce in small quantities, given the specific demands, low cost and without relying on suppliers who keeps monopolies-Cape Verde exactly what need and what fits in with the idea of being a Sustainability Laboratory. A successful experiment was the Wikispeed²⁴³, in which 8 people in 4 countries, using 3D printers build a car more economical, safe and fast and it costs around \$ 20.00. This example is one that demonstrates the Virtuous Cycle of Economy of Abundance, served before and Introduction: intangible assets + ITCs + collaborative = exponential results.

"Transpnet" - Supply immediately and with little investment the shortfall of insular passenger and cargo transportation. Create a centralized and high standard system (through purchase and management of ships) to transport 2,000 passengers per day, or 730,000 passengers a year is both expensive and slow. But we may imagine some alternative system able to meet not much demanding clients. A computerized system (intelligent network Mesh, as mentioned before) where existing private boats register the surplus capacity they can offer, the itinerary and schedule. The user registers in the system where and when he wants to go, and check the availabilities the system offers, and gets directly in touch. Imagining that 0.001 of the population of Cape Verde have boats, even if small size ships, able to transport in average 4 passengers or 300 Kg, we can carry 2,000 passengers a day or 1,000 tons per week. These tons correspond to 20 times the amount of food the hotels import weekly, and which could then be produced and distributed locally.

Organic Family Agriculture. Cape Verde imports 90% of its food. Through the **Mandala System**²⁴⁴, designed for family agriculture in semi-arid regions, from a small central reservoir of collected rain water, it's possible to harvest 100 kg/day of a mix of 34 types of organic vegetables in 50 x 50 m², further than seafood, livestock, etc., which were not included in these estimates. Partnerships with universities should help identify or fine tune what products are better suited both to the market and to the local conditions, such as ovine, caprine, harvests of hills vegetation. This might increase agriculture production, reaching (since now you would be able to transport the products) the 54.75 thousand Tons per years required by the hotels. If sold at \$ 1.00 per kg, this would generate an income of almost \$ 55 million. The production would generate employment for 1,500 family agriculture units, with a gross income of \$ 3,000 / month gross per family unit of production.

Creative Economy, Gastronomy and Well-being. The proposal is thus to enable two potential of Creative Economy in Cape Verde that act as catalysts for other processes. Gastronomy has the potential to activate and add other industries like handicraft, decoration, Visual Arts, music. And one of the largest brand attributes that Cape Verde can have: the concept of "**well-being**", guiding tourist products, agribusiness, beauty and personal care. Many of these products might be even more valued for being based on traditional practices and knowledge. Let us imagine for example the abundant Aloe vera based products, Aloe vera, like juices and cosmetics, very appreciated worldwide. In the field of

²⁴³ <http://www.forbes.com/sites/stevedenning/2012/05/10/wikispeed-how-a-100-mpg-car-was-developed-in-3-months/>

²⁴⁴ http://www.lagea.ig.ufu.br/xx1enga/anais_enga_2012/eixos/1397_1.pdf and http://www.megasult.com.br/2009/noticia.php?noticia_id=831

phyto-cosmetics there are hundreds of examples, from the giants Natura and Body Shop to the micro local initiatives, such as Mamdyara (São Vicente) or Raízes (Ribeira Grande de Santiago).

Or dried fruits, since the trend is light and natural. As "Saint of the House does make miracles", who realized that in Brazil was the Spanish chef Bassoleil, when created the company "*Frutos da Amazônia*"²⁴⁵ (Fruits from the Amazon region). We may consider the sale or export of mangoes, bananas and papayas which often rot in the ground. Or of any other of the many fruits the country probably produces but does not take advantage of (in the past Brazil also did not use the fruits it produces in the woody pastures; today they are exported in the form of ice cream and flesh of the fruit²⁴⁶). The dehydration process is totally low tech and accessible: protected by nettings they can be dried under sunshine and wind. The process is feasible by the same rural seller who spends hours trying to sell them; wrapped in handcraft clay pots (many supply, low demand). If we adopt as logic that each Cape-Verdean product stimulates the sale of other, we should put a bilingual label with photos and the story from your site and culture; links to online purchase of Cape Verdean cultural products and for an **Agency of Cultural Tourism** where you can acquire packages of visitation. The cooperation with NGO is recommended, social incubators and research institutes as there are plenty of possibilities of technologies transfer for the several phase of this kind of process.

Organized in local cooperatives and associated with intermediaries who take in charge the other phases, 30 producers in each municipality produce 2 kg a day, we have 495 tons/year. Two hundred grams packaged in handcrafted and sold at \$ 15.00²⁴⁷ can generate revenue of \$ 1,485,000.00. If through the label data and site, 5% of goods sold stimulate the sale of other cultural products from CV, average value of \$ 25.00, we can generate revenue of \$ 1,237,500 .00. If consumer 0.005 inspire for sightseeing on site, this can generate an income of \$ 9,900,000.00. The activation of these possibilities requires the "ecosystem": research and partnership with universities; communication and branding; distribution; distribution integrated channels, where the key is always in the social capital: strengthen all sorts of associations. See more details in the Action Matrix.

7.7.4 To Start Where?

To expand trade in Cape Verde it is necessary to go from macro to micro, spiraled, identifying and activating products and probable creative services. It is necessary to have a dynamic and diverse cultural life in every neighborhood, town, island-so we have what to use, export, and circulate.

The concept of **Creative Neighborhood**, which is an essential part of the Micro Economy Programme proposed by the Ministry of Culture, could be the departure point. Urban and cross sector actions beginning at the neighborhood are even the convergence territory of other government departments. There are several experiences worldwide. The Neighborhood – school, comes out of Brazil and is under

²⁴⁵ <http://www.frutosdaamazonia.com.br/home.asp?IDLoja=23749> and here a link for Taste of Brazil <http://www.tasteofbrazil.com.br/site.htm>

²⁴⁶ http://www2.uol.com.br/vyaestelar/frutos_do_cerrado.htm

²⁴⁷ The reference is sold at \$ 20.00

<http://www.frutosdaamazonia.com.br/ListaProdutos.asp?IDLoja=23749&IDProduto=3714496>

incubation by the Harvard University and the MIT (Massachusetts Institute of Technology), via the Advanced Leadership Initiative, and the Center for Future Civic Media, which manages the Open City Labs project.²⁴⁸ We start identifying "hardware" (structures available, such as spaces and equipment) and software (knowledge, time), to see how to combine them. We use for example the "hardware" / public schools as support for various "software" - existing socio-cultural and adaptable technologies to the context of the Creative Economy and that leverage existing knowledge and time in local communities.

The whole school is a Center for a potential Creative Economy, to implement this we may inspire is the Family School (**Escola Da Família**)²⁴⁹, social program of the Government of the State of São Paulo, Brazil, with four guiding axes: sports, culture, qualification for work and health. It Acts for the communities inside and outside of the school surroundings, on weekends. In 2012 attended 2,685 schools with approximately 35,000 people team: 14% teachers 43%, university students, 43% volunteers. The interesting thing is that college students (80,000 between 2003 and 2012) who work on weekends in schools attend university free of charge (50% of tuition is paid by the University itself and the other 50% by the Government). This is one of the biggest opportunities that we perceive for Cape Verde: the country may mobilize knowledge, time, and enthusiasm from university students to apply them in the professional qualification processes, community cohesion and income generation.

Scholarships for volunteers university students – If through this program 20 academics per municipality work in schools, receive scholarships and with their diplomas can have a salary of \$ 800/month, this can generate annual revenue of \$ 4,224,000 .00.

Ensure continuity of policy is one of the most serious problems that we have, because usually these are government policies, not of the State, remaining dependent on the change of management. A solution that has been adopted is to create institutions that make the management of public programs. These are technical and not political institutions, and so with teams chosen for their competence. In Brazil there is the **Foundation for the Development of Education**²⁵⁰. The cultural and health facilities are administered by **Social Organizations**²⁵¹, whose status was created to be a bridge between the State and civil society and have simpler and more flexible bureaucratic processes.

School-based programs might work even better if combined with the use of **Libraries**²⁵² as aggregators elements to the community, as did Medellin, city that for 20 years had an annual rate of 381 homicides per 100 000 inhabitants (today is 16 per 100 000).

Diaspora, National System of Libraries and languages-If 5% of the Cape Verdean Diaspora donate 10 books we'll have 250,000.00 copies, which means 11,363 titles for a library in each of the 22 municipalities. If these same people dedicate one hour per month to tell stories in other languages, via skype in libraries, stimulating bilingual reading and learning, we have 30,000 hours, the equivalent to 1,250 4:0 week language courses/one year duration. If five teenagers accompany each "course", 6,250

²⁴⁸ <http://radarurbano.com.br/opencitylabs/>).

²⁴⁹ <http://escoladafamilia.fde.sp.gov.br>

²⁵⁰ <http://www.fde.sp.gov.br/PagesPublic/InternaQuemSomos.aspx?contextmenu=quemso>

²⁵¹ <http://www.transparencia.sp.gov.br/organizacoes.html>

²⁵² <http://www.reddebibliotecas.org.co>

become bilingual. If 10% of them act as junior cultural guides in the Cultural Heritage and tourism Program, attending one tourist/day per \$ 5.00, this results in \$ 1,140,625/year, with the added advantage of knowing and appreciating the culture itself.

7.7.5 How To Engage The Community To Build Scale?

The collaborative processes multiply resources and amplify outcomes. However, in order for them to exist, trust relationship is needed. Which depend on self-esteem, and generate social capital, the capital able to active the other, like oxygen feeds fire. In order for a community to mobilize and trust it need to execute something concrete. That would be yet more efficient if done in an entertainment way, an inter generations way, with enthusiasm. A social technology created for this is the **Oasis**²⁵³, in the form of a community game, such as a *gincana*. They star with a preparatory phase where the dreams of the community are identified (a kindergarten? a concert hall?). Afterwards they have 2 days to execute this neighbors dream, having as condition that this is “fast fun and free”. Further then being quick and fun, it is not allowed to involve monetary resources. The Oasis could be applied in the creation of spaces and recreational equipment (perhaps using recycled materials) for the Garden of Arts (**Jardim das Artes**), spaces for early childhood education, part of the Creative Neighborhood of the Ministry of Culture and where very early it is nurtured the development and multiplication of Cape Verdean culture.

Another possibility is that the Oasis tool may converge the efforts of the community to apply their time and abilities in the **Restoration of Historic Heritage**, for example, in the historic site of Cidade Velha. There are numerous examples of technologies for income generation and social appropriation of Historical Heritage in the publications of the **Somos Património Award**²⁵⁴, by the Andrés Bello Agreement (Ibero-american acting).

Restoring lives and historical heritage. The methodology developed by the Goia Institute²⁵⁵ starts from the perception that by restoring the historic heritage young people in socially vulnerable state are simultaneously able to restore their lives and get a source of income – in a much needed craft and less available. Imagining that we can form 80 young people in the craft and that they may receive salaries of \$335 / month that would generate an income of \$ 321,600.00. If groups of ten youngsters restore 2 buildings a year, we’ll have 32 buildings restored per year. Once restored, if each building generates revenues of \$ 1,500 per month, this would generate an income of \$ 576,000.00. *Cidade Velha* can be the place of the practice and become the country’s restoration Center.

²⁵³ <http://resilientcommunities.org/wp-content/uploads/2010/03/Oasis-ABCD-Resources.pdf>
<http://elosbrasil.org/metodologias/oasis/>,

²⁵⁴ There are many volumes, with hundreds of award-winning experiences some are in
http://biblioteca.universia.net/html_bura/ficha/params/title/somos-patrimonio-144-experiencias-apropiacion-social-patrimonio-cultural-natural/id/37943408.html

https://play.google.com/store/books/details/Somos_patrimonio?id=hDj--xeiFToC

²⁵⁵ <http://www.institutogoia.org/pg/2993/instituto-goia/>

7.7.6 Technology And Means

Enable creative potential requires ITCs and one of the options for this is to reuse equipment discarded by large companies, as does the **CDI-Center for Democratization of Informatics**²⁵⁶, which today has expanded over 17 countries and has a positive impact on the lives of 1,45 million people.

Fundraiser of the equipment – If each month 20 individuals give their used computer and ten companies give five computers, with 75% of reuse we'll have 28.6 computers for each municipality, which may be in School Centers of Creative Economy, described below. Considering the young people easiness with ITCs (for example: most of the softwares is developed by teenagers and youngsters), if 630 computers serve a student every 2 lective hours, we have 52,920 users served, if every month each one of them generates small businesses of \$ 20.00 via web, that would generate an income of \$ 1,270,000.00 per year. There are many experiences where used computers were used to create micro initiatives, like lan-houses in low income neighborhoods (which proved to be one of the biggest development promoters). Imagining that those 630 computers are placed in lan-houses (5 computers per lan-house) and these have an average monthly income of \$ 500.00 that would generate an income of \$ 756,000.00 per year.

Within the **Mundu Novu Programme** much can be done to leverage the Creative Economy and the work for young people. Even more impressive results come when it is made publicly available tools and software that can then be used and improved by developers and technicians, generating employment and income. The internationally award-winning Brazilian **Portal do Software Livre Público**²⁵⁷, has this function of providing public software and unite developers communities who apply and fine tune each platform and therefore have a living.

Box 22 Technology, Entrepreneurship and Applied Innovation

*TEIA -Technology, Entrepreneurship and Applied Innovation*²⁵⁸. Is a project inductor of income and innovation in the State of Minas Gerais. From the local school, the small business or agriculture producer, the TEIA Agent Searches on the network, and in network, the technology tools of the computing cloud solve the problems of local ICT infrastructure. Learn by doing, charge for the time and this makes a local client portfolio that enable to (1) remain in their community, (2) generate a good income, and (3) promote innovation through the adoption of new technologies. Among other findings it was done the exploitation of the entire network of State education with free productivity tools and was created a direct communication infrastructure with 853 municipalities and chambers of councilmen. Only in the first 18 months of the project the return to TEIA agents corresponded to approximately 2.5 times the amount invested in the project. Access to public and free software generating income-a similar Initiative could be held in Cape Verde. Investing \$ 500,000.00, after a year and a half it could generate income of \$ 1,250,000 .00.

²⁵⁶ <http://www.cdi.org.br/>

²⁵⁷ http://www.softwarepublico.gov.br/O_que_e_o_SPB

²⁵⁸ See PPT with the a synthesis of dos outcomes

https://docs.google.com/a/entusiasmo.com.br/file/d/1VExHnib8i2x9rDCZ_dy1Fo27ipn0l88wNTZce6afxug4anMZtU7J4yhdoEz/edit or video <http://www.youtube.com/watch?v=GfKeBSvgGWg>

Once the digital inclusion (engine of the Creative Economy) is the structural factor which guarantees all other processes, it is needed that the **Mundu Novu Programme** which is somehow a version of the **OLP, One Laptop per Child**²⁵⁹ actually reaches 100% of all Cape Verdean children and young people. The good news is that adopting production modus in the network society, decentralized, it is possible with low cost, great coverage and without depending on monopolies.

An inspiration could come from Uruguay, with its **Plan Ceibal**²⁶⁰ where 100% of children and young people are free from the most serious exclusion of this century: the digital. They have laptops and Wi-Fi modems. Additional advantage: the mesh formed by modems supplies already the local demand of data flow, without requiring a powerful back bone (and expensive). Another example of distributed logic in which the sum of many small generates scale.

Nowadays there are many other innovative forms of solving deficiencies. We have mentioned the possibility of digital manufacturing using 3D printer. Even when there is no local energy supply, there are also solutions, such as mapped in India by the **National Innovation Foundation**²⁶¹ and by **GIAN**. They seek "low tech" innovations, popular ones, for example, bicycles or solar cells generating energy to power computers.

Scan content for libraries and historical collections. Students + laptops + volunteer tutors can scan collections, since one of the goals of the MC is that the historical information can be yielded, considering that even research itself can be an attraction – after all to be archaeologists in fact is a unique experience. Extra benefit of this process is to know and to value their social political history, one of the major attributes of the Cape Verdean brand. It is possible to start with the "papers" of Amilcar Cabral and documents of independence. Or even a combined project of recording oral history + documentary + iconographic of each community, which would be better equipped to create their own branding and define the attributes that differentiate and qualify their products and services. If in 22 municipalities we have 20 young people dedicating 8 hours / weekly, at a speed of six pages / hour, it is possible to digitize over a million pages per year, or the equivalent of 7,040 books of 150 pages.

The possibilities created by the new ITCs result in the more than urgent education reform. The Ceibal Plan abandons the concept of school as industrial production line, training people to be an obeying man power, and trains autonomous citizens adopting the educational principles of **Ken Robinson**²⁶². It also uses the lessons of the **Khan Academy**²⁶³, which has already delivered 230,092,784 lessons in the form of videos and tutorials - so that everyone can learn at his/her own pace and context. A recurring situation for creative entrepreneurs is not having schools or teachers, and with these techniques and the laptops, much can be learned and therefore make - since learning in the future is in action and not just in content. The **SOLE Program (Self Organized Learning Environments)**²⁶⁴ found that children who do not speak foreign languages and have never seen a computer, are able to learn first how to use it, and then to research contents. Without teachers, but with computers and internet access added to "missions" on specific theme to research, they learn more than those who attend school. The yield is yet

²⁵⁹ <http://www.olpc.org/>

²⁶⁰ <http://www.ceibal.edu.uy>

²⁶¹ In government: <http://www.nif.org.in/>. In civil society: <http://www.sristi.org>. And in entrepreneurship: <http://west.gian.org/>.

²⁶² <http://www.thersa.org/events/rसानimate/animate/rsa-animate-changing-paradigms>

²⁶³ Figures from January 2013, check in <https://www.khanacademy.org/about>

²⁶⁴ <http://solesandsomes.wikispaces.com>

greater in groups of four and when there is a "tutor", someone who stimulates and answers questions, which could be done online, via video conference.

Mundu Novu, Creative Neighborhood, or programs like SOLE or Khan Academy might be a solution in scale, especially if addressed the crucial issue of contents production, matter we will discuss below.

7.7.7 Creative Projects From Schools And Neighborhoods

Auto run learning, in addition to covering the curricular contents might be useful to develop other contents: pioneer tutorials on themes of art, culture, crafts, traditional knowledge and practices for Khan Academy; materials for public or even commercial online TVs and radios, news agencies. Through ICTs the Diaspora can participate remotely with their knowledge (as tutors in the SOLE or in training sessions) or as diffusers of the goods and services generated. In the Creative Economy centers of the Creative Neighborhood, students + University students with scholarships + volunteers from various fields can form experimental ventures for the stages of the productive cycle of the Creative Economy, integrating design, communication, management, and branding to existing products and services in the community. In addition, ICTs allow the creating of circuits, promote and market products – one of the leading solutions for an archipelago as Cape Verde.

Supplying educational demand. Adopting the SOLE method and with 1% of the Diaspora dedicating one hour per week to teach/to be tutor via Skype, this is equivalent to 240,000 .00 hours per year, equivalent to 60,000 school days of 4:00 or 300 school years.

*School Centers of Creative Economy*²⁶⁵. Combining all of these social technologies we can create these Centers organized by students, for the community, with mentoring of university students and volunteers. It can be the first step to creation of Houses of Culture in neighborhoods, as proposed by the MC. Entrepreneurial activities with the local Creative Economy:

- Enable part of the various programs of MC: RENDA (Handcraft Distribution Network); Learning in the neighborhood and Root Schools (teaching crafts and traditional culture); National System of Art Education; National Network of Concert Halls; Laboratory of Oral and Popular Traditions (LABTOP); BEM CV (export of products and creative services in Cape Verde).
- Reveal and activate all features, and therefore values the district or territory. Monetize the Local Parties and of Parishes, the feasts of pilgrimage, gastronomy, crafts, arts, oral traditions, crafts. Help create Local Calendars, which in turn activate the tourism and other areas.
- Meet the demand for young people whose unemployment, around 20% in 2010, poses a threat to fiscal sustainability in the country if we take into account that this unemployment excludes one-fifth of the potential tax payer source.

The centers include:

- *Creative Economy Agency* - with a focus on business, it represents and distributes of cultural products and services of all creative industries sectors, described in the chapter General Vision of the Sector. If in each municipality they distribute weekly a product of each sector (handcrafts, concerts of music etc.), on an average value of \$ 100.00, it can generate annual revenues of \$ 1,487,200.00.

²⁶⁵ Small study prepared by the author in 2006 relates the participation in academic centers and success of creative entrepreneurs. <http://laladeheinzelin.com.br/wp-content/uploads/2010/07/2005-eneacult- economia-criativa-e-empreededorismo-cultural.pdf>

- *Root School and Learning in the Neighborhood* - can work associated with the Oral Traditions and Popular lab-LABTOP proposed by MC. Residents of communities enhance and teach their craft to young people, whereas arts and crafts (many of them in extinction) are one of the largest sources of work in the future. If in each municipality 30 Professionals are formed each year, and have monthly income of \$ 350.00 they can generate annual revenue of \$ 2,772,000.00.
- *Website for selling Creative Products and Services* - Where the locals, the Diaspora and tourists can purchase the products of the Community catalyzed by the School Centre of Creative Economy. The many tools of the network society / collaborative solve many of the challenges of a very strategic area for Cape Verde, such as e-commerce. There are numerous ways to facilitate online payments, even in the absence of formal banks or extensive use of credit card: PayPal, bitcoins, ripple, mobile payments, are some of them. The very simple qualification processes adopted on the web, where users qualify the services they used (stars, likes, etc.). Social networks as a way to disseminate as much to verify the reliability of suppliers and consumers. If this website monthly generates purchases of 0.025% of local population and the Diaspora, at an average amount of \$ 30, that will generate annual revenues of \$ 1,800,000 .00.

The fundamental in the Creative Economy is to place and circulate their products. A reference is the **Collaborative Producing**²⁶⁶, a social technology that promotes a process that meets all of the productive cycle of the Creative Economy. For example: If we have the stage and equipments we can organize an arts festival and provide publicity materials (websites, brochures, DVDs, live stream, Web TV etc.) as payment / exchange.

How? The execution of these exchangeable products is already capacity building for young people and all this can be done using simple computers and open source software. The products created can be made available for networks of hawkers (generally very efficient and “branched”) transforming “problem into solution”: instead of selling piracy they become broadcasters of local culture. With the publicity materials created the participating groups become visible and accessible, winning market. The young agents trained in Creative Economy become a sort of **Creative Production Support Office**, which can also be integrated into the Schools and the National Network of Concert Halls, and have volunteer tutors or college scholarships. This is a key element for the development of the Creative Economy, a reference is the *Criativa Birô*, part of Brazil Creative Plan²⁶⁷, which involves ten ministries and proposes to develop the country ahead of its Creative Economy. Below is their “ecosystem”.

²⁶⁶ <http://www.iteia.org.br/textos/produtora-cultural-colaborativa-artigo-expoidea-2010>

²⁶⁷ <http://www.cultura.gov.br/site/wp-content/uploads/2011/09/Plano-da-Secretaria-da-Economia-Criativa.pdf> e <http://www.blogacesso.com.br/?p=4736>

Figure 42 Criativa Biro Brazil



Patronage Financing Local Festivals. If through tax exemption foreseen in the Laws of Patronage we might have two major sponsoring companies, with monthly fees of \$ 12,500.00 this means \$ 300,000.00 that can cover \$ 80,000.00 for the acquisition of stage and roving equipment; average \$ 3,000.00 logistics by Festival; team of five people with average income of \$ 1,200.00. These values, plus collaborative process, can enable the project.

Local Collaborative Festivals and Collaborative Producer enabling territories. With stage + equipment + fixed team both State and creative entrepreneurs may organize creative Local Collaborative Festivals on weekends, creating calendar of activities, income and cultural products. This activity might work in an integrated manner to school Centers of Creative Economy. It may occur simultaneously to great events such as the AME, Atlantic Music Expo, foreseen in the Ministry of Culture plan, leaving a legacy post event.

Local Market. If we have 5 groups (of various artistic languages) per day, this means 520 presentations, for which an estimated audience of 100 people each or 52,000 people a year. Imagining that each person spend in Festivals an average of \$ 12.00 in tickets, gastronomy and acquisition of cultural products, that can generate \$ 624,000.00 in revenue.

Pilgrimage Festivals and other celebrations. This outline stage + equipment + team + Developer Collaborative initiative may activate one of the treasures of Cape Verde: its pilgrimage festivals and celebrations such as the New Year, Mardi Gras, St. John, the patron's festivals. Therefore it is possible to record and preserve the traditions; attract and train public; generate market; promote activities remix, adding tradition and modernism. The economy of Carnival in Bahia was extensively studied²⁶⁸ and the direct financial movement estimates for 2007 reach \$ 227 million, or \$ 37,833,333 per day.

²⁶⁸ http://www.academia.edu/1217466/A_economia_do_carnaval_da_Bahia

If we estimate that Cape Verde has four celebrations (e.g., New Year, Carnival, Saint John, Atlantic Music Expo) able to attract great public celebration and if we estimate that each festivity attracts only 1.5% of the movement of the Bahian carnival we have the ability to generate \$ 2,270,000.00.

Dissemination of Information. If through dissemination products exchanged the groups that participate in the Festivals are hired for jobs, an average of \$ 250.00/month, this can generate an income of \$ 1,560,000 .00. If every month are trained 24 Young Creative Agents (4 agents / producers; 4 video / photo, 4 graphic design; 4 technical; 4 web design; 4 broadcasting), 300 young people will be formed per year. If each one of them performs one work per week (website; graphic design; etc.), we will have 14,976 products. Getting an average payment of \$ 80 each, a revenue of \$ 1,198,080 can be generated.

Tourism. If half percent of these created products stimulates the trip of a couple of tourists per year, and each tourist follows the established pattern and spends \$ 1,500 on his/her trip, and does via local tourist companies (in order for the resources to stay in the country) that can generate an income of \$ 2,246,400. One of the great difficulties of the Creative Economy is that we do not value what is proper and the media has a crucial role in this. Centers School of Creative Economy, Producing Collaborative Support Offices, through the "ecosystem" that we are building this simulation can generate content for all types of media. Community radio with its power to the rural population and the ability to deliver content in local languages; educational TVs, radio and web TV, with increasing public and zero cost. These opportunities must be harnessed: videos or songs done in a home can reach audiences of millions. Nollywood (the Nigerian market for audiovisual) can be best sustainable solution for a country than Hollywood because it produces what is available (semiprofessional production, distribution by street vendors, domestic display) and tackles themes that make sense in everyday life of population. That's how the audiovisual became the third country's economy after oil and agribusiness.

Potential audiovisual consumption in CV-Nollywood worth \$ 250 million dollars and has a population of 140 million, which gives an average consumption of \$ 1.79 per capita. This value multiplied by the market potential of CV (local and Diaspora) can generate revenues of \$ 1,790,000.00.

Representation: If forty percent of these 14,976 products created leverage monthly sales or hiring of creative services that they are marketed, on average of \$ 80.00 (consumed locally, Diaspora, tourists, export, online) that can generate \$ 4,313,088.00 per year.

Recognize and value the heritage and local identity starts in education and in textbooks the reality depicted has nothing to do with our surroundings and from the beginning we feel excluded and without value. In addition, the riches are in the territory, but invisible and non-integrated - being, therefore, not exploited potential.

The Center for Capacity building of the Institute via Magia²⁶⁹ has teamed up with a State Department of Education for students of that State to leave the field in their neighborhoods, mapping their powers (spaces, knowledge and practices, materials, etc). From this mapping other knowledge were deriving (in the logic of the educator Paulo Freire which part from the micro and local to the macro and General) and drew up the free book of the city, adopted in the municipal schools. This process has generated 4D results (i.e. other forms of resources): knowledge, business, social bonds, better use of resources. For

²⁶⁹ http://www.viamagia.org/centro/proj_enciclopedias.php

example, in the neighborhood where there is concentration of terrace of African Brazilians cults, it is seen the potential to create “opened resorts”: when trimming rooms in local houses to receive tourists interested in experiencing the life of that community. The result is Culture, Tourism and Sustainability.

Through this kind of survey you can map the local Creative Economy and the students themselves, with their laptops, can feed the database of the Culture information system (SICultura). To map helps to verify the connections that can generate business-here a musician, lather there, over there a restaurant that wants live music. Each neighborhood and municipality will also differ as long as it organizes its Local Calendar, which organizes local production, promotes the integration between creative entrepreneurs and generates movement of people and tourists.

Tourism accounts for the largest percentage of the GDP in Cape Verde, but this number could be much greater if business such as Travel Agencies or Hotels were Cape Verdean. Once again the logic proposed in this study suggests solutions: Cultural Tourism, Green Tourism, Tourism Participatory. The limitation of available beds is one of the limiting Tourism Cape Verde and this can be supplied by processes such as the **Airbnb**²⁷⁰ which is the “largest hotel in the world” and is the version 2.0 of bed and breakfast. Without owning one square meter built, without staff, and without spending on communication platforms, because it uses the existing social networks. It started with a group from Chicago who wanted to hold an event and had no resources to host people. Today it is a huge network of people who can stay in their homes and receive for it. The qualification system of spaces and users is done through the social networks themselves effective and at zero cost. Pay online, disclosure, possibility of sync with events Cape Verde, all facilitated by new media and collaborative processes.

Figure 43 AirBnB Hotel Reservations



²⁷⁰ <https://www.airbnb.pt>

Bed and Breakfast. A good option is urban solution to increase bed availability during high season, cultural events, conferences and the like. The rural version works well when combined with other products Tourism and Local Community, a growing trend particularly promising for CV and that in the context of a Green Laboratory. If five neighborhoods or rural communities, of 22 municipalities, make available 10 beds each, we can have 401,500 beds / year. Considering an occupancy rate of 50%, and tourists staying a week, spending \$ 200 / day it is possible to generate revenues of \$ 4,588,571.00.

Network Certification. To ensure that the Cape Verdean products have value is required a certification of origin as "Created in Cape Verde" or "Cape Verde Makes Sense", a costly and difficult process because it requires data systems, teams, agreed criteria. Whereas the adoption of the practices described above would result in a scenario of widespread access to ICT (in our opinion the No. 1 priority of the country) and how we are dealing here with a range of micro businesses pier-to-pier, online or offline direct sales, it is possible to adopt the same business logic supported in social networks, such as the Airbnb and others, where each user becomes a certifier, to assign value to what he acquired, through stars, likes, etc. It can be done online or offline at the time of consumption. A solution to certify and credit products such as the Ministry of Culture RENDA Program (handicrafts) and others. From experiments of this type can suggest other ways simple and low cost to the certifications required by the major markets. It is also assumed that in a scenario of exponential transformations are no major simplification and accessibility also these international requirements.

As previously mentioned, the Tourism accounts for much of the GDP in Cape Verde, but the fruit of a type of tourism that is not ideal: all-inclusive, sun and sand without entering into interest and contact with the natives, demanding comforts resulting very costly. But if Cape Verde takes its young profile and adopts the posture of the nation Laboratory Green with the type of audience attracted is exactly the opposite of the above and will be interested in what exactly is that Cape Verde has to offer without artificialize to meet external standards. It is worth remembering that the island of Bali, in large part due to its unique culture, receives five million visitors a year.

Creative Economy, New Culture & Tourism - New forms of tourism offer visitors the opportunity to develop their creative potential through participation in activities characteristics of the destination chosen. Some advantages: not seasonal; does not rely on complex infrastructure, not dependent on the existence of differential natural or monumental spectacular. "From the valorization of cultural heritage is the phenomenon that is engendered Tourism" reminds the Minister of Culture. Observing the pillars of this new tourism becomes clear why:

- **DIVERSITY:** different forms of integrated experience, ensuring diversity of languages, spaces, times, values are authenticity and simplicity.
- **INTERACTIVE:** "do together, using technologies both traditional and the contemporary.
- **BACKGROUND:** understand the local to the global: history, geography, demographics, culture.
- **PURPOSE:** ability to create custom packages and activities that are consistent with the purpose of visitors - who wants to do things differently and make a difference. Crafts, traditions, gastronomy, art, spirituality, health and healing, sports, human improvement or professional engagement in civic action, sustainable practices.

A methodology that can facilitate the bridge between Creative Economy and Tourism is the **Production Associated to Tourism** (here's a manual of application²⁷¹), a transversal approach that maps and crosses the territory opportunities, improving them and creating catalogues and product roadmaps. So, the man who plays the accordion, and brings audiences to the Coffee X, decorated with local crafts and selling sweets typical fruit, served by people wearing local fashion. Theatrical groups of young people re-enact the story of local cultural heritage, etc. Because they are activities and business made by the natives and also intended for local consumption, originality and authenticity are maintained, qualifying and differentiating experiences offered. In small towns, where apparently there is very little, in only 3 months and with teams of 2 to 3 consultants, plus local communities, it is possible to identify, organize and sell dozens of new business and tourist - cultural itineraries. The more activities of this type exist, but more strengthened the country will be to have a tourism and recreation. The tourism of "software" (cultural) generates more affection and attachment to the country than the tourism of "hardware" (Beach), where there is no interaction, because it is "consumed" only physical attributes.

Production associated to the Tourism – if in each municipality is activated 15 new ventures or creative activities and this yield an average of \$ 340.00 per month we can generate revenue of \$ 1,346,400.00. If in each one of them are mounted ten itineraries of cultural tourism experiences, enjoyed by 10 visitors/month, in an average value of \$ 50.00 per ride, we can generate revenue of \$ 1,320,000 .00.

Sustainability is one of the attributes that can add value to the Brand Cape Verde and the Tourism its main income generator. It is possible to have a sustainable tourism development through a model of reduction and neutralization of carbon and integrating environmental conservation with social and economic development of traditional farming families. This is the Tourism CO² Neutral²⁷² methodology. The basic idea is to neutralize the CO² emissions generated by the operating activities of local tourist facilities (of all types and sizes). The funds come from the payments made by the tourism establishments to neutralize (through the plantation of trees, or the sustainable management of agricultural areas) their CO² emissions. This way they may obtain the Carbon Free Tourism seal, and resources may be directed towards the creation of a Conservation Fund. This Fund is passed, every month, to traditional farmers, by way of remuneration for environmental services provided by their rural properties. Through it they carry out reforestation activities; biodiversity conservation and tourist destination and receive training guiding working on their land in a sustainable way, to preserve their culture and produce products from it.

According to the African Economic Outlook²⁷³ Tourism in Cape Verde 2011 represents 26% of GDP or \$ 490,000,000.00. If a tax is applied of "Half a percent for Nature" (to neutralize the CO² emitted) that can generate an income of \$ 2,470,000.00. Let us say that, applied in rural properties these may increase productivity by 1.5 of the value applied, which can generate an income of \$ 3,705,000.00. The local nature and culture is maintained and another element of ballast is created for a possible Cape Verde brand supported by diversity, sustainability, fair trade, fair use, wellbeing. That in turn generates value for all types of Cape Verdean product.

²⁷¹ Developed for Sebrae, Brazilian Service of support for Micro and small enterprises

http://www.turismo.gov.br/turismo/o_ministerio/publicacoes/cadernos_publicacoes/37ProducaoAssociada.htm

²⁷² <http://mecnasdauida.org.br/programas/turismo-co-neutro>

²⁷³ Page 4 , <http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/PDF/Cabo%20Verde.pdf>

7.7.8 Changing the reality of the territories and Cities

Where can all of these activities converge? In fostering Creative Cities and Territories. The creative ventures do not advance if the other city and citizenship issues are not resolved. And the Creative Economy brings solutions to this, especially in activities where there is a partnership between the State, companies and civil society to look after them. There is a tendency to "**Collaborative Urbanism**" or "**architecture of participation**"²⁷⁴, where the population makes the management of leisure spaces. Ideally is that the State facilitates this process and be a partner, but this is not always the case. From Movement 15M²⁷⁵ from Spain, today there are more than 90 squares managed by the population. Here's the blog²⁷⁶ of one of them, with the type of activities it carries out.

Networked Culture Houses, distributed. We can imagine a process where they are "software"/process and not "hardware"/space. That is, the State facilitates the access to spaces or leisure times in public, community and even business facilities - which can then be occupied with activities of training, testing, display and marketing. The House of culture would be this schedule of activities. The same logic may apply to vacant lots or abandoned squares that can be occupied with activities for children, urban collective gardens²⁷⁷ (an excellent strategy of food education and strengthening of relationships) and others.

In the years 90 and 2000 were prioritized strategies such as the famous case of the Guggenheim of Bilbao or the big resorts, which were exogenous and haven't produced the positive expected result to the local communities. It turns out that cases with more sustainable results are on a smaller scale and endogenous. Artistic interventions result in local development as in designs of Candy Chang²⁷⁸: mere stickers saying "I wish this was" applied in leisure spaces of the city and supplemented by the local population resulted in improvements in the city.

²⁷⁴ <http://www.airoots.org/2008/09/12-principles-for-an-architecture-of-participation/>

²⁷⁵ http://es.wikipedia.org/wiki/Movimiento_15-M

²⁷⁶ <http://estaesunaplaza.blogspot.com.br/>

²⁷⁷ <http://greensavers.sapo.pt/2012/10/23/camara-de-lisboa-abre-concursos-para-novas-hortas-urbanas/>

²⁷⁸ <http://candychang.com/>

Box 23 Rosario Argentina Program

In Rosario, Argentina, the "*Franja Joven*", is a benchmark for Cape Verde. In the central area of the city the Government facilitated the people to occupy and manage abandoned warehouses in the port area. The result is exceptional and of transversal character: *Triptych of childhood*, an international reference of practice with children with three spaces that combine educational, entertainment, Creative Economy, nature, sustainability and asset recovery; *Urban Arts school*; *Centre of Contemporary Expressions*; *School of Rock*; etc. With no money for restoration, the city wisely chose not to turn them into yet another commercial venture-as Puerto Madero from Buenos Aires or the Ramblas of Barcelona-that bring benefits, but generate real estate speculation and expulsion from the community and local customs. To keep the identity (the great heritage of the place) tip over the area, created a law setting the Creative Economy as the central element of the city's development, approved the Project *Ciudad Joven*²⁷⁹ and keep on doing works as far as possible.

Cape Verde being a country of young people, co-managed activities for children and teenagers are an area of opportunity, especially in a time when education is changing and increasingly must be in line with the concepts of well-being and sustainability, two key issues for the country.

7.7.9 How To Organize And Enhance Creative Entrepreneurs?

In Creative Economy the key is in the distribution and access, not in the production – which mistakenly is still whoever gets the most resources in supporting and funding. Proof of this is the cinema of the United States, a country that produces less than India and Nigeria, but dominates the market through hegemony in distribution, display and dissemination.

Joining the dots of the previous experiences, we have elements to build circuits and generate the flow necessary to activate the Creative Economy. For example, the circulation of artists and creative products between the Schools of Creative Economy, Networked Culture Houses and Local Collaborative Festivals. The following are some elements that can facilitate and enable this flow.

The successful experiences are those that succeed in creating circuits and innovative ways to make accessible and visible their products. Some of the methodologies, or "Techs" in their language, the more interesting we know are the **Off-axis Circuit (FDE)**²⁸⁰ a socio-cultural network of collaborative work that connects more than 2,000 agents, 27 Brazilian States and 10 countries of Latin America. In the last six years have been developing innovative social technologies and management – in the area of the economics of culture, through practices such as the Creative Economy of solidarity, the *mialivrisimo*²⁸¹ and the free sharing of knowledge. Started by a group of young musicians from the interior of Brazil that create a collaborative space to rehearse and record, financed with own social money. The big key is their money system "cards": all permutations and hours of work (each hour is worth \$ 25.00) are

²⁷⁹ The author was one of the consultants for this process, see the document in <http://laladeheinzelin.com.br/artigos/espanol-la-costa-central-un-espacio-de-creatividad-e-innovacion-social/> see also in http://www.lacapital.com.ar/contenidos/2009/08/02/noticia_0002.html

²⁸⁰ <http://www.facebook.com/foradoeixo> e wiki.foradoeixo.org.br. The Antigomas Site with good info <http://foradoeixo.org.br/card>

²⁸¹ See the trends it generates in <http://ondacidada.org.br/blog/2012/05/21/10-movimentos-inevitaveis-do-mialivrisimo>

recorded and become the equity invested by each participant group. With it they finance the activities carried out, through the exchange of "cards" for spaces, equipment, services, knowledge, etc. Here are some numbers.

Figure 44 FDE



Today the FDE is an international power that, in 2011 balance²⁸², has 188 articulated organizations in Brazil and 120 in the world, involving 40,000 people, from 300 cities and 30 countries. That year moved \$ 44,200,000.00, with 15% in *reais* (Brazilian currency) and 85% in "cards". It should be noted that rates of return/productivity in this range of 1 to 8.5 are difficult to get through the linear models of traditional economy. With only 15% of cash resources held during the year 800 projects, 5,200 events and 15,000 accommodation solidarity.

The FDE is one of the processes where the virtuous cycle of Creative Economy evidences more: intangibles + ICT + Collaborative + 4D multi-currency (i.e. in other forms of resources) = exponential growth and 4D results (financial, cultural, social, and environmental). Their approaches also correspond to the four dimensions of sustainability and are Simulacra that "hack" (give another sense) pillars institutions of our society. On the financial dimension, the "off-axis Bank", having as a source the social money (30 nowadays), own resources, notices and awards, collaborative funds. In the Social Dimension, "Off-axis Party" refers to the network itself and its structure, philosophy and management process. Cultural dimension the "off-axis University ": distributed learning space formed for all courses, experiences, immersions etc made during their events (whereas the various locations where are held are "campus," it has 344 campuses). On the environmental dimension, exist the "Off-axis Houses" (collective): equipment, media, TV programme, radio, Web, and broadcast platforms of products created.

²⁸² Available in <https://docs.google.com/a/entusiasmo.com.br/file/d/0BxbJWX9SpjhgCHFpZHZhaVIJV28/edit>

The results are extraordinary from every point of view, especially because youth develop their own ways of learning, organization, income generation, engagement. Valuing traditional cultures, language innovation, citizen movements, education reform, urban collaborative, innovation processes etc., etc.

Box 24 FDE Currency Cards

The methodologies of FDE are particularly appropriate to the Creative Economy of Cape Verde: show that distribution channels and platforms of dissemination that originated in music can also serve for other languages such as fashion, theatre, video, design, etc.; There are processes that are simultaneously educational, creative, sustainable and citizens; all this turns into innovation, identity and artistic quality that finally can collaborate to strengthen and multiply the Cape-Verdean culture.

Efficiency is extraordinary: in 2010 the proportion of funding (currency) versus collaborative resources (social currency "card") was 1:6.5. In 2011 was 1:8.5 data that "makes tangible" the intangible of collaboration. Suppose we came out the product policies of the 20th century (focused on events, ephemeral concentrated) and passed to the process of 21st century politics (focused on networks, continuity, distributed). If we perform a single event of \$ 350,000 .00 and invest in a circuit similar to FDE, Considering the proportion of 1:8.5, this value can move cultural activities (trainings, festivals, production of goods and services, ad etc.) corresponding to \$ 2,333,333.

The European crisis shows us the progressive business concentration results in large groups, leading to the closure of many and various small businesses that were one of the reasons of their economic health and social balance. Whereas the MPEs generate on average more than 90% of jobs in those countries, if our goal is to ensure products and generate income streams our focus should be on the micro. Combining features of the future as mobility +distributed network + micro enterprises we concluded that distributing products through mobile networks is a solution not yet properly exploited and valued. Many times we celebrate the replacement of traditional hand carts for sale-traditional in developing countries-by "modern" hypermarket²⁸³ that ends up with the local merchants.

Street vendors: network distribution + charm. Cape Verde already has an informal network for product sales, primarily women who prepare at home and sell on the street. Why to enlarge, qualify and more diversify, for example, through carts with design that reflects the identity of its owner and which distribute products of the local gastronomy, cultural products, toys, fashion, and modalities of local "fast food" and focusing on well-being? We find in Cape Verde, hot-dog, popcorn, ice cream. But little is based on maize, cassava, fruits. In our simulation already produced groceries, dried fruits, CDs, handcrafts etc., which can now be distributed by street vendors. If they are encouraged to decorate them, or build them with recycled materials, the stands can be a charming differential for the cities of Cape Verde. A recent exhibition of design brings beautiful examples²⁸⁴.

A mixed network of street vendors (20 grocery, 20 "fast food", 20 drinks, 20 cds and dvds, fashion and accessories, 20 design and handcraft, 20 culinary, 20 crafts and repairs, 20 handmade toys and games) in each municipality, represents 3,960 points of distribution of products. With a modest net income of \$ 15/day can generate annual revenue of \$ 21,384,000.

²⁸³ Reminding that the Walmart turnover would put the company in position of 22nd of world economy, in front of countries such as Sweden.

²⁸⁴ The design specialist Adélia Borges did extensive research on popular stands and their design, see <http://www.livingdesign.net.br/tags/adelia-borges>

Networks of street vendors may be the key to leveraging other ventures, as demonstrated by the studies of Technology and Society Center²⁸⁵ on business models called **Open Business**²⁸⁶, where they activate the entire chain of music or audiovisual work. It is the case of Nigeria²⁸⁷, which alternates with India as the world's largest producer of audiovisual, or the Amazonian State of Pará, which launches annually more disks than all the rest of the country in all, including the big record labels. The product distribution is informal, but not illegal (hence the name Open Business), since the artists themselves deliver their works for distribution without copyright payments. Reputation and visibility leverage shows and the artist are remunerated. Since music is one of the great potentials of Cape Verde, these business models may prove useful.

Box 25 Tecnobrega

Only the style called Tecnobrega, in Pará, Brazil, the average monthly volume of shows performed by bands and singers is 1,697, while the "feasts of equipment" (with DJs, no band) perform at 4,298 average parties. The market of equipment moves \$ 1.5 million per month while the bands and singers move \$ 1.65 million per month, annual total \$ 37,800,000.00. Despite the sales made by street vendors, bands and singers sell, on average, 77 CDs at an average price of \$ 3.8 and 53 DVDs at an average price of \$ 5 at each show. The annual result by selling CDs and DVDs at the shows was estimated at about \$ 12 million. Data that prove once again that the productive logic change brings impressive results.

7.7.10 How To Keep The Wealth In The Territory?

In addition to the off-axis Circuit, numerous international experiences demonstrate the importance of new and diverse forms of coins²⁸⁸ to leverage local sustainable development. Just remember that at the height of the crisis in Argentina of the years 2000, one out of every six inhabitants practiced the barter²⁸⁹ and more recently Greece was inspired by it to cope with its crisis²⁹⁰. According to the International Reciprocal Trade Association²⁹¹, in 2008 the transactions between its 400,000 associated business reached \$ 10 billion.

The currency is in fact a substitute for confidence, which is evident in the word credit. Banks and credit cards charge expensively to be intermediaries who give guarantee that what is being traded will be replaced by something (the currency) that others will accept. As social networks create direct links (p2p) between people, it is already possible to make direct payments in other ways. The improved variation

²⁸⁵ CTS, the Getulio Vargas Foundation, RIO DE JANEIRO, Brazil <http://diretorio.fgv.br/cts>

²⁸⁶ The complete survey can be downloaded here <http://www.overmundo.com.br/banco/pesquisa-fgv-cultura-livre-negocios-abertos-do-tecnobrega-ao-cinema-nigeriano>

²⁸⁷ <http://www.guardian.co.uk/film/2006/mar/23/world.features>

²⁸⁸ Explanation in http://p2pfoundation.net/Complementary_Currencies and several examples in <http://www.complementarycurrency.org/materials.php>

²⁸⁹ <http://economia.terra.com.br/imprimir.aspx?idnoticia=670034>

²⁹⁰ <http://www.advivo.com.br/blog/luisnassif/cidade-grega-adota-moeda-alternativa-contr-a-cri-se>

²⁹¹ <http://www.time.com/time/magazine/article/0,9171,1931665,00.html>

and open source Paypal, the Ripple²⁹² can be an excellent solution for global payments (in all currencies) and to facilitate financial relationship with the Diaspora without resources are drained by the intermediary financial institutions. Something like that would greatly facilitate the movement of goods and creative services.

Another function of social currencies is to ensure that resources remain in the community. A reference that has inspired many others is the award-winning Banco Palmas²⁹³, which bills itself as "*an integrated system of credit, production, trade, consumption and human happiness.*" As well as the Off-axis Circuit, they offer their methodology (online also) and have formed numerous other similar groups.

Box 26 Banco Palmas

Banco Palmas-Initially a micro credit Bank in a small community of fishermen of the interior of Ceará, Brazil, soon realized that the consumption potential of the neighborhood (that even low-income being moved around \$ 3,000,000 / month) came out of the community and was spent on trade in other neighborhoods. With the creation of the Palm coin and the Palm Card, accepted only by local merchants, the situation changed. Another step was the creation of local businesses as the Palma-Limp (cleaning materials) and Palma Fashion (fashion).

For those that decide to deploy additional coins there is a profusion of free software to facilitate the administration and implementation of coins²⁹⁴; international institutions that make training in the process, as the Redlases from Argentina (which also offers a primer²⁹⁵ in Portuguese) or the Social Trade Organization²⁹⁶.

7.7.11 Financial Results Presented

In this rudimentary simulation some of examples came accompanied by estimates of revenue (in bold and underline). Starting from microeconomics, as proposed in the plan of the Ministry of Culture, with modest per capita values of a few dollars, we reached a value of **US\$ 165,534,000.00 or the equivalent to 8.71 % of Cape Verde GDP in 2011.** And what is more important: this contribution to the GDP results from very little initial investment in resources, money, infrastructure, teams and even execution time. This was possible because much of the activities were made feasible only by the combination of pre-existing resources (space, people, equipment, time) which were connected and leveraged. This figure would be even higher if we consider, as indicated by UNCTAD, not only the direct result of Creative Industry sectors considered but related activities that underpin and support their production, such as consultancies, equipment, supplies, etc. spaces. A pioneering study of the Federation of Industries of Rio de Janeiro²⁹⁷, FIRJAN, based on data on salaries and employees estimated the economic contribution of the creative industry chain in the Brazilian GDP. Estimates point to a direct participation of the core of the creative industry in the Brazilian GDP in 2010 to about 2.5%, whereas the related activities and support creative core, the weight of the chain of creative industry in GDP may reach a18.2 %, equivalent to \$ 334 billion.

²⁹² Learn how: <http://www.youtube.com/watch?v=f9KqSgRZYgg> and know in <https://classic.ripplepay.com/>

²⁹³ <http://www.bancopalmas.org.br/oktiva.net/1235/nota/12291>

²⁹⁴ http://p2pfoundation.net/Complementary_Currency_Software

²⁹⁵ http://redlases.files.wordpress.com/2008/02/es2006_fsm_caracastextocartillaparaaimprimir_hp.pdf

²⁹⁶ <http://www.socialtrade.org/>

²⁹⁷ <http://www.firjan.org.br/>

Creative Economy Outcomes. The above study reveals that the direct results of 12 sectors of the Creative Economy (2.5% GDP) generated indirect results 7.28 times higher (18.20). Following this proportion we can imagine how much indirect results they could represent in the Cape Verdean economy. This is the great strength of the Creative Economy: great potential to boost the economy as a whole.

The same study shows that, in 2010, the activities of industry, trade and services belonging to the chain creatively employed almost ¼ of formal workers in the country (24.0%). On average, workers in the core of the creative industry in Brazil are better paid than the others, which is explained by the high value-added activity and the high level of education of its professionals. In 2010, the average monthly income of the creative core of R\$ 2,296 a figure 45% higher than the average earnings (R\$ 1,588) of formal employees. The income of the top creative core feature is common to the 13 states surveyed.

As advocated initially it is demonstrated that the sum of local microeconomics reaches the level of economy at national scale, representing in fact a solution for the country. But if it is so, why this type of approach is not yet a strategic priority of most countries? Because it is invisible. The metrics, indicators, collection systems and systematization of existing economic data are not still able to measure properly this kind of results. Until the arrival of the microscope, no one talked about bacteria or viruses, because we didn't have means to realize its existence. Similarly, we need other "lenses" to see the actual size of the economy of abundance, with their intangibles and collaborative processes.

Jose Eli da Veiga²⁹⁸, an economist specializing in sustainability, points that when one of the factors causing the current crisis is the fact of traditional economy not to consider the TIME factor. For her there is only this: production, distribution, consumption. Do not enter the account the amount of resources that we received in the past or what we leave for the future. Current metrics follow the same logic: do not include the resources wasted, nor what we save and we left to spend. It should be noted that in this simulation we consider only what was noticeable – the present.

Here also we do not count everything that was saved, preserving or optimizing resources. Or the economy generated to avoid its misuse. Pollute the waters for example, brings enormous costs of sanitation, urban design and health. What would be the loss if, for lack of good food culture, Cape Verde suffered an epidemic of obesity and would destroy the rare beauty of his people? Or if the lack of policies for the preservation of cultural diversity allows the mass culture would destroy its rich local culture?

Either we visualize multiplication of resources through the collaborative process. The richness of a process like that of the "cards" Off-axis Circuit, to finance projects with only 15% in money and the rest in a collaborative way, remains invisible. Which means, for example, do not see \$ 38,000,000.00 moved by groups of young artists, only in 2011. Despite having high tech equipment, traveling constantly and have possibility to realize their dreams, for the traditional metrics the young people of FDE are on the

²⁹⁸ See "*Mundo em Transe*", of José Eli da Veiga, Armazém do Ipê, 2010.

<http://planetasustentavel.abril.com.br/noticia/estante/mundo-transe-jose-eli-veiga-525431.shtml>

poverty line, since their incomes are not Computable. In addition to not show the saved, preserved, swapped out, multiplied, valued, either we compute the many social, cultural and environmental results that make the Creative Economy one of the main strategies for the countries. According to recent study from researchers at the University of Valencia, an increase of 1% in the proportion of jobs, in creative services increments between €1,000 and € 1,600 per capita GDP²⁹⁹.

Imagine the dance sector. Measured with the traditional tools to their contribution to the GDP is very small. But what would happen if the dance was eliminated? In Brazil, for example, would not exist the Carnival, the traditional parties, the night scene, fitness, family celebrations and the whole economy that move- electronic equipment, food, clothing, construction, etc, etc. The economy catalyzed by dance is huge, but still difficult to be measured.

The Creative Economy serves as the catalyst in a chemical reaction: despite modest without them the reaction does not happen. If attribute to it a small percentage of the budget of State we'll stay without catalyst: the potential of the country takes place not in quality of life. Investing 40 percent of its municipal budget on education and culture, Medellín and Bogotá³⁰⁰, in Colombia managed to solve their serious social issues and violence and the consequent economic stability.

What comes first: the egg or the chicken? Culture or development? Public budgets for culture, minimal compared to other areas, reveal what is the response of most Governments. And maybe that's why they advance less than they could. Cape Verde, backed by the Ministry of culture, has all the necessary conditions to gather the other ministries around the common goal of access the abundance by combining Creative Economy + ICT + networked and collaborative processes. Culture for cultural changes.

"It is the perspective that shapes the reality" is not for nothing that Peter Diamandis begins and ends his bestseller "Abundance-the future is better than you think" (which brings together dozens of experience that leverage wealth through innovation) showing that the key is this: If we do not change the culture, the models adopted, we will lose every opportunities.

Prepare studies, Government plans or policies of culture means much more than encourage artistic activities. After all, promote cultural changes is the role of culture. And do it with all the charm, depth and truth that the arts bring. If not culture, Would Amílcar Cabral has the vision of future and the means to engage people? That, in fact, knew in his both sense of cultivation as a farmer and as a poet?

When it works with local development we noticed that most of the time the main barriers are not technical, but cultural, because they depend on change of mindset and habits and we always encounter human, relational issues. Studies and innovative programs are not enough if there are not teams that, to reap the rewards, decide to dare and break paradigms. These teams will hardly achieve their results without engaging civil society, companies, and academy. More than a mere project it is realized that the country might need a cause. Attractive and sensible, fair enough that everyone mobilize. This has happened before, in independence, in the process of reforestation and in other contexts.

²⁹⁹ Source: "La cultura como factor de innovación económica y social (2012)" <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0537:FIN:ES:HTML>

³⁰⁰ http://elpais.com/diario/2011/09/10/catalunya/1315616842_850215.html

Cape Verde may be the first collaborative country in the world. Networked country as it is already its geopolitics. Added the Creative Economy as a clue to sustainability, it can be the laboratory for the new model that the world is in need.

The culture can then create favorable environment and communication campaigns and awareness of leadership so that each Cape Verdean feels an Amílcar Cabral and as him thinks "*Give my contribution, to the possible extent, for the life of man to become better. That is my job.*"

7.8 Major Constraints And Barriers Identified

To facilitate the understanding the organization will be by themes. As our proposal focuses on transversal, territorial and systemic actions that can cater for all sectors to specific constraints of the sectors we recommend checking the studies conducted by the Ministry of Culture. Since this study is not absolute, the Constraints pointed out are more related to cultural, intangible change of mindset and habits as our field in this study is the culture that goes beyond the Arts and their languages.

Most of the constraints is a consequence of the lack of processes to visualize, integrate and optimize resources, infrastructure, knowledge, people and time already available. In the context of the Network Society this is the State priority, because only they have the power to convene and coordinate all segments of society. With ICTs, networks and collaborative processes, individuals, communities, the nation can now overcome the traditional constraints and allow the attributes and intangible heritage of Cape Verde to leverage the country's sustainable development.

7.8.1 Cultural Changes, Paradigm Shift

- The main challenge, and perhaps the most difficult, is not technical in nature, but of cultural change in paradigm. Exit the perspective of industrial society and into the optics of network society, where the intangible and culture are central. Exit the perspective of scarcity and into the optic of abundance.
- In the new context the economy should be seen as an ecosystem rather than as isolated products and services.
- Be aware of the risk of colonized countries, which tend to show their development by following imported models or that no longer make sense in today's world. The expertise and support from abroad should be tools for sustainable development, not models, just as the country knows what best meets its uniqueness.
- Realize that often the issue is not lack of infrastructure and inputs, but of integrated management processes and connects to them and thus take advantage of the existing one. In the last ten years Cape Verde invested in "hardware" infrastructure. The next ten years should be of the "software": processes, intelligence, and creativity.
- Possibility of resistance to change on the grounds that it implies major disruptions and costly structural changes. Process can be faster and painless than assumed, because it is not to destroy the existing or create new structures, but to re-order, connect and create from the existing flows.

- Changing the development model implies going from the notion of needs (a perception that a developing country is "a void to be filled") to a notion of potencies (potential to be developed, articulated and activated). This allows you to exit the scarcity and enter in abundance.
- Be aware of that the lens of scarcity that realizes poverty and deprivation do not result in too much indulgence in relation to quality and care. Low income is not synonymous with carelessness and poor quality.

7.8.2 Governance And Structure Of The State

- Prevent infrastructure (building "hardware") continues to be a budgetary and policy priority. In the network society the number one national priority should be the democratic, autonomous and broad access to ICT because through them govern, generate business, educate and care for the population is possible. This is quickly achieved with little investment if the models adopted leave the traditional (centralized, large corporations) and adopt if the models of the network society (collaborative, open source, fair use, micro networking ventures).
- The continuity of policies requires closer and more collaborative relationship between public sector, private sector, creative entrepreneurs, and third sector. The state is who has the power to inspire vision, convene partnerships and facilitate convergent action.
- Centralized and bureaucratic processes and convergent inaction overly burden the staff, time and resources of the State, which may end up unable to play its role in building partnerships and orchestrator and facilitator of processes - role that only he has the power to perform.
- Time, staff and state resources are reduced and cannot be consumed in bureaucratic procedures and supervision. Need of simple, flexible and convergent computerized procedures, which are possible thanks to ICT and to build partnerships with society. Going from Centralized and control models to decentralized models and shared managing.
- Attention that the State is not a "performer". Even when there is a shortage of spaces, professional or tools to facilitate the realization the state must resist the temptation to fill gaps. The State creates favorable environment for others to perform.
- Need of a different management process through task forces, without formal or bureaucratic, and multisector structures that gather and disaggregate on the basis of implementation of practical projects.

7.8.3 Policies and Fostering

- Policies traditionally prioritize production and what is not strategic in creative economy: circulation, accessibility and visibility of products and services. The result is that it does not create the value creation chain of the creative economy. Experience shows that fostering policies that favor only production, and by sector, end up generating more flaws and stagnation than stimulating results.
- Be aware of not only prioritizing policies directed to creative or artist which is the beginning of the production chain of the creative economy. Without intermediaries and other links in the supply chain (from other areas) this supply chain does not materialize, we have only the cultural product that could potentially originate it.
- Need for professionals, institutions and tools that can be links, intermediaries or "modem" because without them there is no chain. Greater benefits can come if this is done in an inclusive way, in the territory and with young people.

- Sectoral vision can generate one-stop-shop policy to serve interests of each sector. Risk of resource spraying, generate few results and promote competition and disconnection between sectors. Opportunity is in policies made to encourage all sectors simultaneously, because they generate collaboration between sectors, optimize resources and bring more results.
- Attention so that the focus on products and ephemeral events (the "fruits") does not prevent the systemic and sustainable solution, which is possible when policies are directed to the "Orchard": focus on process that encourage all segments of the creative economy.
- Realize that the country only gains scale through a set of differentiated niche businesses. A country/archipelago with 500 thousand inhabitants has the privilege of not relying on macro scale and hegemonic economy.

7.8.4 Legal-Tax Framework

- Conceptual and strategic changes without corresponding changes in tax legal framework may result in failure of the proposed innovations. This is a recurrent situation in countries that are beginning to embrace creative economy as a strategy and soon are plastered with rules and procedures that are not suited to it and the network society.
- Forms of control, supervision and accountability should be simpler, agile and computerized to not consume any time of public managers. The Iberian model (generally adopted by the colonies) oversees each step of the procedures (time consuming, costly, bureaucratic, and often unfair). The Anglo Saxon model monitors for results, only checks if the promised was delivered.
- Metrics and indicators are not able to perceive results beyond the monetary, quantitative and numerical. This is a major constraint to sustainable development worldwide. Need to go beyond GDP as a measure of wealth and a country to have other metrics to verify results beyond the monetary capital, for example, social capital, and environmental capital, cultural and human capital.
- Focus on sectoral and not just the territory and metrics to measure tangible and the quantitative and the result is that one does not see the true potential of the creative economy, which is to enable other businesses and create environments conducive to innovation. Metaphorically, the creative economy is a stone falling into a pond, we only see the stone and its size (GDP creative economy), and we do not realize or appreciate the waves it causes and their amplitude (other business areas and quality of life catalyzed by creative economy).
- The exponential rate of growth and transformation is distinct from times and procedures of International Cooperation, which is why it is appropriate to provide evidence that the multilateral system itself can expand its models and assumptions, making them more appropriate to the context of the network society and economy of abundance.

7.8.5 Cabo Verde Branding

- Be careful not to focus too much on the external market: to meet just foreign demand may weaken the identity and social fabric. If there is not a creative interactive and creative everyday live, there is no external market.
- The major problem is to have "lenses" that allow society and entrepreneurs to recognize what is unique and of its own. If this is a huge difficulty it also means a huge opportunity, since a national campaign for recognition and valuation of Cape Verdeans attributes can collaborate to create the branding of the country and all its products,

- There is no "story telling", narrative (through graphic design, advertising, communication, and marketing) that describe the differences, origins and attributes of Cape Verdeans services and products. This is what creates value, without that the creative economy is not consolidated and there is no possibility of generating value, market and income.
- Need to sensitize journalists and opinion leaders about the importance of valuing and disseminating the Brand Cape Verde and its products and services. For example, creating awards to the press, journalists, the media and opinion makers.

7.9 Key Conclusions And Recommendations

The big difference one notices between the first DTIS and the present study is that we already have enough detachment to see and understand the causes and effects of the 2008 crisis. The fragility of traditional models was evident, as well as the emergence and effectiveness of new models based on new technologies, collaborative processes and creative economy. The latter, which once seemed utopian or "alternative", show up every day as the solution to abundance and sustainability. What's happened is summarized in these phrases from one of the world's leading experts and consultants in these new models, Don Tapscott, in his book Macro Wikinomics:

(...) We are now faced with a historic opportunity to enlist the skill, ingenuity, intelligence of human beings on a massive scale. Today the company has the most powerful platform of all time to solve many of the scourges of the world.

(...) There is now a new engine of innovation and wealth creation, a new force of collaboration that dramatically reduces costs and therefore allows communities to cooperate in areas of common interests and challenges. (...) The collaborative communities not only transcend the boundaries of time and space as to breaking the disciplinary and organizational compartmentalization that inhibit cooperation, learning and progress.

(...) The most important thing now is to build social and political foundations that recognize the emergence of a new economic model, whose potential has not even begun to be exploited to the full. (...) All parties involved need to muster courage and creativity to re-invent themselves, using technology and collaboration as a factor in training, as a catalyst and as a vector of change (...) Fundamental changes in values and political culture are vital to promote global collaboration necessary to confront the contemporary challenges in an effective, inclusive and sustainable way.

(...) These changes are always of great intensity followed by realignments of competitive advantage and the emergence of new indicators of success and value. To be successful in this new world it will not be enough - actually it will be counterproductive - to maintain the incentives, policies, strategies and curricular approaches that exist today."

Table 36 Comparison between Industrial Society and Society Network

Comparison between Industrial Society and Society Network, in a view to the future.	
INDUSTRIAL SOCIETY – CENTRALIZED	NETWORK SOCIETY – DISTRIBUTED
From few to many	From many to many
Culture of scarcity culture: exclusive, competition	Culture of Abundance: inclusive, cooperation
Focus on tangible: linear, slow advances, a lot of investment and huge waste.	Focus on intangibles: exponential, fast advances, little investment and sustainable
State as a performer and supervisor, Centralized processes and bureaucratic.	State as organizer and facilitator, participatory and simplified processes.
Resources, state staff and resources consumed in bureaucratic processes and creating more structures	Resources, state staff and state resources invested in joint partnerships and connect and optimize pre-existing structures
Paternalistic relationship between state and society can cause dependency.	Partnership relations between state and society counterparts generate autonomy.
Isolated and fragmented action across sectors, both intergovernmental and in society generates competition and waste.	Convergent and orchestrated action across sectors, both in society as intergovernmental generates collaboration and optimizes resources.
Exogenous and centralized policies and decision making. Peripheries excluded risk of high levels of speculation.	Exogenous and centralized policies and decision making. Peripheries are a source of innovation. Increased possibility of sustainable development.
Economy of Scale, sectoral policies, specialization, corporations, generating GDP	Niche economy, territorial policies, diversification, SMEs generate employment and occupation
Priority infrastructure investments (tangible / "hardware")	Priority investments in management and knowledge (intangible / "Software")
Technology and "hard" innovation products	Technology and "hard" innovation "soft processes
Market and income generation caused by consumption of products. Focus on possession.	Market and income generated by services that provide welfare of society. Focus on enjoying.
Concentrated Basic services through macro structures and centralized management. High cost and waste, rigid, negative impacts.	Basic services distributed using micro network infrastructure and shared management. Sustainable, flexible, positive impacts.
Violence and instability as a result of concentration of income and impoundment of knowledge and information.	Security and trust relationships as productive inclusion fruits and free flow of knowledge and information.
Business, the media and mass consumption, generates income concentration.	Business, the media and niche consumption, generates income distribution.
Passive public (consumer), yields his attention. Motivated by the image.	Co-creator public (prosumer), exerts its intention. Motivated by purpose.
Unique perception of wealth (financial). Single currency, metrics and indicators for the tangible, quantitative, study numbers.	Multidimensional perception of wealth (financial, social, environmental and cultural). Multicurrency Society. Metrics and indicators appropriate to the intangible, qualitative, study dynamics.

We live in a time of model transition, moving from an industrial society to network society and the centrality of intangible assets. At every level of government, business and society these two models coexist and the interaction between them will emerge new practices and strategies. The good of this transition is that it can be done without disruption or destruction. This is not mere tweaking, but a transition through metamorphosis, which can be done gradually to the extent that conditions are created to reveal, connect, collaborate and create flows, thus activating the potential of the country and converting them into wealth and quality of life.

This context reveals opportunities and paths so that Cape Verde can develop itself from its culture and intangible assets, provided that it prioritize ICT, build partnerships, encourage collaborative culture and have another look at what is wealth and resources. This is only possible from a cultural change.

Our contribution in this study is related to the Arts, Culture and Creative Economy. It is a fact that segments of the arts and the creative economy have much to contribute to sustainable development and we analyze this topic here. But we believe that the first contribution to this process of Culture is to promote this necessary cultural change and deliver language and ways to deploy it. Technology in the original sense of the word, since "Techné" means art and skill. Larger visions; innovate; beyond; apply creativity to recognize and appreciate Cape Verde's multiple resources.

Under the lens of scarcity and culture Cape Verde is poor, frail, isolated. Under the lens of culture and abundance it can offer the technologies needed for the future: do much with little. Leverage, reuse and recombine existing resources. What are the main recommendations for this to be possible, existing constraints are overcome and few resources and structure of the state and the country are sufficient? How to reduce costs, time and equipment required?

- **Priority: ICTS.** Having the information and communication technologies (ICTs) as a national priority because without them none of the other processes is possible. Doing it through the adoption of open source systems, open networks and other practices that ensure low cost and autonomy. Cape Verde, for its small size and population, is more likely than other countries to do so.
- **Prioritize the Culture and Creative Economy as a pillar of development.** Once they are crucial to sustainable development there should be priority in budget allocation. This requires a cultural change in relation to culture.
- **Gain scale through micro networked economy.** There are hundreds of innovative methodologies and tools already tested and implemented to solve most of the problems we face, some of them and their sources, are in the Simulation section. For example, ensuring access to ICTs, which in turn allow access to democratic forms of credit and financing and break the barriers of geographic isolation.
- **Convergence and concerted action to avoid waste.** Integrated action between various intra-governmental areas greatly optimizes the resources, time and personnel required. This is quickly achieved when the action is focused in the territory, because then the overlaps are evident and can be avoided.
- **Broaden the notion of wealth and feature:** it will reveal features (such as time and knowledge, space and idle equipment.) all surpluses that could be used if there are systems that integrate them. One example cited above, the *Fora do Eixo*, conducts thousands of events per year using

15% of resources in currencies and 85% of other resources such as materials and spaces exchanges.³⁰¹

- **State as Articulator:** the state is the only one who has access to all sectors of society (business, Academia, NGOs etc) so that each can contribute their surplus and resources that already exist and are wasted for lack of incorporating processes. As shown in the simulation, Opportunities and Matrix Actions using ICTs and collaboration can leverage these surpluses to address any deficiencies³⁰².
- **Diversity of actors acting in an integrated manner.** Trade is flow and this flow is dependent on diversity. One of the reasons why we seize even the most little resources and opportunities is that we always operate between equals. In closed groups-whether they are artists, tour operators, owners of commerce, journalists or politicians - since there is no flow because they need the same thing, little circulates among themselves. Like an ecosystem, it creates flow and virtuous cycles by integrating sectors. So one has what the other needs. We must create conditions to approach and orchestrate the ones that dominate arts + crafts and those who know how to communicate them and put them in the world and trade + those who administer and those who regulate and foment.
- **Culture and Sustainability:** Just as after independence the Reforestation process mobilized the nation so that it actually turned the country green , this "green" can now be linked to the sustainability associated to creative economy. Making the country a Co-Lab, an experiment of global and creative economy, sustainable practices and networked society and a cause that attracts thinkers and cutting edge practices worldwide. Cape Verde can offer the world the creative and sustainable model that it needs and a decision of these offers a platform that enables all previous recommendations.

In proposing a shared cause for the country, the contribution of culture and intangibles for the country can be epic, going beyond the technical. The Entertainment industry overshadowed and distorted his role. Culture is not merely the daughter of its time, but the mother of a future time. Through it a nation feels its own pulse, it is recognized, has a compass to guide. Development that is not backed by culture, creativity and knowledge is like a tree without roots: unsustainable fades with time. The culture shows the values and uniqueness of a people so that he can be moved up with what it is. Knowing what you want and can then Co-moving, move along, creating a cause for the country. Mobilize the country together to reveal and activate their wealth and potential, generating streams of abundance in the four dimensions of sustainability.

Cape Verde, small country and large network, connecting all the best innovative practices for a large global experiment. Cape Verde as it makes sense, does it different and makes a difference.

³⁰¹ See complete results here <https://docs.google.com/a/entusiasmo.com.br/file/d/0BxbJWX9SpjhgCHFpZHZhaVIJV28/edit>

³⁰² Example already deployed in Cape Verde by MC is the National Network Meeting, integrating and empowering pre-existing spaces.

■ CHAPTER 8: TOURISM

8.1 Sector Overview

8.1.1 Background and Evolution

In the last ten years international tourism to Cape Verde has grown substantially to become one of the main drivers of the national economy. Such is its rapid growth and productivity, the national economy is now “tourism dependent”: tourism is the main source of foreign exchange earnings, it accounts for just under half of all economic output and 20% of all tax receipts³⁰³. The industry directly contributes to around 14% of all employment – and indirectly supports around 38.7% of total employment³⁰⁴. This situation is largely attributed to the introduction of charter flights and “all-inclusive” package holidays by Europe’s largest tour operator, which also owns major shares in 2-3 properties on the two key islands where the majority of these tourists stay. Consequently tourism to Cape Verde’s 10 diverse islands is currently highly-skewed towards all-inclusive facilities. Critics point out the industry is currently lacking in terms of connectivity to local culture, any sense of local community and other sectors of the local economy. While these assertions are well-grounded, it is also noted recent research suggests the all-inclusive resorts have played a key role in lifting “almost all people working in tourism” out of poverty³⁰⁵. Looking to the future, challenges for Cape Verde tourism revolve around the need to: reduce the dependency upon the all-inclusives; strengthen the connectivity between the all-inclusives and the islands’ economy and people; and, deliver greater complementarities, balance and diversity to the overall tourism product and brand.

8.1.1.1 Income

When reporting the significance of tourism to a national economy it is common for countries to depict the number arrivals as the key trend illustrating the health of the tourism economy. Trends in visitor arrivals, however, tell only a part of the story and it is imperative that total arrivals are not used as the most important data or definitive benchmark to measure judge the success of the Country’s tourism industry. It would be more favourable, for example, to receive a smaller number of higher spending tourists that create more income and employment, than a higher number of low budget tourists whose spending patterns create few jobs or income opportunities for local communities. In other words it is the ability of the tourism industry to create income and employment opportunities that should be the definitive benchmark for judging the health and success of the sector. While this point may be somewhat obvious, it is included here because it is less than straight forward to source annual data depicting Cape Verde’s tourism income and earnings. No annual income statistics appear to be compiled or distributed by the Ministry of Tourism, Industry and Energy – which: a) is surprising considering the importance of tourism to the national economy noted above; and, b) might suggest insufficient attention is attributed to the collection of tourism-related economic data and its relationship to the national economy.

³⁰³ Mitchell, J. et.al. 2012. “Pro-poor Tourism Linkages in Cape Verde” (draft).

³⁰⁴ WTTC, 2012. Travel and Tourism Economic Impact 2012. Cape Verde.

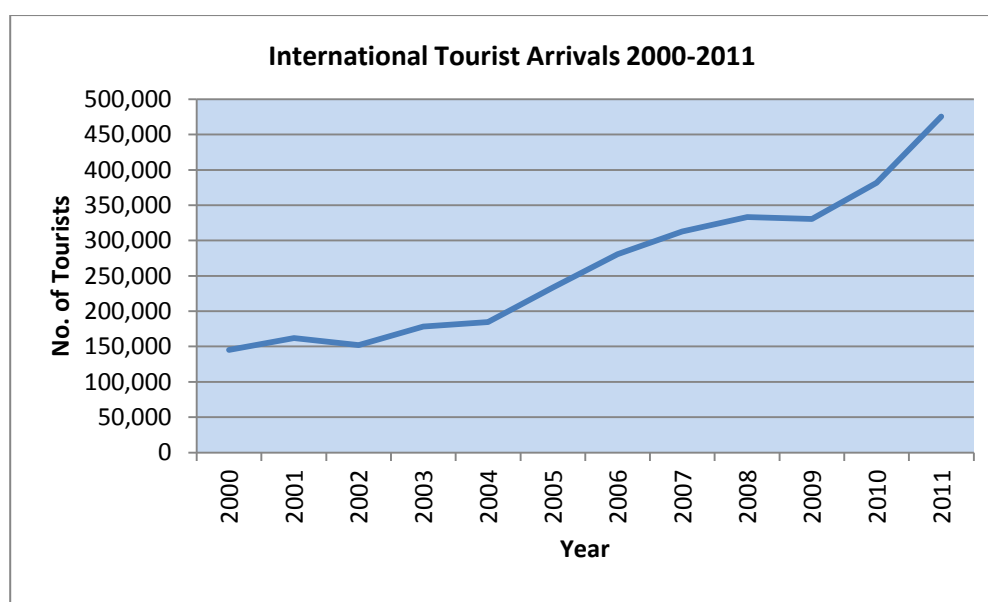
³⁰⁵ Mitchell, J. et.al. 2012. “Pro-poor Tourism Linkages in Cape Verde” (draft).

The Ministry of Tourism, Industry and Energy’s 2010-2013 Tourism Strategic Plan notes that total visitor spending increased from around €4.8million in 2000 to around €25.3million in 2008. This data contrasts with World Travel and Tourism Council figures that suggest total tourist spending in 2008 was around €300million and rose to €400million in 2011. By way of contrast, and taking on-board issues surrounding leakage and the loss of income as the tourist spend filters out of the country through, for example, food imports and the repatriation of business earnings, the WTTC also estimate tourism’s direct contribution to Cape Verde’s GDP in 2011 was €210 million. In other words, leakage of the tourist spend is a key issue affecting the structure and overall efficiency of the tourism economy. Having noted this, the WTTC further estimate the total contribution of travel and tourism to Cape Verde’s economy in 2011 was around €583 million. This larger figure includes wider-industry related spending such as government spend on marketing and infrastructure, capital investments in new aircraft and rounds of salary spending by sector employees. While the extent to which these figures are accurate and correct is likely to be open to question, the key point remains that there is a need for the government to put in place systems and methodologies to capture and measure tourist spending, sector related employment and the industry’s contribution to GDP. These points are raised again later.

8.1.1.2 Arrivals

Figure 1 depicts the growth in visitor arrivals to Cape Verde from 2000 to 2011³⁰⁶. With the exception of small downturns in 2001 and 2008, the data illustrate an almost continued growth and tripling of arrivals from 145,000 in 2000 to 475,000 in 2011. While the 2008 dip in arrivals is associated with the downturn in the global economy, a solid recovery and continued growth in arrivals was enjoyed in 2010 and 2011.

Figure 45 International Tourist Arrivals

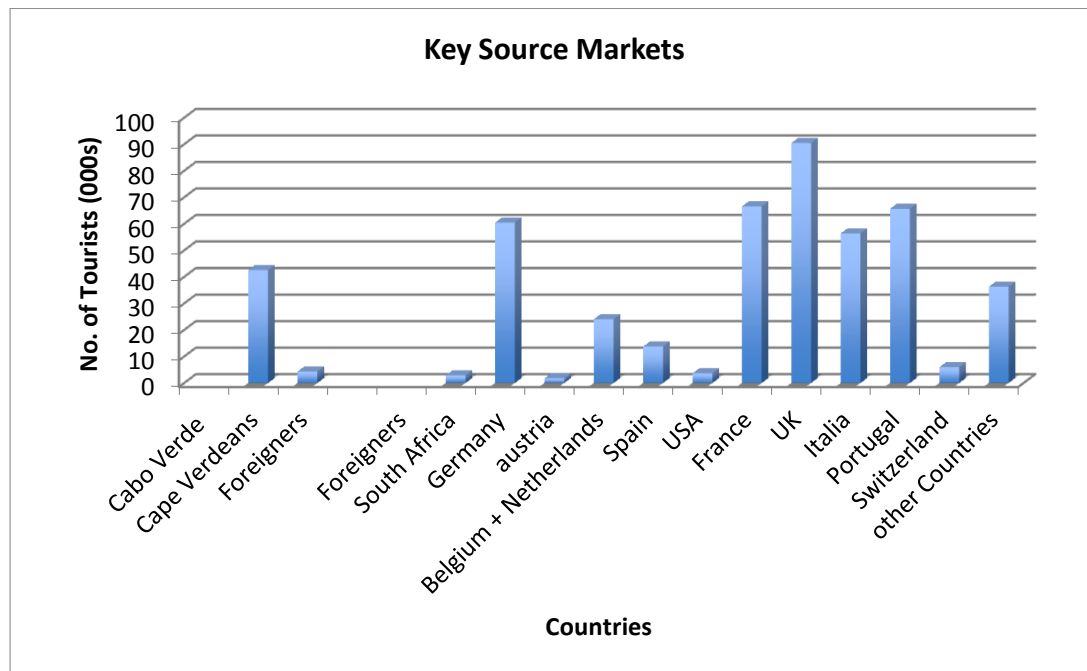


³⁰⁶ Source: unless noted otherwise, all data sourced from INE and Directorate General for Tourism. Figure 1 based upon figures provided by ASA – it is understood the figures presented are collated from total arrivals by air into Cape Verde.

Figure 2 illustrates the breakdown in 2011 arrivals by nationality. This data illustrates that Cape Verdeans and the Diaspora community are included in the overall arrivals figures, and in 2011 amounted to some 40,000 visitors. Ideally these figures should not be included in annual tourist arrivals data³⁰⁷, but no data is available (year on year) with them excluded. Figure 2 also illustrates that Europe – specifically the UK, France, Germany, Portugal and Italy – constitutes the key source markets. Collectively, these five countries account for just over 70% of all arrivals. Critics note the tourism economy is therefore likely to be tied to the health of the European economy and, left to market forces alone, a downturn in the European economy might be expected to lead to a downturn in Cape Verde’s visitor arrivals.

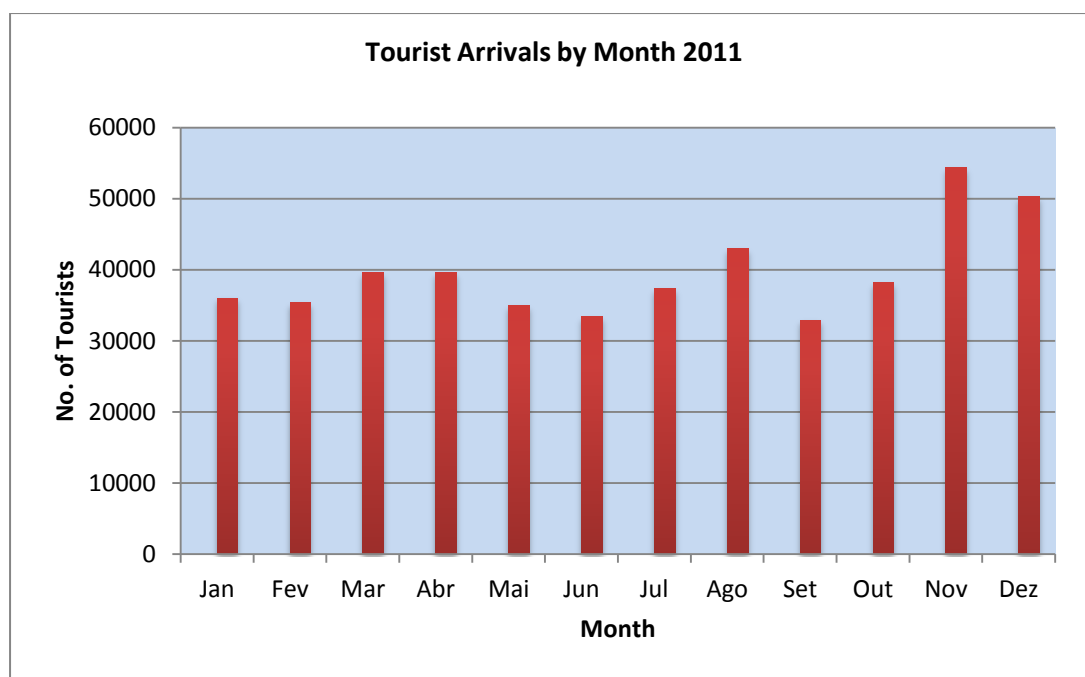
Figure 3, meanwhile illustrates arrivals by month for 2011. The data suggest November, December and August are the most popular months, whilst September, May and June are the least popular. Overall, however, with differences of around 20,000 arrivals between the high and low season, the data suggest there are no marked or serious seasonality issues to address at present.

Figure 46 Key Source Markets



³⁰⁷ Cape Verdeans returning home, for example, are not tourists or part of the tourism industry so should not be included data that seeks to measure visitor numbers – whereas the Diaspora community returning home for short-stays should, according to UNWTO definitions, be included in visitor arrival data. The re-design and processing of immigration data cards could easily resolve this issue.

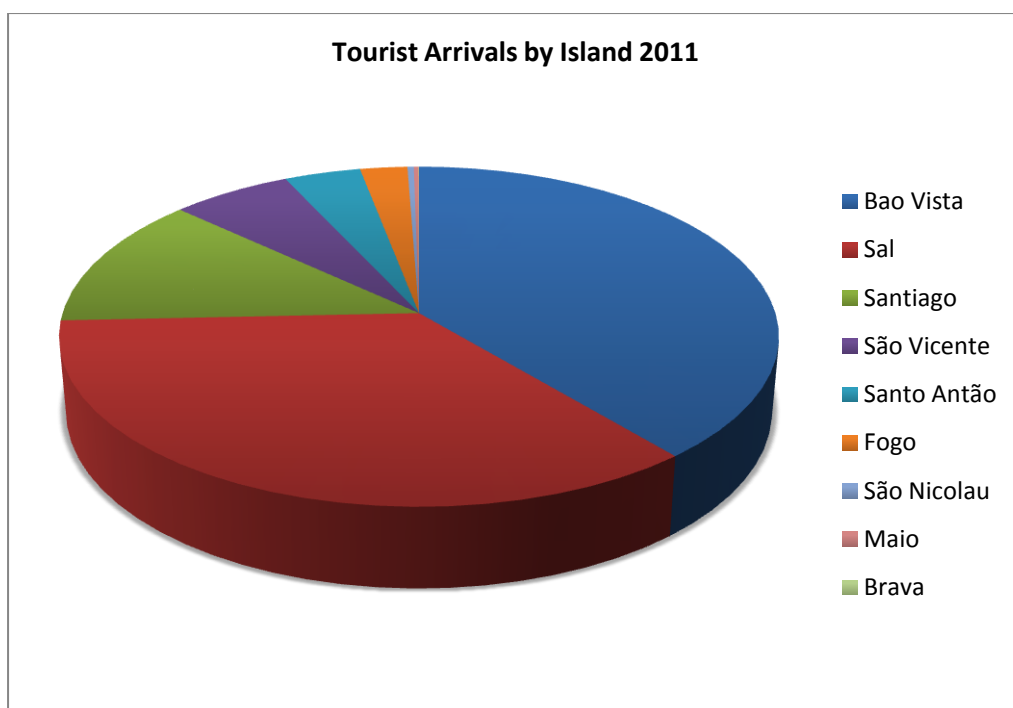
Figure 47 Tourist Arrivals by Month



8.1.1.3 Product

As the large majority of tourists to Cape Verde are on all-inclusive package holiday deals (around 92% of all arrivals according to INE data), it can be said the primary product is “sun, sand and sea”. A number of random interviews with UK citizens, for example, elicit responses to suggest there is little to do in Cape Verde beyond the three “S”s. Figure 4, for example, illustrates that roughly 75% of visitor arrivals to Cape Verde are to the two islands of Boa Vista and Sal. An issue here is likely to be a significant number of returning visitors who, confined largely to their hotels, provide word of mouth stories of a holiday experience with little knowledge of what exists beyond the hotel, or the single island they visited. This image of Cape Verde as a single product destination could not be further from the truth – and illustrates a serious branding and marketing challenge for the future of the industry.

Figure 48 Tourist Arrivals by Island



Beyond its impressive beaches and sand-dunes, the variety of Cape Verde's total tourism product embraces a wealth of diversity: coral reefs for snorkelling and diving; one of the world's three main turtle nesting sites; game fishing; water sports including sailing, yachting, wind and kite surfing; hiking among hills and rich ecosystems in impressive trekking country; exploring a volcano; bird-watching; canyoning; its music and festivals; culture and heritage, including Cidade Velha a site linked to the origins of the slave trade inscribed on UNESCO's World Heritage list. For the most part, however, these products – or rather potential products – are largely underdeveloped and have yet to be packaged and promoted to the international tourism market place. There is also a lack of data profiling the take up and popularity of alternative products. Data produced by the Sea and Ports Institute, for example, appears to suggest that something in the region of 1,849 berthing nights were spent by yachts in Sao Vicente's Marina Mindelo – but the data provided isn't clear and doesn't indicate how many vessels visited, where the boats are registered, or how many are Cape Verdean owned³⁰⁸. Similarly, while data provided in relation to game fishing suggests Cape Verdean, German, French, Portuguese and even New Zealand registered boats are engaged in selling game-fishing tours from Marina Mindelo – and that this industry was worth around 1.2million ECV to San Vicente in 2010 – the data provided, however, does not indicate how this figure was derived or how many tours were sold to clients in this year.

8.1.1.4 Access

Next to personal security (being free from the threats of injury or illness), access is the single most critical factor influencing the form and scale of tourism development. To promote growth and expansion that benefits hosts and guests alike, tourists must be able to: a) get to a destination; and, b) move around the destination in a relatively unrestrained manner. Cape Verde has a total of 7 airports, 4 of which – on the islands of Sal, Boa Vista, Santiago and Sao Vicente are open to international flights. Collectively, these airports currently receive flights from the 19 international

³⁰⁸ Email received from the Sea & Ports Institute by the author November 2012.

airlines listed in Table 1, 7 of which offer only seasonal services. Attempts were made to secure a range of data relating to seat capacity and occupancy by route and month, but proved to be unsuccessful. A 'quick and dirty' assessment of these carriers might conclude: most of the airlines are relatively small; more than half offer charter services only; and, in relation to the key markets identified in Figure 2, there are few alternatives to charter flight services. Interviews with tourists and background research also indicate the cost of flights to Cape Verde, whether charter or regular service, is relatively expensive compared to other regional destinations accessed from Europe. In other words, it is possible to conclude that Cape Verde's tourism potential is currently limited by 'access issues' including insufficient carrier choice, limited routings to source markets and expensive air-ticket prices. This matter is well recognised by the government and working group has recently (October 2012) been set up by the Prime Minister's office to address this issue.

Looking to the future, the government is currently proposing a long-term plan to significantly improve international flight access through the positioning of Sal International Airport as an aviation hub comparable with Dubai International Airport. Over €3billion in three phases is required to secure this project, which is not yet guaranteed.

Table 37 International Airlines to Cape Verde and the Destinations Served

Airline	Destinations
1 TAP Portugal	Lisboa
2 TACV Cape Verde Airlines	Lisboa, Amsterdam, Bissau, Boston, Dakar, Fortaleza, Las Palmas de Gran Canaria/Canarias, Paris
3 TAAG Angola Airlines	Luanda, São Tomé
4 Senegal Airlines	Dakar
5 Binter Canarias	Las Palmas de Gran Canaria/Canarias
6 XL Airways France *	Paris
7 TUI Nordic +	Copenhagen, Gothenburg, Gran Canaria/Canarias, Helsinki, Stockholm
8 TUifly +	Basel, Cologne, Hannover, Munich, Frankfurt, Hamburg
9 Travel Service Airline * +	Prague
10 Transavia.com *	Amsterdam
11 Thompson Airways * +	Birmingham, Gatwick, Manchester
12 Thomas Cook Airlines, Belgium +	Brussels
13 Neos * +	Milan
14 Luxair * +	Luxembourg
15 Jetairfly +	Brussels
16 Hi Fly (Gatwick) +	Gatwick
17 Condor	Frankfurt
18 Arkefly +	Amsterdam
19 Livingston Compagnia Aerea * +	Milan
20 Royal Air Maroc (start 2013)	Bissau, Casablanca
* Indicates seasonal services only	
+ Indicates charter service	

Turning to domestic access and transport issues, this issue is not covered at length as it is covered in greater detail elsewhere in the wider report. In brief, there are three carriers servicing the network of 7 domestic airports, and series of fragmented boat services offering linkages by water. A 2011

inter-island transport study concludes, *“The status of water transport and aviation services might best be summarised as unsatisfactory because: i) the inter-Island transport system offers poor customer satisfaction; ii) the two main airlines TACV and Halcyon Air are in an unsustainable financial condition, providing services that are inadequate to prevent isolation of all communities; iii) some 10 shipping lines are providing services of highly variable quality, using mostly very old ships that are inadequate to reliably serve the needs of isolated communities, although recent new investment by CV Fast Ferry is an exception.”*³⁰⁹ The study also concludes that movement by air between the islands is relatively expensive – and that, with the exception of Sao Vicente to Santo Antão, passenger ferry services between islands are infrequent or non-existent. Put another way, the potential for tourists to move around the ten diverse islands is seriously limited due to the high cost of domestic air-tickets and the lack of alternative travel choices. Solving this issue is also critical in terms of enabling access to diversifying the product. While it might be argued that the cost of domestic air-tickets may not be especially expensive, when added to the cost of international airfares to reach the islands – the total amounts spent on air-travel is highly significant compared to competing destinations. To address these issues, the above report recommends a series of actions that are currently at various stages of implementation to improve inter-island connectivity.

To conclude this introductory section, it is noted that the data upon which some of the above figures are compiled is likely to be inaccurate, and that there is a need for more detailed data sets that relate to the size and value of the tourism economy. Improved collection methods are needed. Recommendations to strengthen a range of data collection methods to better illustrate, substantiate and prioritise the economic significance of the tourism economy are included in the conclusions below.

³⁰⁹ Pp 14 Fisher. 2011. Republic of Cape Verde Inter-Island Transport Study. Final Report.

8.2 Review of 2008 DTIS/Sector Implementation Progress of 2008 Action Matrix

The 2008 DTIS acknowledged the growing importance of the tourism sector to the national economy. It flagged up a series of issues summarised in Table 2, which also briefly describes the current status and progress (or not) of any known actions.

Table 38 Key Issues Identified in 2008 DTIS and their Current Status

Key Issues Identified in 2008 DTIS	Current Status
1. Dissatisfaction with the image, perception and local economic benefits of all-inclusive facilities on Sal.	In 2008 Sal was the most visited island, the all-inclusive facility on Boa Vista was yet to open; in 2012 Boa Vista was the most visited island & dissatisfaction towards all all-inclusives continues; some research undertaken illustrating positive pro-poor linkages of all-inclusives; more research required to review and improve working practices.
2. Lack of accurate and detailed data sets profiling the tourism economy.	Little if any discernable change or progress made; a tourism accounting committee reported recently formed under Ministry of Finance and Planning.
3. Need for clearer more strategic tourism planning.	Review of strategic tourism plan recently undertaken; little evidence of recommendations turned into actionable outcomes; absence of clear government roles and responsibilities to carry the sector forward; absence of clear government & private sector institutional arrangements.
4. Need for a marketing plan to better promote the islands' product diversity.	2011/2013 Marketing Plan yet to be implemented – identified as priority need of strategy review.
5. Review of the residential 'time share' policy.	Global financial crisis prompted collapse of residential time share market – many such sites remain half-finished or empty.
6. Counter negative perceptions of the industry.	No public awareness campaign conducted, continued perception of: tourism benefits leaking away; tourism being unplanned & encouraging prostitution; and exploitative hotel wages.
7. Improve food / restaurant standards.	Tourism vocational training school opened in Praia; gradual improvement of restaurant services underway.
8. Strengthen pro-poor linkages.	World Bank study recently undertaken to examine current and potential linkages.
9. Improve vocational skills training.	Tourism vocational training school opened in Praia.
10. Strengthen supply chain linkages in the food and agriculture sector.	World Bank study recently undertaken to examine current and potential linkages; other studies undertaken – but little evidence of change or strengthening of supply chains underway.

With the exception of the LuxDev financed Hotel and Tourism School in Praia – which opened in 2010 and is a major step forward in terms of helping to address both the vocational skills shortage

and restaurant standards – the issues identified and briefly discussed in Table 2 might suggest little progress has been made since 2008/9 in addressing priority areas for action. Background research and interviews undertaken during the DTIS mission also largely confirm this perspective. This is not to say no progress has been made – but rather no policy-oriented strategic and concerted actions have been initiated and carried forward. Meanwhile each of these areas will inevitably have been discussed on an on-going basis and acted upon at some level by various arms of government, the development community and the private sector. It is also important to note that each of the areas identified in Table 2 are complex and difficult to address – and, to properly address them, each require rigorous, resolute and collaborative action. Hence it can be argued that it is increasingly clear that each area requires: a) a level of expertise and specialised skill sets that are not readily available in Cape Verde; and, b) funding that is not readily available (not least because the expertise required to formulate proposals to justify such expenditure is also likely to be unavailable).

8.3 National Development Plan/Strategy

Tourism has played a fundamental role in shaping Cape Verde’s transformation and modernisation agenda. The key policy – to make land available to foreign investors with attractive tax incentives – has enabled the rapid growth of the sector. Put another way, tourism has been one component, or cluster, of a short to medium term agenda to generate income, expand and diversify the economy. Indeed as the AfDB 2012 *“Cape Verde: the road ahead”* report notes, tourism has boomed, while *“other clusters have not taken off in any significant manner”* (pp24). Importantly, the report goes on to note:

“The Government’s strategic plan calls for half a million annual arrivals by 2013. More critically, tourism is the conduit and pull for the other key fast-growth segments of the economy, such as civil construction and real estate development, foreign direct investments, transportation, and commerce. Nearly all foreign direct investment is directed toward the tourism industry, roughly 99 percent in 2008. The challenge is two-fold: rapid, poorly planned growth, and the relative size of the sector. As noted elsewhere, the tourism numbers are striking. The sector’s growth and consolidation preceded its planning. The sector has grown rapidly and, up until 2009, without a national strategic plan. After more than a decade of intense growth along the path of the all-inclusive, mass-tourism model, Cape Verde experiences a degree of lock-in effect that makes it difficult to reverse or move away from this revenues-generating model.”

Tourism has therefore rapidly become a key component and driver of the national economy – *“the biggest and most important sector of the economy today”* – which the government is seeking to further expand and diversify³¹⁰. At the same time, however, in addition to recognising that up until 2009 Cape Verde had no strategic plan for the development of the sector, it is also significant to note that the government department with responsibility for developing the sector is staffed by just half-a-dozen people. In other words while the tourism industry has delivered quick wins to Cape Verde, it can also be said there is a lack of technical and institutional capacity to develop, diversify and manage this complex sector in such a way as to maximise, to the greatest possible extent, the income and employment opportunities the industry provides. Similarly, while there is widespread in-country recognition that *tourism with a high added value* is the preferred direction in which to travel, notwithstanding the robust political commitment, technical expertise and institutional framework needed to deliver this outcome appears to be missing. Moreover, while the 2012 review

³¹⁰ A November 2012 “Tourism Cluster” presentation by Mr. Olavo Correia, in the framework of GRSP III identifies a goal to attract 1 million visitors by 2016.

of the National Tourism Strategy and the “Tourism Cluster” presentation (noted above) aptly describe the current situation, the potential of the sector and actions that need to be carried forward, both documents are weak on: a) allocating specific tasks and actions to specific government agencies; and, b) setting out a clear institutional (management) framework to carry the actions and recommendations forward to implementation.

8.3.1 Key Institutions and Roles

The tourism industry is a very diverse, dynamic and pervasive activity – and is widely recognized to be an unwieldy and complex phenomenon to develop and promote. Its five sub-sectors (transport; accommodation; restaurant & retail; activities and entertainment; and, financial services & travel agencies) each vary greatly in size, scale and form. The complexity of planning and management activities is partly due to the diverse activities of different sub-sectors – and the wide range of government ministries, private sector and civil society actors that are drawn into the industry’s policy and institutional environment. In Cape Verde there are at least four different government agencies that directly intervene in the formulation, implementation and oversight of tourism policies and investments. In addition, and as illustrated in Table 3, a number of Ministries also have significant roles and oversight over different elements of the sector’s reach. While it is unlikely this table provides a complete picture of roles and responsibilities, it is indicative of the complexity of the total tourism system.

Table 39 Summary of Ministry Roles and Responsibilities for Tourism

Government agency	Tourism interests
Ministry of Tourism, Industry and Energy	<p>A range of responsibilities associated with:</p> <ul style="list-style-type: none"> - Policy issues - Product and service development - Management and regulation (including licensing of hotels, tour operators and guides) - Marketing and promotion - research and evaluation - Guide training and certification - Raising awareness of the benefits and constraints of tourism activity - The promotion of handicrafts and souvenirs - The promotion of MSMEs to service and supply tourism-related businesses - Facilitating foreign direct investment in the sector
Ministry of Finance and Planning	<p>A range of responsibilities related to:</p> <ul style="list-style-type: none"> - Tourism cost accounting & evaluating the income generated from the tourism sector - Allocating funds to government agencies with tourism-related agendas - Implementing tourism investment incentives - Promoting access to credit and business loans - Collection of taxes
Ministry of Infrastructure and Maritime Economy	<p>A range of responsibilities related to:</p> <ul style="list-style-type: none"> - Air transport policy and management including airport construction

	<p>and upgrades</p> <ul style="list-style-type: none"> - Airline agreements - Roads policy, construction, safety and transport provision - Ports and cruise liner policy, construction and management of ports and marinas - The spread of mobile and internet services around the country to enable tourists to gather and communicate information to others – and MSMEs to promote their businesses to tourism markets - Producers and suppliers of fish can benefit from trade links to the tourism economy
Ministry of Rural Development	<p>A range of responsibilities to ensure:</p> <ul style="list-style-type: none"> - Producers and suppliers of grains, meats, dairy produce, vegetables and fruits can benefit from trade links to the tourism economy - The impacts of tourism upon the environment are minimized (especially as regards hotel investment and management) - Tourism activity supports biodiversity conservation in and around protected areas
Ministry of Higher Education, Science and Innovation	<p>A range of responsibilities to ensure:</p> <ul style="list-style-type: none"> - Training skilled and semi-skilled employees suited to the needs of the industry - Encouraging educational institutions to undertake quality tourism research
Ministry of Home Affairs	<p>A range of responsibilities related to:</p> <ul style="list-style-type: none"> - Immigration policy including setting tourist visa fees, rules and regulations - ‘Tourist police’ the safety and welfare of tourists
Ministry of Education and Sports	<p>A range of responsibilities related to:</p> <ul style="list-style-type: none"> - Training skilled and semi-skilled employees suited to the needs of the industry - Developing teaching and training courses suited to the needs of the industry - Promoting regional sporting events to attract regional and international visitors
Ministry of Youth, Labour, and Human Resources Development	<p>A range of responsibilities to related to:</p> <ul style="list-style-type: none"> - Labour laws and working conditions in the hotel, restaurant and service sector - Public awareness of the way tourism is perceived and understood by the wider population
Ministry of Health	<p>Responsibilities related to:</p> <ul style="list-style-type: none"> - The provision of healthcare services for tourists if they become sick or injured during their time in country
Ministry of Culture	<p>A range of responsibilities associated with:</p> <ul style="list-style-type: none"> - The conservation, representation and interpretation of cultural heritage - Tourism activity promotes cultural revitalization

In addition to public sector / central government agencies, there are also local government agencies, and a number of quasi-government and private sector actors that influence and shape the institutional environment. Those include the municipalities, such as Câmara Municipal do Sal or Câmara Municipal da Boa Vista; and these include the Travel & Tourism Agencies Association (AAVT),

the recently formed Tourism Chamber of Cape Verde, and the Society for the Development of Tourism in Boa Vista and Maio. Some of these agencies being formed as types of destination management committees to plan and manage the integrated development of Special Tourism Zones on specific islands. While some of these agencies are clearly focused upon issues affecting their islands, the extent to which they work together to influence policy and promote Cape Verde as a single destination is unclear.

Institutionally, it is worth noting that it is common practice in most countries for in-bound tour operators, local hoteliers, restaurants and guides to form their own individual associations. There are no associations of this nature in Cape Verde – or any platform that brings private sector actors together at the national level. While it might be said the Tourism Chamber of Cape Verde plays this role – capable guides, restaurateurs and smaller tour operators interviewed knew little about, and felt distanced from, the Chamber. The lack of private sector associations, and level of small business engagement with the Chamber, is likely due to the physical isolation of the islands (and stakeholders) themselves and the evolution of tourism to Cape Verde, which is skewed towards all-inclusives. This low-level of activity and association among and between private sector actors is unfortunate as it arguably hinders the “grass-roots” product development potential that is needed to: a) develop new products in new and existing locations and diversify the market away from the all-inclusives; and, b) develop new products, goods and services to allow the all-inclusives (and their guests) to purchase from local suppliers.

Interviews with a variety of stakeholders reveal other issues and concerns relating to sub-optimal and inconsistent sector coordination. For example:

- While the Cape-Verdean Investment Promotion Agency does a good job of encouraging inward investment, some actors argue insufficient attention is attuned to targeting and attracting “the right sort” of investors – and that special incentives are needed to attract investors that would allow Cape Verde to diversify its brand and product offer;
- Although cruise and yachting tours have been identified as niche markets to develop, private sector actors suggest little action is devoted to developing the infrastructure to support these activities;
- There are reported to be growing conflicts over land concessions, with a centre government agency offering concessions where there are ownership or access disputes with local governments and landowners;
- There is no formal platform or mechanism for regular and formal dialogue between the government and private sector;
- Against complaints of high leakage through food imports by accommodation and restaurant providers, there is lack of detailed research or studies to map out supply, demand and intermediary factors relevant to strengthening agriculture-based value-chains;
- Local foodstuffs produced for consumption in the tourism sector are left to rot due to transportation problems;
- Despite tourism being a high priority sector, a number of Cape Verdean’s interviewed complain: a) it can take 2-3 years to approve a licence to establish a tourism-related business; and, b) there are few if any incentives or initiatives in place to stimulate tourism-related MSMEs; and,
- Out-dated labour laws allow all-inclusive employers to keep employees on short-term contracts, which provides little in the way of job-security.

Having illustrated common complaints of various stakeholders, it is stressed the great majority of interviewees also recognize the Cape Verde tourism sector has made considerable strides in recent years. Nevertheless, it noted that neither the Directorate General for Tourism nor the Ministry of Tourism, Industry and Energy, have the human or financial resources to take complete responsibility for coordinating and implementing all tourism policies and programmes. Indeed because of the cross-cutting nature of the industry, overall responsibility cannot be left to a single Ministry or department (especially if it is staffed by just half-a-dozen people). Rather effective coordination and direction is needed at a higher level of government to synchronise and direct actions across ministries – and ensure private sector actors are an integral part of institutional, policy and decision-making frameworks. To build tourism capacity across government departments and help address these and other concerns, it is recommended to roll out a program along the lines of UNCTAD's *Train for Trade* programme in Sustainable Tourism Development. Further justifications for this and the benefits it will provide are described in the recommendations and conclusions below.

8.3.2 Gender and Poverty Reduction

Globally, tourism is regularly cited to be both the largest employer in the world and labour intensive industry with strong supply chain linkages to other sectors of the economy³¹¹. The industry is also generally positioned as one of the top three sources of income and foreign exchange earnings in virtually all developing countries. While the total market has generic income and employment linkages to poor men and women, different market segments (niches) also offer different opportunities to provide focused support to poor men and women (for example, pottery, textile and handicraft tourism, some forms of community-based tourism). The extent to which tourism can be used as a vehicle to reduce poverty, promote gender equity and embrace minority groups depends largely on the way it is planned, managed and promoted. When left to market forces destinations are unlikely to maximise, to the greatest possible extent, the socio-economic benefits the industry can provide.

In the case of Cape Verde, it has been noted above the tourism industry has grown largely as a result of the all-inclusive, mass-tourism approach. The WTTC suggest Cape Verde's travel and tourism sector accounts for 28,500 direct jobs, or 14.4% of total employment, while the indirect contribution is around 76,500 jobs or 38.7% of total employment. These figures are projected to rise to 43,000 jobs (16.9% of total employment) and 118,000 (46.9% of total employment) respectively by 2022. The degree to which this prediction holds true will, to some extent, depend upon the state of the Eurozone economy, which is the key source market for tourism to Cape Verde. In terms of the current situation, government figures suggest 27% of the Cape Verde population live below the poverty line. While travel and tourism have undoubtedly reduced the incidence of poverty – the nature, form and effectiveness of this relationship varies greatly from one location to the next. To date, with the exception of one recent study (Mitchell et.al (2012) – on behalf of the World Bank), there has been little research undertaken in this area in Cape Verde. Mitchell et.al (2012) do however bring significant light to this area. This study provides a range of useful data and serves as a benchmark for further similar or more detailed studies. With a particular focus upon the role and dynamics of all-inclusives, the report makes a series of conclusions, including:

- With an average wage of €338 per month, *households with a member working in the tourism sector are much less likely to be living poverty (only 9% of households with a member in the tourism industry are living in poverty);*
- *There is virtually no poverty in the labour market in the main tourist islands;*

³¹¹ <http://mkt.unwto.org/en/content/tourism-highlights>

- *Around 35% of tourist spending is estimated to accrue to Cape Verdeans from a poor background* (a figure high by international standards);
- Low-income households benefit from the tourism sector through direct employment (jobs in the tourism sector); indirect employment (jobs outside the tourism sector but dependent on tourist demand); induced employment (jobs created by the spending of tourism sector workers); and dynamic effects (longer term impacts like the tax which funds government welfare programmes);
- Direct employment in the tourism sector seemingly offer the most assured route out of poverty; and,
- Tourism contributes at least €54million (one fifth of total government receipts) – which implies indirect benefits to households both above and below the poverty line in terms of, for example, access to health and education services.

Hence, there is solid evidence to suggest tourism has significantly contributed towards poverty reduction in Cape Verde. Looking to the future, it can be said the further growth and expansion of the sector will additionally contribute to poverty reduction. The degree to which tourism is able to further contribute towards poverty reduction will however be determined: a) by the nature of any research undertaken into tourism and poverty reduction linkages (which in turn is able to influence policy); and, b) by the forms of tourism promoted and the extent to which developers and managers seek to engage, either directly or indirectly, with poorer households and communities.

8.4 Key Competitiveness Issues

Four key themes heavily influence the competitiveness and market position of Cape Verde tourism, namely: the business enabling environment; product price; competition with other sectors of the domestic economy; and, marketing and promotion.

8.4.1 The Business Enabling Environment

In terms of its “business environment and infrastructure ranking”, Cape Verde is positioned 89th out of 139 countries in the World Economic Forum’s annual travel and tourism competitiveness report³¹². The WEF use a total of 75 individual indicators to rank each country. Table 4 provides a list of the 28 indicators where Cape Verde scores 100 or more in the rankings – in other words areas where Cape Verde is least competitive and greater attention is needed to overcome barriers to business. In brief, key areas of concern where (relatively) quick wins might be gained to improve competitiveness include: simplifying visa processing; strengthening environmental regulations; improving the collection and availability of travel and tourism related data; strengthening tourism-related research, training and education; and reviewing labour laws. By way of contrast Table 5 lists the 15 indicators where Cape Verde scores less than 60 in the rankings – areas where Cape Verde is most competitive, and is able to highlight its strengths. It is interesting to note that several tourism governance-related issues are included in this list. This contrasts with points raised elsewhere in this chapter. Yet it is emphasized that several Cape Verdean business people interviewed assert it is far simpler for foreigners to initiate and conduct business in Cape Verde than it is for local people. Secondly, while Table 5 highlights relatively high government expenditure on travel and tourism, it is

³¹² This compares with the rankings of Tunisia (47th), Mauritius (53rd), Dominican Republic (72nd), Morocco (78th) and The Gambia (92nd).

noted this embraces expenditure on tourism-related infrastructure (per head of the population) which arguably skews the ranking and detracts from the level of spending on, for example, incentives and assistance for tourism-related MSMEs, marketing and promotion, generating travel and tourism-related data (including tourism cost-benefit / satellite accounting), tourism-related trainings and public awareness campaigns.

Table 40 Indicators where Cape Verde is least competitive in travel and tourism

Indicators where Cape Verde is least competitive in travel and tourism ³¹³	
Indicator	Rank 2011
Property rights	100
Visa requirements	117
Enforcement of environmental regulation	110
Health and hygiene	105
Access to improved sanitation	100
Access to improved drinking water	101
Comprehensiveness of annual travel and tourism data	105
Available seat kilometers, international	106
Number of operating airlines	124
Quality of port infrastructure	102
Quality of ground transport network	102
Mobile telephone subscribers	106
Price competitiveness in the travel and tourism industry	126
Purchasing power parity	108
Fuel price levels	137
Education and training	106
Primary education enrollment	121
Local availability of specialized research and training services	129
Extent of staff training	120
Hiring and firing practices	109
Extension of business trips recommended	109
Natural resources	136
Protected areas	115
Total known species	138
Number of World Heritage cultural sites	104
Sports stadiums	139
Number of international fairs and exhibitions	132
Creative industries exports	125

³¹³ Source: Blanke, J. Chiesa, T. 2012 *The Travel and Tourism Competitiveness Report 2011*. World Economic Forum.

Table 41 Indicators where Cape Verde is most competitive in travel and tourism

<i>Indicators where Cape Verde is most competitive in travel and tourism</i> ³¹⁴	
Index	Rank 2011
Openness of bilateral Air Service Agreements	16
Transparency of government policymaking	50
Time required to start a business	44
Environmental sustainability	56
Carbon dioxide emissions	27
Particulate matter concentration	45
Prioritization of Travel & Tourism	45
Government prioritization of the travel and tourism industry	35
Travel and tourism government expenditure	23
Air transport infrastructure	48
Airport density	2
Hotel rooms	19
Ticket taxes and airport charges	36
Ease of hiring foreign labor	22
Affinity for Travel & Tourism	5
Tourism openness	4

8.4.2 Product Price

Comparing two products on price alone is rarely as simple as it might first seem. While the WEF report ranks Cape Verde 126th on its pillar of price competitiveness, it is firstly local fuel price levels, and secondly purchasing power parity that are chiefly responsible for this positioning. In other words the cost of flying to Cape Verde and the cost of travel between islands is ignored in this ranking. These are major chunks of the cost of holidaying in Cape Verde. Hence this particular WEF ranking doesn't give a complete picture when comparing the cost of holidays to Cape Verde and the Mediterranean for a European. This is important because most tourists who come to Cape Verde come as part of a sun, sea and sand package holiday – so it is logical to compare Cape Verde with other package destinations. This is the comparison that Mitchell et.al (2012) make when assessing Cape Verde's destination price competitiveness (without including air-travel) – and they conclude Cape Verde is considerably more expensive than rival all-inclusive destinations such as Tunisia, Egypt, Turkey and Mauritius. Critics of Mitchell et.al's conclusions however³¹⁵, argue that comparing Cape Verde's tourism product with Egypt or Mauritius is simply inappropriate due to differences in the nature of the product, and the product potential. In a similar vein, it might be said that given the 5 hour plus flight time to Cape Verde from the UK – the destination is just short of a long-haul

³¹⁴ Source: Blanke, J. Chiesa, T. 2012. The Travel and Tourism Competitiveness Report 2011. World Economic Forum.

³¹⁵ Two interviewees during the mission criticized the logic of Mitchell et.al comparing Cape Verde with destinations such as Tunisia, Egypt and Mauritius.

excursion. So is Cape Verde competing with short or long haul destinations from Europe? The answer is of course, both – but what’s important in such comparisons is the uniqueness, distinctiveness and quality of the product experience being offered. And, while there are many unique qualities to Cape Verde’s diverse and often spectacular product, a) these compelling experiences are yet to be packaged and broadly and aggressively promoted in the international market place, and b) there are too few in-bound agents in Cape Verde developing, packaging and driving the promotion of such products. As a consequence, at this point in time, product price is a very important element of Cape Verde’s tourism system: and, due in particular to high flight, utility, fuel and food and beverage import costs, Cape Verde is a comparatively expensive holiday destination. Effort therefore needs to be directed to actions that will: a) reduce such costs; and, b) build the capacity and productivity of in-bound (Cape Verdean) tour operators.

8.4.3 Competition With Other Sectors Of The Domestic Economy

Tourism is one of seven key clusters of the Cape Verde economy – the others being sea, sky, ICT, finance, the economy of culture and agriculture. While tourism has been solidly promoted since 2001 in term of infrastructure development (roads, airports) and land concessions – and grown to become the country’s biggest industry and employer – it might be argued the industry is now stalling in terms of moving forward. Evidence raised elsewhere in this chapter, for example, suggests the industry is not well understood and that many of its component parts are not well developed and/or supported. Consequently agencies and individuals interviewed suggest the sector regularly loses out in terms of both finance and government commitment. It has been noted above, for example, that the Directorate General for Tourism is staffed by less than half-a-dozen people: in this context observers argue the industry is unable to compete and effectively position its needs and interests at different levels of government (both at a working level on the ground dealing with day to day issues as they arise, and strategically at a higher levels of government). Similarly, in previous Growth and Poverty Reduction Strategy Papers tourism has been allocated no measurable targets, which presumably helps to explain why tourism is unable to compete with other sectors in terms of budgets, resources and government support. Attention therefore needs to be directed towards more tailored and specific actions and initiatives within the government machinery that will increase its institutional capability to strategically plan, manage and monitor the Cape Verde tourism industry.

The Importance and Value of Marketing

In securing a larger marketing and promotion budget for its Tourism Malaysia campaign, Dr. Victor Wee, Chairman of the Malaysian Tourism Board successfully argued that *“what a government actually spends in terms of a 10% increase in the tourism marketing and promotion budget, it receives back more than 100 times this amount, because marketing actions and activities translate to higher visitation and higher yields”*.

8.4.4 Marketing and Promotion

Despite some progress in recent years, Cape Verde remains a largely unknown and a poorly positioned destination in the global tourism market place. The WEF travel and tourism competitiveness index, for example, ranks the effectiveness of marketing and branding at 97th out of 139 countries. Moreover the availability of annual travel and tourism data – which is critical to underpin the marketing and branding effort – is ranked 105th out of 139 countries. Mitchell et.al (2012) also make the point that little government attention or priority is given to visitor and market surveys. This is a fundamental weakness because this form of ‘market intelligence’ strengthens the marketing effort and helps optimize sector performance. Box 1 illustrates the logic and importance of marketing – and the benefits that result³¹⁶. In short, it is critical for government to work with the private sector to ensure credible marketing budgets are allocated to attract tourists, outbound tour operators and journalists – each of whom have critical roles to play in positioning and promoting Cape Verde internationally. The better a country can promote its tourism industry, the better it can compete in attracting tourists and inward investment.

³¹⁶ Personal email Dec 2010 & remarks made by Dr. Victor Wee at “Workshop on Tourism Destination Branding”, Ha Noi, Viet Nam, 16-17 December 2010.

8.5 Conclusions And Recommendations

International tourism is a fundamental pillar of Cape Verde's economy, currently making a direct contribution of around 16% to GDP – indirectly travel and tourism are estimated to contribute as much as 43% of GDP. The industry currently employs – both directly and indirectly – more individuals and households than any other sector. Over the last ten years the country has made great strides in developing its tourism industry and attracting inward investment, but the nature, direction and form of future planning and investment needs to change and diversify – and this presents a number of challenges. Looking to the future the government is seeking to double visitor arrivals to around 1 million visitors by 2016. By 2022 WTTC estimates suggest travel and tourism will be generating some \$400 million in annual inward investment, and be responsible for almost half of all jobs on the islands.

Against this primarily positive outlook, there is little room for complacency. While a basic strategy for growth is in place and a number of goals and actionable programmes have been identified, the all important implementation framework – setting out roles and responsibilities and what will actually be done to carry actions forward – has yet to be articulated. The recent “Tourism Thematic Group” presentation, for example, identifies cruise tourism, senior health tourism, ethnic tourism, rural and nature tourism as products to develop – and proposes a major on-line national tour operator to promote Cape Verde as an integrated destination. Yet there's little indication as to who will assume responsibility for developing these programmes, products and services – or who, or how, the substance will be provided for the tour products themselves. What is going to change and occur in the institutional environment to formulate, develop and manage the actual products and services on the ground? If investments are made to allow Marina Mindelo to accommodate more or larger cruise vessels, for example, are local ground handlers available to provide tour packages to show passengers around the islands? Are there culture and nature-based experiences beyond sight-seeing tours that engage local artisans and communities and provide income and employment opportunities? Rather than wait for accommodation providers and investors to come to Cape Verde, is there scope to develop the “ten different islands one destination” tag line and target specific niche market hotel brands to come to Cape Verde's more 'exclusive' and diverse islands? Is there the data and research to hand to illustrate and substantiate the investment potential?

These are some of the challenges that need to be addressed to add meat and flesh to the bones of the existing tourism strategy. Put another way, many stakeholders are of the view there's a fundamental need to change the way tourism is perceived and managed within government. Firstly, greater attention should be given to understanding the situation from the point of view of tourists and local tourism businesses – to increase local participation and build the industry from the bottom up, not just from the top down. Secondly, there is a need to ensure this change in approach permeates through government, from the highest levels at the centre, across each of the key line ministries and departments, down to the local level on each of the islands. To help address these concerns and the three challenges identified in the opening paragraph of this Tourism chapter of the report (to: reduce the dependency upon the all-inclusives; strengthen the connectivity between the all-inclusives and the islands' economy and people; and, deliver greater complementarities, balance and diversity to the overall tourism product and brand) – the following seven recommendations are made. It is emphasized that the implementation of these recommendations alone, which adopt both a short and long-term perspective, are unlikely to transform the sector and fully address the three challenges identified above. Rather they are geared towards creating the conditions that will, over time, enable and facilitate transformational change. Change itself, will likely depend upon robust and continuous political and public support for the sector.

1. Review and strengthen the current national tourism strategy to place greater emphasis and direction upon institutional arrangements and a coherent marketing and promotion strategy.
2. Improve market intelligence – including data collection, basic research and statistical methods to more accurately illustrate and compare market and economic data and enable tourism to be better positioned and aligned with industries such as fishing, agriculture and other service sectors.
3. Strengthen tour operations capacity, build a foundation for the creation of private sector associations and promote B2B linkages.
4. Enhance cross sector coordination – roll out UNCTAD’s Sustainable Tourism component of their Train for Trade programme to key government actors and ministries to promote a broader and deeper understanding of the sector, improve cooperation between line agencies and the private sector and facilitate a more enabling environment.
5. Develop an on-line visa system – linked to the new on-line tour operator, or a revised Tourism Cape Verde website.
6. Review the employment law.
7. Include international tourism as a subject in the secondary curriculum.

8.5.1 Review And Strengthen The Current National Tourism Strategy

It is emphasized that the recommendations identified in this report alone are unlikely to transform the sector – for this to happen a range of wider more substantive efforts and inputs are required, the identification and prescription of which are beyond the scope of this relatively brief assessment. It is therefore recommended that a short but fundamental review to strengthen the current national tourism strategy be undertaken. The review should place a particularly strong focus upon three key components, namely the institutional framework, the implementation framework and, thirdly, articulating a coherent marketing strategy. Firstly, the institutional framework should focus on the need to upgrade the national tourism board or council, to be chaired by either the Prime Minister or a Deputy Prime Minister and with representation from key government agencies and the private sector. Mechanisms for the board to regularly (at least annually) engage with the general managers or representatives of the all-inclusive companies and charter airlines should be included in the board’s charter or ToR. Initiating a programme along the lines of Recommendation 4 below will likely be central to the success of the board.

Secondly, the strategy review should also include a clear implementation framework that specifies the roles and responsibilities of implementing agencies – as well as timelines for carrying actions forward. This is not an especially difficult or lengthy process – but is critical in terms of building buy-in, as well as agreeing and approving which agency or actor should assume responsibility as the lead actor moving specific actions and initiatives forward.

Thirdly, it is recommended a coherent marketing and promotion strategy be developed. It is important to note that marketing is not simply about selling tours and holidays to potential tourists. Rather it embraces wider issues including the branding and ethos of tourism to Cape Verde. The marketing strategy should therefore embrace ‘external marketing’ geared towards attracting tourists, niche market investors and new air-lines, as well as ‘internal marketing’ geared towards raising awareness of the value and significance of the industry among all sections of the Cape Verde

population – including its workforce, private sector actors (engaged in tourism-related businesses such as taxi-drivers, artisans and farmers) and government agencies.

Lastly, the strategy should be updated to include any specific developments and high priority recommendations that have emerged since the drafting of the current document. This will involve a series of meetings and consultations with various key informants as well as workshops with stakeholder groups.

8.5.2 Improve Market Intelligence

There are a number of areas where data collection, market research and statistical methods need to be improved in Cape Verde. It is recommended a taskforce or working group be set up to set out systems and procedures to embed a range of improvements. It is critical to stress that unless standard systems and procedures are set in place to annually generate rudimentary data, policy and decision-makers will never have accurate or detailed information to hand to make informed strategic choices that maximize, to the greatest possible extent, the income and employment opportunities the sector is able to deliver.

Firstly, data depicting the number of tourists visiting Cape Verde is currently gathered from airline related sources and as recognized elsewhere³¹⁷, these data sets fail to provide an accurate picture of visitor arrivals. Different countries gather and cross check arrivals data from various sources. It is common practice to source such data from immigration points which, if the correct systems and processes are in place, allows nationality, gender, age and frequency of travel to be recorded – as well as length of stay when visitors exit the country. Improving and sharing data collection in this way is consistent with the move towards an integrated government IT platform.

Secondly, it is recommended the Directorate General for Tourism sub-contract a team of researchers (Cape Verde university department?) to undertake an annual visitor (exit) survey to, for example, understand more about the tourist markets coming to the country, measure their level and areas of spending into the local economy, assess visitor feedback to evaluate holiday experiences and determine what steps might be taken to increase spending, length of stay and help diversify the product. A sample survey is attached as Appendix 1. An annual survey of perhaps 2,000 visitors (conducted at intervals through the year) will generate a variety of data to inform decision-making and the direction of marketing strategies (which depend upon reliable market intelligence). If included with an annual statistical report on the country's tourism industry it will also help impress and attract potential investors.

Thirdly, Cape Verde currently relies upon external sources such as WTTC and the WEF to generate data on the Country's travel and tourism-related employment and contribution to GDP. This draws into question the accuracy of such data. Moreover, given the fundamental importance of tourism to the national economy, it is in the Country's own interest to generate more accurate data sets. For any country, calculating tourism-related employment levels and the real contribution of tourism to GDP is complex and challenging. The latter requires a comprehensive economic database including detailed tourist consumption/expenditure data, sector-specific investment data and a national accounting matrix (input-output table/social accounting matrix) highlighting the flow of economic activities, along with considerable expertise in economic modelling. Given that Cape Verde is tourism dependent – and that this dependency is likely to increase – it is emphasized there is a need to:

³¹⁷ Pp3 Mitchell, J. et.al. 2012. "Pro-poor Tourism Linkages in Cape Verde" (draft).

- Accurately assess the number of people employed both directly and indirectly across the sector;
- Measure linkages between tourism and the wider economy based on an acceptable modelling strategy (such as input output modelling);
- More accurately measure leakage from the tourism economy, especially in terms of key and specific supply chains (for example, fruits, vegetables and fish) which are widely viewed as critical areas of intervention to make the sector more productive and build stronger connectivity to the fisheries and agricultural sectors (and the rural poor).

Each of the areas above are important considerations that should be factored in to: a) measure the overall size and contribution of the tourism economy to national development objectives; and, b) deliver to all stakeholders, especially decision makers, at the highest level of government a range of market intelligence that will build understanding of sector dynamics and increase the significance and standing of the tourism sector. This information is also critical to inform policy and regulatory choices to maximize linkages with other sectors of the economy and minimize leakage of the tourist dollar. To better calculate the contribution of tourism to GDP many countries are moving to develop Tourism Satellite Accounts – a standardized system recommended by the UNWTO. While it is evident steps are being taken to generate more accurate data along the lines of a satellite accounting approach, the direction or detail of this approach it is not completely clear. Moreover as, Cape Verde has relatively little experience with TSAs to date and (given the time and expenses needed to develop a full TSA) it is not recommended it go down this route at this point in time. It is however recommended that a small team of tourism economist and accounting experts, with experience of TSA systems and procedures, be contracted to work with the Ministries of Finance and Planning, and Tourism, Industry and Energy to undertake the following:

- a) Review current studies and methods used to calculate the number of people employed – both directly and indirectly – in the tourism sector.
- b) Assess alternative options and methods and design, and undertake a research initiative to more accurately calculate the number of people directly and indirectly employed in the tourism sector.
- c) Assess the number and type of local jobs created in the tourism economy, for example: what type of employment is created; what standard categories are there; how many employment positions are there in different categories; what are the barriers to employment; what incentives might be developed to create more employment, what percentage of opportunities are full or part-time, permanent or temporary, skilled or unskilled; are men or women typically employed, what is the gender balance for different roles and posts; and, what pay, benefits and conditions are typical. The study should consider both direct and indirect employment opportunities.
- d) Review and assess current methods used to calculate Cape Verde's overall tourism earnings and, if appropriate, recommend steps and processes to incorporate input output modelling to more accurately calculate overall tourism earnings and contribution to GDP – and identify key areas of the tourism economy where leakage of the tourist dollar occurs and where significant gains might be made in terms strengthening local supply chains.

- e) Assess the supply chains of high potential food stuffs (fish, tomatoes, potatoes, papaya etc.) from production through processing, handling, transportation and distribution to establish the potential for these products to be supplied to hotels and restaurants to reduce leakage from the tourism economy.
- f) Review and assess current systems and procedures for calculating domestic, regional and wider international visitor arrivals at the island and destination level and design systems and procedures to more accurately represent the geographical movements and dispersal of visitors.
- g) Make recommendations for additional procedures and systems that should be put in place to prepare more policy-oriented data and help Cape Verde prepare for a full TSA system at a later date.
- h) Make recommendations to establish a tourism accounting working group, chaired by the Minister for Tourism, Industry and Energy that embraces key private sector associations, National Statistics Office, the Bank of Cape Verde and Ministry of Finance and Planning (similar to, or the same form as, a TSA committee) and assumes responsibility for generating economic data and formulating related policy recommendations. The working group should be supported by technicians from each agency that assume responsibility for gathering and processing the data.

The above research, information, systems and procedures are absolutely critical to inform and direct policy and planning decisions. Moreover, globally, while it is acknowledged there is an association between tourism and poverty alleviation, it is recognized the link is “neither automatic nor straightforward”³¹⁸. Hence there is a need to know, a) what works in terms of the size and significance of financial flows, and where benefits are gained, b) what doesn’t work and where little or no benefits are earned or distributed – which involves understanding the extent to which current practices are delivering income and employment opportunities to local communities. This information is fundamental: firstly, to help replicate or improve upon current practices in different sub-sectors and supply chains; secondly, to help formulate policies and regulatory frameworks; and, thirdly, to strengthen corporate social responsibility and guide private sector activity towards working practices that are inclusive, responsible and pro-poor.

8.5.3 Strengthen Tour Operations Capacity, Build A Foundation For The Creation Of Private Sector Associations And Promote B2B Linkages.

In general terms, there is wide acceptance that the role of governments in tourism is to coordinate the development of infrastructure projects (such as roads, airports and ports) – and provide an unfettered enabling environment for product development through well formulated policies, regulations and incentives to nurture and guide private sector growth and expansion. Private sector actors meanwhile, collaborate and invest to physically provide tourism-related products, goods and services. In the case of Cape Verde however, the indigenous private sector is positioned at a disadvantage because: a) by their very nature, all-inclusives provide few opportunities for independent actors and MSMEs such as restaurants, guides and tour companies; and b) prior to the

³¹⁸ pp37, UNDP. 2011. *“Tourism and Poverty Reduction Strategies in the integrated Framework for Least Developed Countries”*

development and promotion of all-inclusives, the local population had little if any experience of the complexities, subtleties and dynamics of the international tourism industry. Put another way, in Cape Verde there is:

- A lack of experience and understanding of the international tourism industry and its market-oriented dynamics among national and local government line agencies;
- A lack of experienced and practiced tourism-related professionals working in the private sector (guides and staff from small tour companies, for example, lack skills and tools to work with local entrepreneurs, households and communities to develop products, itineraries and business-plans, or connect with outbound operators);
- A lack of both rural and urban community exposure to tourists and the tourism industry – and an associated lack of capacity to engage in entrepreneurial activity to meet market expectations and simultaneously exploit income and employment opportunities; and,
- A low volume of tourists visiting rural areas which, in many scenarios, is insufficient to provide a regular or reliable income source or business incentive to households and local entrepreneurs from rural communities interested to engage in the tourism industry.

These issues go some way towards explaining the challenges that constrain Cape Verde's product development potential – many are typical to developing countries and emerging destinations. To overcome such obstacles governments typically work with donor and development agencies to design community-based tourism programmes. Results have been mixed. Typical errors of community-based tourism programmes include:

- A failure to consult with the private sector, especially outbound tour operators, who play a key role in marketing, promoting and selling products and services in the global market place;
- Developing products in remote locations with poor accessibility; and,
- A tendency to place too much emphasis upon community ownership, community decision-making, community appointed roles and responsibilities and community-profit-sharing – which, over time, leads to a lack of accountability, poor coordination and communication, low incomes for key actors, a failure to assume responsibility for managing essential services, and a miss-match between the product and the needs and expectations of visitors and tour operators.

This is not to say community-based tourism projects and programmes are totally misguided. On the contrary, any form of destination development work that seeks to create and embed visitor experiences among host communities should be consultative, inclusive and generate income, employment and entrepreneurial opportunities for local households. Recognition does however need to be given to the fact that, in a business environment, there are limitations as to what can be achieved with community-based decision-making and profit-sharing. Standard business models cannot afford to engage in such practices and it is increasingly evident that few tourism models can either.

Baring in mind the issues raised above, it is recommended consultancy missions be formulated to design community-based tourism projects for two initiatives. Firstly, to establish permanent turtle visitor centres and hatcheries and on Sal and Boa Vista. There are numerous examples around the

world where turtle visitor centres with entry fees, high quality interpretation materials, hatcheries³¹⁹ and turtle-related handicrafts have been successfully established. Turtle watching tours could also be developed and promoted from such centres, which might also include cafes or restaurants. A number of turtle watching tours have already been established – some through the temporary / seasonal turtle conservation camps that have been set up on both islands. Interviews with various actors suggest there continues to be controversy surrounding the operations of such camps, which are largely funded by foreign NGOs and staffed by foreign volunteers. Conflicts are reported to exist between local communities on the one hand and volunteers and the army on the other – over access rights to beaches and the right to operate tours to view turtles burying eggs at night. Given the unique status of Cape Verde as one of the biggest turtle nesting sites in the world, and the high interest of tourists in turtles, there must be the potential to develop a high quality experiential tour product that is locally staffed, managed and run – and paid for by fee paying tourists who are also likely to donate funds to a transparent and sound business operation dedicated to turtle conservation. As this is merely a projection at this stage, it is recommended a 1-2 month consultancy mission be initiated to:

- a) Interview all local stakeholders and the foreign NGOs behind the turtle camps;
- b) Formulate the terms of reference for a 2-3 year project that would deliver awareness raising, training and capacity building to screened and selected members of local communities – together with business planning and accounting skills to develop turtle hatcheries and visitor centres on both islands; and,
- c) Identify funding sources to finance and deliver the project, which might be achieved, for example, through a partnership with the foreign NGOs currently involved in the conservation camps, or sourced through wildlife conservation funds, the CSR funds of one or more of the major tour companies on the islands, a global canned fish corporation or livelihood development funds.

A second 2-3 month consultancy mission is recommended to formulate a project that focuses upon capacity-building for tour guides and tour operators. The project design itself, would include components on:

- Product development and packaging, tour guiding, web-design and B2B linkages;
- A review of the existing tourism business environment to identify what measures are needed to improve the regulatory, incentive and enabling environment; and,
- Assessing the conditions and opportunities to establish tour guide and tour operator associations that would enable these actors to come together collectively to represent and lobby for conditions that will deliver a more enabling business environment.

The mission would commence with a detailed look at the nature and form of local tour products on each of the islands – and the capability of local tour guides and tour companies. Each of these would be screened with a view to identifying those products and businesses with greatest scope for quality development and expansion. The Valley of Paul on Santo Antão, for example, might form the focus of a product development component, where there is recent significant experience of hosting one-off tourism events. The project would design interventions that provide direct support to entrepreneurs and MSMEs to literally facilitate product and enterprise development in the market place. This might involve, for example, working with selected tour companies on aspects of product development and business planning with local entrepreneurs and MSMEs to develop market oriented products – and assisting those operators to market themselves and build business-to-

³¹⁹ To show tourists what 1 day old, 2 day old, 3 day old, 4 day old, 1 week old, 2 week old, etc., turtles look like.

business linkages with out-bound operators in emerging and expanding source markets that are interested to start or expand their tours to Cape Verde. By focusing upon products that would appeal specifically to niche European markets, it is highly likely finance for the project could be sourced from an EU funding source that is dedicated towards building business linkages between European and ECOWAS nations. Identification of potential funding sources would be an integral task of the initial consultancy mission.

8.5.4 Enhance Cross Sector Coordination

The cross-cutting and diverse nature of the international tourism industry implies no single government body can assume exclusive responsibility for planning the development of the sector. Rather, and as outlined above in Table 3, many government ministries and departments have tourism-related roles and responsibilities. To help planning and coordination issues it is recommended to roll out an initiative such as UNCTAD's *Train for Trade* programme in Sustainable Tourism Development. The purpose of the training and guidance is two fold. Firstly to promote a deeper understanding as to the nature and structure of sustainable and responsible tourism, together with its benefits and limitations, to officials within different government line agencies and to senior government officials at the island/destination level. A deeper level of industry understanding – with its market-oriented mechanisms and practices – will facilitate more coherent expectations as to what tourism activity is capable of supporting and delivering on the ground. Secondly, through this deeper understanding, the programme will strengthen cooperation and coordination in the planning and management of sustainable and responsible tourism across line agencies and between the centre and island governments. In particular, improved coordination will lead directly to stronger linkages with other industry sectors and a reduced dependency upon imports.

It is recommended to roll out a tailor made training and dialogue programme in Sustainable Tourism Development at three levels: firstly, to secretaries of key ministries; secondly, to director generals that serve as line department heads within the government ministries; and, thirdly, to key island government officials. While these three target audiences can be defined as separate target groups, strengthened coordination may also result from mixing these audiences and improving dialogue between them. Whatever the mix, the programme would be designed in such a way as *“to develop the skills of all stakeholders, encourage ongoing dialogue and support the introduction of agreed policies in various areas related to trade for development”*³²⁰. The programme will provide:

- *“A specific focus on the target audience: TrainForTrade projects for sustainable tourism are flexible, client-oriented and designed to deliver the most recent and relevant knowledge. They are underpinned by a needs assessment process (sectoral studies; identification of constraints and bottlenecks), followed by subsequent plan of actions devised with the beneficiaries.*
- *A comprehensive process: TrainForTrade projects are integrated processes, using training, advisory services and technical assistance (micro projects) to accompany developing countries towards a sustainable tourism sector.*
- *Multi stakeholder dialogue and participative decision processes: UNCTAD through the TrainForTrade programme serves as a facilitator in the policy dialogue and the decision-making process at the national and local level. It contributes to enhancing the importance of consultation and ownership for the key decisions on tourism.*

³²⁰ UNCTAD Train for Trade booklet – available at www.unctad.org/trainfortrade

- *Networking and sharing best principles: The learning techniques enable participants to exchange experiences and best practices (either during the face-to-face seminars; or through the TrainForTrade distance learning platform). These activities and the organisation of regional study tours, stimulates the creation of formal and informal networks on sustainable tourism³²¹.*

The first steps towards the delivery of such a programme would be a thorough training needs assessment, not least to identify the specific target audiences for the tiered programme, followed by a thorough adaptation of UNCTAD's generic training package and the production of a training programme unique to Cape Verde. To initiate the programme it is recommended UNCTAD representatives commence an opening dialogue at the highest levels of the Ministry of Tourism, Industry and Energy.

8.5.5 Develop An On-Line Visa System

The current visa application system for travel to Cape Verde attracts criticism from various sources including the recent AeroBusiness and Tourism thematic presentations in the framework of the GRSP III. While one or more of these sources recommend abolishing the need for visas from defined markets, this approach isn't recommended as it would also result in the loss of a valuable income stream (that might be dedicated exclusively to the development and promotion of tourism to Cape Verde). Rather it is recommended to develop an on-line e-visa system that allows: payment to be made on line; visitor data to be collected and processed for market intelligence purposes (hence it links with recommendation 1 above); and, more efficient and timely processing of visitors as they arrive into the country. Importantly, it is recommended this facility be introduced through an interactive re-vamped Cape Verde tourism promotion website, which would also be consistent with the major on-line tour operator service envisaged in the recent tourism thematic presentation. The website should be information rich depicting each island's unique qualities, available tours, accommodation and transport options as well as cultural information including options to download Cape Verdean music.

It is recommended a 3 month consultancy be initiated to review on-line visa systems developed elsewhere (USA, Australia, Cambodia) and scope the design, cost and feasibility of such an initiative for Cape Verde.

8.5.6 Review the Employment Law

Cape Verde's first employment law was enacted in September 2007. Mitchell et.al (2012) discusses the working conditions associated with employment by all-inclusive resorts. A key issue associated with employment by all-inclusives, confirmed through interviews with a number of actors, is the ability of these facilities to use rotating temporary contracts to keep employees on the pay role/roll?. This approach allows employers to minimize their obligations to their staff. Unfortunately this provides little if any job security to the employees, which is a key factor influencing their choice of low-quality of accommodation. It is recommended a 1 month consultancy be initiated to examine this issue in greater detail. The assignment should embrace: a review the employment law; interviews with the general managers of all-inclusive resorts; interviews with staff caught in the cycle of rotating temporary contracts; an assessment of the living conditions of these

³²¹ UNCTAD Train for Trade booklet – available at www.unctad.org/trainfortrade

workers; and, based upon each of these, a series of recommendations to amend the employment law to accommodate the needs and rights of both the employers and employees.

8.5.7 Include International Tourism As A Subject In The Secondary Curriculum

As noted throughout this chapter, and recognized by the Cape Verdean government, Cape Verde is a tourism dependent country and it is highly likely this dependency will increase. Travel and tourism provide more employment than any other sector and forecasts suggest they will provide direct and indirect employment for around 50% of the Cape Verde population by 2022. Given these trends and high dependency, it is recommended tourism be introduced as compulsory subject in the secondary curriculum. The aim should be firstly, to instill a broad awareness of the multi-faceted phenomenon that is the modern international tourism industry among its future participants and workforce – and, in so doing, create a platform and foundation from which technical, vocational and professional training can be developed and built upon. It is suggested such a curriculum be introduced in the first year of secondary school, with options to specialize in particular sub-sectors of the industry in the final two years of secondary education. Such specialisms might include responsible tourism, community-based tourism, hotel management, tour operations, tourism and transport etc.. It is recommended a 6-month consultancy be initiated to work with the Ministry of Education and Sports to: review and collect samples of tourism courses in secondary curriculums in other countries; develop a framework for introducing tourism as a compulsory subject in the secondary classroom; develop the core components and subject areas of a tourism course or courses; assess teaching training needs to enable courses to be taught in the secondary classroom; and, develop a training of trainers programme to impart the teaching skills necessary to introduce tourism courses in to the classroom.

8.7 Annex 1 – Tourist Survey

TOURIST SURVEY TO INFORM AND HELP PREPARE A CAPE VERDE TOURISM STRATEGY AND MARKETING PLAN

YOUR COOPERATION IS HIGHLY APPRECIATED

No: _____
Date: _____ / _____ / 2012
Location: _____
Surveyor: _____

We would like to invite you to participate in this survey, so that we can gather information to help develop and promote a sustainable tourism industry in Cape Verde. Your responses will help to identify opportunities and gaps that will enable the government and the private sector to improve their service delivery to you, the traveller and to those that deliver the travel experience.

All responses will be totally confidential.

1. In Cape Verde, are you travelling (please tick the appropriate box):

- Alone (independently)*¹ *Independently with family*⁴ (# people ____)
 *Independently as a couple*² *On an all-inclusive tour*⁵ (# people ____)
 *Independently with friends*³ (# people ____) *Other (please explain)*
_____)

2. What was your primary reason for visiting Cape Verde on this occasion? (Please tick the appropriate box)

- Visiting friends/relatives*¹ *Holiday*² *Business*³ *Education*⁴
 *Volunteer work*⁵ *Conference/meeting*⁶ *Shopping*⁷ *Festival*⁸
*Other*⁹ _____

3. Did you obtain your visa on arrival, or before you arrived?

- Visa on arrival*¹ *Obtained visa before arriving*² *Don't know/not sure*³

4. How long did you stay in Cape Verde on this trip? _____Nights

5. Is this stay in Cape Verde part of a multi-country tour? Yes¹ No² Unsure/don't know³

6. If Yes, What other countries are included on this trip?

*Before Cape Verde*¹ _____

After Cape Verde² _____

7. How many times in total, (including this trip) have you visited Cape Verde?
 _____ Times

8. How did you arrive in Cape Verde?

Air¹ Water²

9. If by Air, which airline did you use? _____

10. Please rate your level of satisfaction with each of the following (please circle)

Products & Services	😊		😐		☹️	NA
1. Choice of different activities/things to do	1	2	3	4	5	0
2a. Ease of access of cultural/historic attractions	1	2	3	4	5	0
2b. The presentation of these cultural/historic attractions	1	2	3	4	5	0
3. Ease of access of natural attractions	1	2	3	4	5	0
3b. The presentation of the natural attractions	1	2	3	4	5	0
4. Availability of local / traditional cuisine	1	2	3	4	5	0
5. The variety of restaurants/food choices	1	2	3	4	5	0
6. Choice of transport options to destinations	1	2	3	4	5	0
7. Cleanliness of transport options	1	2	3	4	5	0
8. Value for money - accommodation	1	2	3	4	5	0
9. Value for money - tours/travel	1	2	3	4	5	0
10. Value for money – local food & beverages	1	2	3	4	5	0
11. Availability of information on destinations in Cape Verde	1	2	3	4	5	0
12. Overall service - hotels	1	2	3	4	5	0
13. Overall service - restaurants	1	2	3	4	5	0
14. Overall service - tour operators/travel agencies	1	2	3	4	5	0
15. Overall service - tour guides	1	2	3	4	5	0

11. Approximately how much money did you spend on each of the following in the last 24 hours? (\$US)

US\$ _____ Local transport (e.g. taxi, bus)¹

US\$ _____ Hired transport (self-drive motorbike, bicycle etc.)²

US\$ _____ Meals and snacks³

US\$ _____ Drinks⁴

US\$	<i>Activities/Tours⁵</i>

US\$	<i>Local guide⁶</i>

US\$	<i>Tips⁷</i>

US\$	<i>Accommodation⁸</i>

US\$	<i>Shopping – souvenirs – markets/informal sellers⁹</i>

US\$	<i>Shopping – souvenirs – retail shops¹⁰</i>

US\$	<i>Shopping – personal use – markets/informal sellers¹¹</i>

US\$	<i>Shopping – personal use – retail shops¹²</i>

US\$	<i>Entrance fees¹³</i>

12. *Excluding accommodation, what is your estimated average spending per day in Cape Verde?* US\$ _____

13. *What goods/services would you have liked to have purchased that were not available in Cape Verde?*

- | | |
|-------|-------|
| 1. | 4. |
| ----- | ----- |
| 2. | 5. |
| ----- | ----- |
| 3. | 6. |
| ----- | ----- |

14. *What would you have liked to have done that was not possible/available in Cape Verde?*

- | | |
|-------|-------|
| 1. | 4. |
| ----- | ----- |
| 2. | 5. |
| ----- | ----- |
| 3. | 6. |
| ----- | ----- |

15. Please rate your level of interest in Cape Verde for each of the following (please circle)

	Very Interested	Interested	Not very Interested	Not interested at all	NA
1. Learning about Cape Verde culture/history	1	2	3	4	0
2. Learning about Cape Verde nature & wildlife	1	2	3	4	0
3. Opportunities to interact with local people	1	2	3	4	0
4. Opportunities to try local food	1	2	3	4	0
5. Local handicrafts/products	1	2	3	4	0
6. Buying souvenirs	1	2	3	4	0
7. Water sports	1	2	3	4	0
8. Hiking/trekking	1	2	3	4	0
9. Boat journeys	1	2	3	4	0
10. Visiting national parks / protected areas	1	2	3	4	0

16. Would you recommend others to visit Cape Verde? Yes¹ No² Not sure³

17. If yes, why?

If no, why not?

18. How did you receive information about Cape Verde, before arriving in the country? (you can select more than one answer)

- Radio¹ Television² Newspaper³ Magazine⁴
 Internet⁵ Travel brochure⁶ Tour operator⁷ Guidebook⁸
 Word of mouth/other travellers⁹ Other¹⁰ _____

19. What are the 3 things you have enjoyed most about Cape Verde?

1. _____

2. _____

3. _____

20. What are the 3 things you disliked most about Cape Verde?

1. _____

2. _____

3. _____

Demographics

21. Your approximate age:

- < 25 years¹ between 25 and 34 years² between 35 and 44 years³
 between 45 and 54 years⁴ between 55 and 64 years⁵ > 65 years⁶

22. What is your Gender (Please tick one): Male¹ Female²

23. What is your profession?

24. Where do you currently reside? Country¹ _____

Post/Zip Code² _____

25. What is your Nationality?

26. What is the highest level of education that you completed?

- Grade School/Primary School High School
 Vocational/Trade/Technical School, College or Institute University
 Post Graduate Other _____

27. Where did you enter Cape Verde (airport/port)? _____

28. Where will you exit Cape Verde (airport/marina)? _____

29. If we need further assistance, can we contact you in the future?

Yes¹ No²

30. If 'yes', how should we contact you?

By phone (number)_____

By email (address)_____

**31. And finally, please draw your route throughout Cape Verde, on this map.
(If you will only visit one location, please just circle this location).**

Thank you for your assistance.

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Cape Verde Diagnostic Trade Integration Study Update – 2013

ANNEX A: CASE STUDIES

CAPE VERDE

National Implementation Unit, Enhanced Integrated Framework-Cape Verde, Ministry of Tourism, Industry and Energy (MTIE) Rep. Cape Verde



CASE STUDY – FOGO CHÃ WINES

CASE STUDY - CHÃ WINES

Objectives of the Study

The purpose of this case study is to identify the steps that were taken to successfully develop the wine industry in Cape Verde, with a specific focus on the case of Vinhos da Chã (wines of Chã das Caldeiras). The case is also forward looking and makes specific, detailed recommendations about which target markets to focus on and what additional steps could be taken to drive significant new growth in wine exports.

In addition, the case offers general lessons which may be applicable to growing exports of agricultural products in Cape Verde.

Situation of the Case

Summary

Produced from grapes grown inside the crater of an active volcano, Chã Wine has been an unexpected sensation and a successful business undertaking that is driven by community-based cooperation. Organized around a group of small, independent producers in the remote community of Chã das Caldeiras, in the crater of a still-active volcano on the Island of Fogo, Chã Wine has not only gained considerable following in the domestic market but is also well received in international tasting events and can be found on store shelves as far away as Germany and the United States.

Chã das Caldeiras, Fogo, Cape Verde

Chã das Caldeiras is a small community of approximately 1,000 inhabitants, situated within the crater of the active volcano, Pico do Fogo, on the island of Fogo, Cape Verde. Chã's climate and terrain are optimal for viticulture. Days are usually hot and dry, nights cool and humid. With sufficient rain, high-quality, semi-sweet grapes grow (1.2 km² total) in the caldera's rich volcanic soils.

Wine History and Characteristics

Viticulture in the region dates back to late 1880s, when legend has it that an eccentric Count of Montrond, France stopped off on the island en route to Brazil carrying vines. From the standpoint of a business enterprise commercializing wine in the domestic and international markets, wine production in Chã, and in Cape Verde as a whole is a relatively recent phenomenon that was started by the Chã Wine Cooperative. Traditional and artisanal wine making, however, has been characteristic of the island over the ages.

The red wine, vinho tinto, made from the low-lying Portuguese “preta tradicional” variety of grapes, has a dark red color with shades of purple. Odors include tones and flavors of small, dark fruits like the currant or blackberry. This sensation is enriched with shades of pepper and Muscat nut. The white wine, vinho branco, made from locally-grown Moscatel grapes, has a fresh taste, unique clarity, and golden

shades. Odors include that of semi-sweet citric fruits like the grapefruit. The rosé wine, vinho rosé, uses a similar variety of dark grapes as the red. It has an elegant rose color with flavors of small, sweet fruits like currants and strawberries.

Chã's best-known wine, however, is called Manecon, a traditional, semi-sweet or dry, house-made wine. Most households make Manecon for commercial production and personal consumption, but it is not exported. The wine can either be a red or white, dry or sweet, but the sweet red variety is by far the most popular.

Chã Wine is a rare vintage; it is only one of very few wines produced from vines cultivated on the slopes and crater of an active volcano. The percentage of alcohol in the "Chã" wines (14%) is greater than what is typically found in wines from the EU or California (usually between 11.5-12.5%).

Quality control and sanitary standards have been critical ingredients in the success of Chã Wine. During the wine-making process, much attention is given to the hygienic conditions of the cellar and machines. After arrival, the grapes are cleaned and are either crushed (to make red wine) or pressed (to make white and rosé). This process is done as quickly as possible to prevent contamination and odor. The pulp is then put in specially-designed barrels in the cellar, where the temperature remains cool even during the hottest days, to begin the fermentation process. This is when the sugar of the grapes turns to alcohol and where the unique characteristics of the wine begin to develop. Until the wines are bottled, they remain in barrels (to avoid exposure to sunlight and air), except for periodic filtrations to improve clarity.

Associação dos Agricultores de Chã/Chã Wine Cooperative

The main organizing body in the village is the Associação dos Agricultores de Chã (the agricultural cooperative) which holds considerable sway over the local economy. Chã is the only area in Cape Verde that grows significant quantities of grapes and produces export-quality wines. In fact, the structure of the Associação dos Agricultores de Chã has much to do with why it has had so much success in producing and marketing the Chã wine. While the association is registered as a cooperative, and thus has access to all of the benefits that fall to cooperatives under the country's laws, the President of the association (and the de factor owner) is actually an extremely centralizing figure that is responsible for making all of the decisions of the cooperative. No democratic decision-making process actually exists. Thus far, this figure has also managed to make smart and tough decisions with no real interference from the cooperative members. In truth, the cooperative functions more as a social enterprise, where decisions are taken at the top management level but the social and economic benefits have still been distributed (in the form of a market for products they produce) to the farmers in the community.

Assistance from COSPE and Other International Partners

Since the early 1980s, the Chã Cooperative has received technical and other forms of assistance in wine-making from parties outside of Cape Verde. A group of Germans initially helped, but unsuccessfully, as the efforts were not specifically focused on wine-making but rather on the growth of a variety of agricultural products (including grapes).

Then in 1998, the Cooperative received assistance from an Italian NGO, Co-operation for the Development of Emerging Countries (COSPE). COSPE is a non-profit Italian association operating in the field of international co-operation and solidarity. COSPE operates in Africa, Latin America, Asia, the

Mediterranean and Eastern Europe in projects that promote economic, environmental and social development. It supports the promotion of farming, craft and service industries through training, technical support and the creation of credit funds.

The more focused and deeper assistance from COSPE in the areas of finance, technical support and marketing proved to be a catalyst in increasing the production and export of Fogo wines.

Business Fundamentals

The Cooperative is a collection of agricultural operators who grow grapes (and other crops). The number of members of the Cooperative has increased from 7 in 1998 to around 103 in 2012. However, about 80-90% of the grapes are produced by 18 of the members. The most well known brands produced by the Cooperative are “Chã do Fogo” and “Sodade” wines.

Most of the wine produced in Chã is consumed locally with a small amount exported. Of the limited amount of exported wine, a majority goes to Portugal. A smaller portion of the exports go to the USA where they are imported and distributed by Arlindo Correia, owner of the Restaurant Laura and of the liquor store, Cape Verdean Liquor & Wine Cellar. The brands, Sodade and Chã, were exhibited for the first time at the Boston Wine Festival (the biggest wine exposition in the world) in early 2012 by Correia.

Summary of Actions Taken

The actions which appear to have helped in the success of the Cooperative include:

- The creation of the Cooperative itself to coordinate efforts of wine growers in Chã and to take advantage of the exemptions from import duties on equipment and from income taxes thus lowering production costs;
- The acceptance of outside aid especially from COSPE in the areas of finance, technical support in the growing of grapes and increasing the quality of the wine produced;
- Basic marketing efforts with the production of various COSPE pamphlets;
- Personal interest from a few Portuguese entrepreneurs in the distribution of wine in Portugal;
- Interest from a Cape Verdean immigrant in the USA for distributing Chã wines in the local Boston area through his personal distribution network (restaurant and liquor store).

Summary of Results (Total Production and Exports)

The Cooperative has experienced rapid growth in cultivation of grapes and the production of wine. In 1998, there were 7 members in the Cooperative and 4,000 liters of wine were produced. By 2005 there were 29 members and 35,000 liters of wine were produced. By 2006, the production of wine had climbed to 60,000 liters from 62 members. In 2011, 106,000 liters were produced by the 107 members of the cooperative. Other sources suggest that total wine produced in Cape Verde in 2011 was 160,000 liters.

Summary of Challenges

Despite the historical success, there are several challenges faced in the quest to dramatically increase the production and export of Cape Verdean wines. These include:

- The Cooperative itself lacks a democratic leadership structure and is highly centralized; however, paradoxically, a large part of the success of the cooperative is due to this centralized leadership, though it does not reflect or embody the spirit of cooperativism nor does it offer us, as it relates to leadership, lessons that can be applied to true existing cooperatives;
- The wines of Cape Verde lack strong branding in the international marketplace;
- Wine distribution is very complex in most of the large international markets of high consumption and is controlled by small networks of distributors where access is difficult to gain and where distributions costs can be quite expensive;
- The Cooperative lacks the resources to maximize their production and achieve a scale to supply larger markets in consistent volumes;
- With an improved scale structure, the Chã wines have the potential to be price competitive when in competition with similar quality wines coming from the exterior. Among less discerning consumers, in the local market it is often in price competition with cheap, subsidized wines from Portugal and other EU markets, despite the high import duties faced by the imports. With discerning consumers, Chã does not face much competition in the local market, especially given its appeal to the nationalist markets.
- The use of modern marketing techniques is lacking in the approach of the Cooperative;
- The Cooperative does not appear to have well-defined external target markets beyond the Diaspora markets;
- The Cooperative does not seem to have reached the stage where they have found it necessary begin developing a specific export strategy but appears to be focused primarily on the growing of grapes to be used in the process of wine-making.

The Global Wine Industry

Countries Ranked by Production by Segment

In 2010, the total global production of wine totaled approximately 26.2 million tons, with Italy and France being the top producers with about 4.6 million tons each or 17% each of the global total, followed closed by Spain with 3.6 million tons. The top ten countries captured 83.5% of the global wine production in 2010 (see Appendix 1).

Countries Ranked by Exports and Imports

Of course, the wine produced by a country is not all consumed there. As seen in the 2009 global statistics, about one-third of the wines produced in the global market are exported to other countries. However, about 84% of the exports are dominated by the top 10 wine exporting countries including: Italy, Spain, France, Australia, Chile, South Africa, United States, Germany, Argentina and Portugal (see Appendix 2). Not surprisingly, 9 of these 10 exporters are among the top 10 world producers.

One unmistakable conclusion in this data is that there are two ways to tap into the market for wine exports. One way is to focus on the biggest import markets. This may be a feasible way for the biggest wine producers who have the capacity to compete and meet the high demands of the biggest markets for consumption.

The other approach, which is more subtly suggested by the data but seems quite logical, is to execute a niche strategy that focuses on lesser known import markets where wine is not produced but consumed.

This second strategy thus requires that we closely examine global per capita consumption patterns across countries. We look at that data in the following section.

Countries Ranked by Consumption

Rather than look at all of the 220 countries ranked by annual per-capita consumption (2010 data), we have instead applied certain criteria which would allow us to identify those countries and regions which represent realistic opportunities for export of wines from Cape Verde.

The criteria were as follows: 1) exclusion of countries with negative growth in wine consumption over the 2007-2010 period; 2) exclusion of countries where the population is too low (under 40,000) or too high (over 100 million); 3) exclusion of countries where the per-capita consumption is less than 0.5 liters per year; 4) elimination of saturated markets where the annual per-capita consumption exceeds 15 liters regardless of population size, or where the population exceeds 10 million and the per-capita consumption exceeds 10 liters.

After applying these criteria, 42 countries remain of the original 220 and are spread across all regions of the globe (see Appendix 4).

Competitiveness Issues

While pricing is an important competitive factor in gaining broad consumer acceptance, there is still a wide open space for niche marketing especially in new world markets where consumers are unfamiliar with wine brands or where there are special consumer segments to whom a unique niche story can be pitched.

Wine Distribution Around the World

Types and Characteristics of Distribution Networks

There are typically two types of distributors - those which focus on distribution of locally produced wine, and those which are focused on the distribution of imported wines. And certainly, there are distributors who supply both local and imported wines to retailers.

Retailers advertise and sell wines to the public, and distributors often assist or help fund the advertising efforts. Wine retailers come in many varieties including supermarket chains, department stores, small retailers, airlines, liquor stores, online retailers, and in some cases, wine producers themselves and distributors themselves may also be retailers. The variety may be influenced by local regulations regarding who may sell alcohol.

Requirements for Accessing Distribution Channels

In the case of successfully exporting wines, the key is access to the distribution channels or to retailers. However, it is much easier said than done. Often, especially in the more mature markets, such as the United States, the distribution channels are dominated by a few large distributors who often command substantial "slotting fees" to place products in the array of selections that retailers can choose from.

In addition, in the more sophisticated markets, wines must achieve certain ratings of quality and taste before they are highlighted by distributors or even retailers.

Regulations in various countries may also require that foreign wines obtain specific licenses before the wines can be distributed within local markets.

The price at which a wine is offered will determine into which competitive category the wine will fall. For less well known wines, it is difficult to compete in the higher price rangers where well known brands may dominate. However, being placed into the lower price category will mean that a wine may become lost among hundreds of competing labels and there are clear implications for the margins that a producer will realize when the wine produced must be priced cheap.

Import duties may also be set by certain countries at levels that are meant to protect the local grape growers and local wine producers. These duties will clearly make the imported wines less able to compete with local brands or may even make certain markets entirely unviable.

Certain markets or regions may have unique attributes that may create barriers to entry or barriers to success. For example, in the Asian region, there are major barriers related to the building of strong, personal relationships with the distributors. Distributors in some African countries are reputed to be extremely unreliable as partners and thus the distribution networks are weak.

In the end, access to distribution is one of the critical factors but at the same time, it may be extremely difficult for Cape Verde's wine producers to access those channels in the more developed wine markets because of distributor control as well as competitors with deep resources.

The Local Wine Industry (Cape Verde)

Comparison to Global Markets

With 160,000 liters produced in 2011, Cape Verde's wine production represents less than 1/1000 of 1% of global wine production, and even if all the production could be exported, it would represent less than 0.002% of the global market for exports. This level of production is infinitesimally small and thus it is necessary to approach the challenge of wine exports from Cape Verde from a much different perspective than capturing recognition on a global scale. Instead, we must think of very specific markets, even small or unknown markets, as potential opportunities.

Cape Verde itself is a net importer of wines. With annual per-capita consumption of about 4.0 liters, it is implied that about 1 million liters of wine are consumed in Cape Verde while only 160,000 liters are produced. There is a clear implication that Cape Verde's local market may be a significant opportunity for Cape Verde's wine producers since more imported wines are sold than the entire local production. The key from an "export" standpoint is whether local wines sold locally can be sold to foreigners who spend foreign exchange.

Capacity to Compete in the Global Market

Cape Verde possesses some of the attributes that are necessary to compete in the global wine market. In particular, it has favorable factors of soil, site and climate in Fogo that influence wine quality.

The technical expertise is also present within the local wine producers resources much of this having been leveraged with the aid of foreigners upon their arrival.

However, the two critical areas where the capabilities are lacking are scale and marketing. Scale is a critical factor in being able to compete on the basis of price and financial margins. But there is extremely limited capacity to expand the growth of quality grapes in Fogo or anywhere else in Cape Verde. Thus Cape Verde wines will never be able to compete on the basis of price and supply in the world market.

This leaves niche marketing as one of the key development factors needed by Cape Verde's wine industry in order to successfully crack the export markets.

Recommendations/Finding A Way Forward

A Strategic Approach – Niches in Small Markets

As noted in the analysis of the global wine market, Cape Verde is too small to register on the global wine production charts. The country's wine industry lacks the scale, the brand and access to distribution that is necessary to compete head-to-head in the large wine import markets.

However, we noted that there is a second strategic approach: half of the world's wine exports are consumed over a broad range of wine consumption markets. It is thus necessary to identify smaller markets (that is, markets which exclude the historical old world producers and the larger new world markets) because the barriers to entry may be much lower and the consumers less sophisticated and less set in their preferences. This is a niche strategy.

We thus suggest a focus on smaller, emerging markets which have relatively high or growing consumption patterns, i.e., where the consumers are beginning to cultivate a relationship with wine.

A review of the global consumption patterns (Appendix 4) indicate that examples of markets which may be receptive to wine imports from Cape Verde exist in all regions of the world. In particular, by focusing on the countries with stable regimes and strong or growing wine consumption, we see possibilities in the following regions and countries:

- Africa: Sao Tome & Principe, Tunisia, Mauritius and Ghana;
- South & Central America: Panama;
- Asia: Hong Kong, Mongolia and Malaysia;
- Caribbean: Aruba, Netherland Antilles, St. Lucia, Dominican Republic and Cuba;
- Eastern Europe: Poland;
- Western Europe: Norway and Finland.
- Middle East: UAE and Qatar

Of course, it is not necessary to attempt to access every single one of these possible markets. Further analysis is necessary to identify which of these would provide the highest possibilities for successful and profitable exports. The list is simply a way to sharpen the strategic focus. The key would be to identify

which of these markets are likely to lead to potential success most rapidly via a process of deep analysis.

For example, in Cuba, almost 7 million liters of wine were consumed in 2010. If Cape Verde wines could capture only 1% of the Cuban market, this would represent over 40% of Cape Verde's entire wine production and could lead to a significant increase in exports. The point in this case, or in any other case, is to analyze that country's wine market more deeply including social norms, wine preferences, import duties, regulatory structures, distribution, retailer types, competitive landscape and the types of marketing and advertising channels that are used to reach end-consumers. All of this must clearly be done within the context of financial feasibility for the producers.

Thus, a very rigid and specific process of market selection and analysis can be used to assess and prioritize potential target export markets for Cape Verde's wines. Financially feasible execution strategies can then be developed to pursue such high priority targets.

Obtaining the necessary research data and developing strategies for the selected markets would also mean that the Chã wine producers would have to make contact with Wine Associations or Chambers of Commerce in the target countries in order to develop the necessary contacts and business relationships.

A Strategic Approach – Niches in Large Markets

At the same time, it is probably reasonable to look at the possibility of finding niches in the more established, larger markets where a branding strategy focused on the story and unique attributes of Cape Verde wines may have some appeal. In particular, niches where a wine from an African country (very young market), with a unique combination of quality attributes of soil, site and climate (associated with a volcano), and a unique social context (alleviation of poverty) may form a powerful niche-marketing story.

There is one example of a wine brand from South Africa which successfully entered niche markets in the United States and England. The wine brand is M'hudi and it shares similar characteristics with Fogo wines in terms of its historical development (technical expertise, wine quality) and current capacity to produce (scale).

The M'hudi brand was picked up by Heritage Link Brands, a US-based importer and distributor of African wines that are marketed to African Americans and other target consumers in the USA. Outside of Heritage Links, M'hudi was unable to crack the general distribution channels in the USA because of an inability to price its wines competitively.

The two companies, M'hudi and Heritage Links, met at the Soweto Wine Festival. This venue may be an interesting place for Cape Verde wine producers to meet foreign distributors who have a particular interest in wines from Africa (of which there are very few outside of South Africa).

M'hudi also developed a distribution relationship directly with the retailer, Marks and Spencer's in England which now represents about 50% of its exports. And, M'hudi Wines is sold on several international airlines such as Swiss Air, British Airways, and United Airlines. And it is also sold in Disney's Epcot Center.

In addition, there are several markets where relatively large diaspora communities can be found including certain areas in the United States, Portugal, Holland, France, Senegal, Italy and Germany

among other countries. Relative to the amount of wine produced in Chã, successful development of a selected few of these diaspora-markets could provide a significant boost to exports of Chã wines. However, care should be taken not to spread export resources thin since there are many diaspora markets and they may be spread out over various communities in foreign countries. Finally, it should not be assumed since these consumers have Cape Verdean roots that they do not need to be effectively marketed to – in these larger foreign markets where Cape Verdean expats live, it should be remembered they have access to many competitive alternatives.

Vinitourism

There are potential opportunities for local producers to sell their wines to foreigners. With half-million tourists visiting Cape Verde annually, especially from the old world wine countries with mature wine audiences, there is a huge latent market in tourism.

Even in highly developed wine markets, many of the wine producers engage in a relatively new business model called vinitourism in order to further increase their wine sales. In this case, producers partner with the travel industry operators to sell tour packages that include the consumption and enjoyment of wine. In this way, a portion of the pre-packages tourism in the country is generated by the wine industry. In addition, because the source of most of the wine is Fogo, there may be an opportunity to significantly increase tourism to Fogo and Brava.

Leveraging Social Media to Promote Cape Verde's Wines

Cape Verde's wine industry has no presence on social media. There is no website. There is no Facebook page (until recently [Facebook.com/capeverdewine](https://www.facebook.com/capeverdewine)). Essentially, the Cape Verde wine industry does not exist outside of Cape Verde because no one can find any information about it. This is the problem that arises due to a lack of organization and effective marketing. It also suggests that not even one person among government organizations, private organizations or individuals in Cape Verde have taken sufficient interest in promoting the wines of the country, an effort that might take only a few minutes to initiate and mere hours to complete. To the extent that the product is able to garner enough external demand without the reciprocal increase in production, the result could be an increase in price that would limit domestic consumption.

There are thousands of examples of the effective use of web technology and social media to promote wines at either the national level. Here is an example of a Facebook page promoting New Zealand wines [Facebook.com/newzealandwinegrowers](https://www.facebook.com/newzealandwinegrowers). Here is an example of a website for a small wine producer Destinybaywine.com/intro.html. These are good examples of simple but effective marketing efforts aimed at educating and raising awareness among consumers. But make no mistake, this information will also be found by industry participants in other parts of the business chain who are seeking information.

Role of a Local Wine Producers Association

A local cooperative of agricultural producers is a basic necessity to effectively organize, coordinate and aggregate the activities of small farmers. But it is certainly not sufficient. However, it appears that this is where the efforts of the Associação dos Agricultores de Chã and other cooperatives in Cape Verde stop. Much more needs to be done and could be done. Cooperatives should think and act in ways that extend well beyond coordination of agricultural output. They must also provide leadership in the areas business

acumen for the industries the agricultural products they represent, most notably in the research, analysis and marketing exploitation of world markets.

Industry cooperatives should coordinate with certain government institutions to obtain assistance in the leadership areas needed for success. For example, technical resources at INE could provide assistance in the areas of research and analysis; resources at ADEI could provide assistance in the area of strategic planning.

Cooperatives can also undertake the job of effective marketing – educating potential buyers, telling a story that differentiates the product, and using effective channels of communication (including social media) for disseminating the information.

The business structure of such a cooperative could take the form of partnerships where local and foreign investors, as well other NGOs and cooperative members could provide the investments and resources necessary to achieve success. The participants then receive dividends from their particular share in the cooperative. However, there may be constraints on how much and how fast wine production might expand given the limits of hard resources such as land and water for growth of grapes.

Participation in International Wine Tourism and Wine Conferences

Cape Verde's wine producers should be more proactive in finding suitable targets for their wines. Access to consumers is highly dependent on distributors. While there is a tendency to think in terms of finding retail consumers, the producers must think more in terms of finding distributors.

Cape Verde is an African country. It should seek distributors who are interested in African wines. These distributors will naturally be found exploring wine conferences in Africa, not in Europe or the United States, even though they may originate from those locations. Cape Verde's wine producers should therefore participate in wine conferences and exhibitions in Africa and focus not on selling wines for a few days to the consumers who pass through, but instead on developing relationships with distributors who are interested in wines from Africa.

In addition, Cape Verde should think of its own backyard as a source of exports as discussed under the topic of vinitourism.

Finally, given the country's dual capabilities in viticulture and tourism, Cape Verde's wine producers should participate in international wine tourism conferences with a goal of developing relationships with tourism industry operators who can create wine tourism packages aimed at Cape Verde and Fogo in particular.

General Lessons Applicable to Export of Agricultural Products from Cape Verde

There are numerous lessons from this case that can be applied to increase the growth of exports from the agricultural industries of Cape Verde:

- Most importantly, the use of cooperatives to organize, coordinate and aggregate the activities of small farmers is a basic essential since the cooperative can be much more effective and thus greater than the sum of its individual participants, but it is not sufficient. In fact, the model in

Chã das Caldeiras functions more as a social enterprise than a true cooperative, and this is the secret to the success it has had thus far. It has a centralized system for decision-making and management, but all members are invested in the success of the organization as they can garner direct benefits from this success. The Chã model suggests that it will be important to develop a special regime that encourages social the development of an increasing number of social enterprises in the Cape Verdean economy. The social enterprise model is especially suited for combatting the challenges inherent in operating in the Cape Verdean economy as it can combine the social elements of cooperativism with the efficiency of an enterprise with effective centralized leadership.

- Cooperatives should think and act in ways that extend well beyond coordination of output.
- Technical expertise on a world-level must be applied to the agricultural industries in order to assure that Cape Verde's producers keep up to date with the worldwide competitive production technologies and developments, while ensuring that the technical characteristics that make the product unique and value-add are not lost.
- Capital must be invested in the industry in order to pre-fund ultimate business results; this is not without risk and thus clear strategic analysis and viable plans must exist for exploitation of global markets.
- Industry cooperatives should coordinate with certain government institutions to obtain assistance in the leadership areas needed for success.
- On the global level, Cape Verde is an extremely small player – it is not necessary to think in terms of competing head-to-head in the largest markets against formidable competitors, especially in terms of pricing (the biggest players enjoy economies of scale that Cape Verde could never hope to match because of its limited capacity to produce).
- Cape Verde's producers must be more astute and knowledgeable about world markets, especially smaller, niche markets where there may be more realistic opportunities to export its products; this requires strong research and analysis capabilities.
- Local producers and cooperatives must do an excellent job of marketing.
- Sale of raw agricultural products to export markets may not be the best or only route to export products since there are two formidable barriers: 1) agricultural products are typically susceptible to spoilage and time is of the essence; 2) competition for raw materials in world markets tends to be based on price, all other things equal, and this is an area where Cape Verde's producers cannot compete because they lack scale.
- By-products of agricultural products may better lend themselves to competing in world market niches where differentiation is more likely and where marketing techniques can be effectively applied to attract buyers. For example, does it matter if bananas are exported in the form of raw fruit or in the form of banana bread, if the result is the ultimate sale of bananas into the export market chain?
- With hundreds of thousands of foreign tourists visiting Cape Verde annually, the tourist market may be a viable way to "export" Cape Verde's agricultural products and earn foreign currency. This requires a strong marketing capability and partnership with foreign tour operators who can promote the story to tourists in advance of their arrival in Cape Verde.
- Partnering with entrepreneurs in diaspora communities may represent an avenue for exports to Cape Verdean communities in foreign lands.

APPENDIX 1 – GLOBAL WINE PRODUCTION

Country	Production (tonnes)		Production Share	
	1980	2010	1980	2010
Italy	8,654,500	4,580,000	24.6%	17.5%
France	6,971,100	4,541,820	19.8%	17.3%
Spain	4,240,200	3,610,000	12.0%	13.8%
United States	1,800,000	2,211,300	5.1%	8.4%
China	80,000	1,657,500	0.2%	6.3%
Argentina	2,349,000	1,625,080	6.7%	6.2%
Australia	414,237	1,133,860	1.2%	4.3%
South Africa	706,872	921,700	2.0%	3.5%
Chile	586,000	915,238	1.7%	3.5%
Germany	486,723	720,000	1.4%	2.7%
Portugal	1,029,040	587,200	2.9%	2.2%
Brazil	199,602	362,200	0.6%	1.4%
Greece	449,900	303,000	1.3%	1.2%
New Zealand	46,647	189,800	0.1%	0.7%
Austria	308,642	176,745	0.9%	0.7%
Hungary	569,440	175,526	1.6%	0.7%
Bulgaria	409,200	145,000	1.2%	0.6%
Romania	759,900	125,450	2.2%	0.5%
World	35,232,799	26,216,967	100.0%	100.0%

Source: <http://faostat.fao.org/>

APPENDIX 2 – GLOBAL WINE EXPORTS

Country	Exports (tonnes)		Share	
	1980	2009	1980	2009
Old World				
Italy	1,466,930	1,918,410	33%	22%
Spain	545,881	1,457,610	12%	17%
France	887,266	1,215,990	20%	14%
Germany	185,084	349,530	4%	4%
Portugal	161,480	230,903	4%	3%
Hungary	209,215	72,675	5%	1%
Austria	47,148	71,854	1%	1%
Bulgaria	271,005	54,224	6%	1%
Greece	25,502	30,434	1%	0%
Romania	103,100	10,888	2%	0%
Sub-total	3,902,611	5,412,518	87%	62%
United States	29,308	397,397	1%	5%
New World				
Australia	6,106	771,949	0%	9%
Chile	14,509	691,823	0%	8%
South Africa	12,500	429,299	0%	5%
Argentina	10,728	297,060	0%	3%
New Zealand	473	128,555	0%	1%
Sub-total	44,316	2,318,686	1%	27%
World	4,493,364	8,734,609	100%	100%

Source: <http://faostat.fao.org/>

APPENDIX 3 – GLOBAL WINE IMPORTS

Country	Imports (tonnes)		Share	
	1980	2009	1980	2009
Germany	1,039,170	1,411,070	23%	17%
United Kingdom	351,692	1,102,910	8%	13%
United States	367,990	926,883	8%	11%
France	667,092	576,715	15%	7%
China	129	184,219	0%	2%
Portugal	62	160,308	0%	2%
Italy	19,449	143,207	0%	2%
Austria	22,379	62,238	0%	1%
Australia	6,781	61,596	0%	1%
Brazil	5,948	59,209	0%	1%
World	4,561,364	8,326,456	100%	100%

Source: <http://faostat.fao.org/>

APPENDIX 4 – GLOBAL WINE CONSUMPTION IN SELECTED MARKETS

Region	Country	2009	2010	3-Year
		Population 000's	Annual Liters Per Capita	Annual Growth
AFR	Sao Tome & Principe	212,679	13.2	4.8%
AFR	Gabon	1,514,993	5.9	0.5%
AFR	TUNISIA	10,486,339	2.2	1.7%
AFR	Mauritius	1,284,264	2.1	1.4%
AFR	Benin	8,791,832	1.2	50.1%
AFR	Congo	4,012,809	1.1	29.5%
AFR	Ghana	23,887,812	0.9	35.5%
AFR	Burkina Faso	15,746,232	0.6	78.4%
AFR	Zimbabwe	11,392,629	0.5	953.4%
AMS	PARAGUAY	6,995,655	5.2	1.7%
AMS	Panama	3,360,474	2.0	14.5%
AMS	PERU	29,546,963	0.6	16.5%
ASIA	Melilla	73,400	14.8	7.6%
ASIA	Hong Kong	7,055,071	6.5	95.0%
ASIA	Singapore	4,657,542	5.5	1.8%
ASIA	Maldives	396,334	2.5	21.7%
ASIA	Mongolia	3,041,142	0.6	44.6%
ASIA	Malaysia	25,715,819	0.5	69.8%
CAR	Aruba	103,065	12.9	22.4%
CAR	Netherlands Antilles	227,049	12.3	30.6%
CAR	St. Lucia	160,267	9.0	9.2%
CAR	St. Kitts and Nevis	40,131	4.1	42.6%
CAR	Grenada	90,739	3.1	14.4%
CAR	Costa Rica	4,253,877	1.3	6.4%
CAR	Dominican Republic	9,650,054	1.0	8.5%
CAR	Puerto Rico (US)	3,725,000	0.6	37.1%
CAR	Cuba	11,451,652	0.6	22.9%
EUE	SLOVAKIA	5,463,046	11.9	5.7%
EUE	ESTONIA	1,299,371	10.0	30.0%
EUE	MACEDONIA	2,066,718	6.3	4.0%
EUE	LATVIA	2,231,503	5.7	7.6%
EUE	BELARUS	9,648,533	5.5	0.0%
EUE	LITHUANIA	3,555,179	5.3	5.0%
EUE	ALBANIA	3,639,453	5.0	0.0%
EUE	POLAND	38,482,919	2.1	14.0%
EUE	UZBEKISTAN	27,606,007	0.7	2.0%
EUW	NORWAY	4,660,539	14.7	2.7%
EUW	FINLAND	5,250,275	11.5	8.4%
EUW	Faroe Islands	48,856	6.3	2.2%
MDE	LEBANON	4,017,095	3.5	3.7%
MDE	United Arab Emirates	4,798,491	2.8	31.9%
MDE	Qatar	833,285	1.7	32.8%

Source: Trade Data and Analysis (TDA) – International Trade Administration – US Government

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Case Study

Planalto Norte Cured Cheese: Despite the Challenges, A Story of Success.

Summary

The initiative for the *Production of Planalto Norte (Northern High Plane) Cured Cheese: Despite the Challenges, a Story of Success*, is a part of the Diagnostic Trade Integration Study Update (DTIS), a public policy document of the government of Cape Verde. This case study aims to present and examine the constraints, challenges and success factors and sources of the Cured Cheese production at the *Planalto Norte*, in the Island of *Santo Antão*. It's believed that the data examined here will help reinforce the policy recommendations for the government regarding strategies and measures to eliminate these constraints, improve the business environment and increase export potential for the Cape Verdean economy and national companies, which is one of the main goals of the DTIS Update.

Setting: The initiative for the production of Cured Cheese is a part of the activities of the Cooperative *Resistentes do Planalto do Norte (The Resisters of Planalto Norte)*. It's a cooperative for consumption and production, created in 2008 under the *Atelier Mar Project, Porto Novo Rural*, aimed at training and capacity building, also including the transformation of agri-food products, and livestock. This project lasted four years.

The idea of creating a cooperative came from those who received training in the scope of that project. The creation of the Cooperative relied on *Atelier Mar's* technical support and a loan in the amount of CVE one thousand one hundred fifty-six, which should be paid over a period of two years.

The name *Cooperativa Resistentes* was inspired in the reality that this place knows. *Planalto Norte* is a plane region in the North of *Porto Novo*, in *Santo Antão*, which faces various adversities. It's a scattered zone with almost no conditions, where there isn't a regular transportation system, access to electricity, water, telephone and with limited access to basic consumer products. In other words, a place deprived of basic subsistence conditions. In face of this scenario, organizing a Cooperative was the best way to mitigate those difficulties.

In this perspective, as reported by interviewee Nº 3 *"to live in Planalto Norte you need to be resistant, you cannot survive without resistance. People here are brave and that is why they have so much energy and strength to survive. That's where the name Resistentes do Planalto Norte ("Resisters of Planalto Norte") comes from.*

For the World Congress of the International Cooperative Alliance (ICA) in Manchester, England in 1995, the cooperative is created based on *"an autonomous association of persons, united voluntarily, to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise"* (SCHMIDT and PERIUS, 2003 *apud* DOVAL and HELLWING, 2006).

Due to the failure of the cooperatives in the 80's, many locals stopped believing in this form of association, so the mentors of this idea had to sensitize the community in order to create a trustworthy relationship.

In a global scale, the cooperative spirit has been touted as an increasingly interesting, effective and democratic way to solve (or at least mitigate) the socio-economic situation of most populations, especially in developing countries. (DONNI *apud* DOVAL and HELLWING, 2006).

The *Resistentes do Planalto Norte* Cooperative started out with 25 members. This was not an easy number to reach, due to the skepticism of people at the time in relation to the cooperatives. However, today, 45 legal members are a part of this cooperative. In order to be a member the bylaws require that one has to meet certain criteria and rules, one being the payment of a monthly fee, established by the cooperative. As a way to motivate the members the by-laws established that 20% of the funds of the Cooperative are returned to the members. This amount is paid annually.

The Cooperative is organized in an Assembly that consists of a President, a Vice President and a Secretary; the Governing Board that consists of a Chairman, a Vice President, a Secretary *Rapporteur* and a Voting Member; the Supervisory Board consists of a Chairman, a Vice-President and a Secretary. There is a large amount of effort to make sure each organ functions properly, each one of them performing their tasks in an effective manner. *"We make sure every part functions properly, each one of us having our tasks. The Supervisory Board has a task, the Board of Directors has a task, The Assembly has a task, but there are moments when we unite to support other organs in doing their task, in face of certain difficulties. Even the Board of Directors has been motivating everyone to enthusiastically perform their duties so the Cooperative can be boosted"*. (Interviewee N.º 3)

Every three years there are elections. The current President is now in his third term. The members meet in Assembly every year, on the anniversary of the Cooperative, usually in the week of March 20th, when the business activities have begun, as reported by our interviewee N.º 3. Whenever it's necessary, an extraordinary meeting is held. The annual Assembly meeting is the highlight of the Cooperative, a special day when the members are united, the general evaluation is made, the accounts reported, and the return in investment is distributed to the members.

Even though the Cooperative has the support of other partner institutions, it now has its own autonomy. Management is done by the directors and the president takes care of the administration, *"as I said, we have our autonomy, but we need to have spirit of solidarity based in our capabilities. We still cannot afford to pay a manager's salary, therefore, that has to be a part of my volunteer work"*. (Interviewee 3)

The Cooperative strives to innovate and take advantage of what they have, and of the resources nature provides them locally (Interviewee N.º3). In 2010 it received a funding from the Global Environment Facility (GEF), from the UN, to build three reservoirs with a capacity to retain 450 tons of rain water. A revolutionary structure with an impermeable water capture system, the first reservoirs built with this system, according to interviewee N.º 3.

Later, in the scope of the same project they were able to get another funding for the construction of the Cheese Transformation Center, which falls into the general development of the Cooperative, and in general of the *Planalto do Norte*. Presently, the cooperative produces the traditional cheese, the cream cheese and the main novelty since November 2012, the **Cured Cheese**.



The region of *Planalto Norte*, *Santo Antão* Island

Water reservoirs for rainwater harvesting

The Production of Cured Cheese at the *Planalto Norte*

The production of cheese is very important to the producers of *Santo Antão* Island, particularly of *Planalto Norte*. Since *Porto Novo* is such a dry region, agriculture in the area has very little impact and only satisfies the subsistence needs of a few families. What guarantees them some income is goat breeding. According to Interviewee Nº 2, at *Planalto Norte* *"The people there suffer twice the insularity, because deep in Santo Antão, they are even more isolated. There is no phone landline, no mobile phone network, no electricity, and they live only with the very basic things, but they make an excellent cheese. So, what can be done for this community? We have to value their cheese and that's how this idea came up (...) the cheese from the North is famous, people love it, but a lot of it is lost because of problems in transportation"*.

With the formation of the *Resistentes* Cooperative, which relied on the support of the ESSOR project, a French NGO and *Atelier Mar*, a Cape Verdean NGO, a few tests and researches were conducted to discover a way to store and market this cheese in order to preserve its value. Later on, in November of 2012, the process of transforming and producing the ***Planalto Norte's Cured Cheese*** began.



A basement made of pozzolana for the cheese curing process



Door of the Transformation Center

Out of these studies resulted the idea of building a basement made of pozzolana. In that basement was installed the cheese curing facility. One of the properties of pozzolana is that it works as thermal insulator that keeps the basement in a stable temperature, sometimes more than 15 degrees Celsius below the outside temperature. In order for the cheese to mature, the temperature must be low. This difference in temperature allows the cheese to be cured and maintain a strong, slightly spicy flavor, typical of a mature cheese.

The manufacture of this cheese is handmade by only 8 of the producers/members of the Cooperative without the use of any machinery or equipment. The curing process takes up to 20, 25 days. It might change a bit, depending on the temperature. The lower the temperature, the longer it takes to mature. This is why the production is made after the rainy season, between November and February, which represent Cape Verde's cold season.

Although no study has been conducted yet, the President of the *Resistentes* Cooperative assures that the volume of production in this experimental phase is an average of 200 cured cheeses and 600 traditional cheeses per month.

Due to Cape Verde's weather conditions and to the many constraints the Center faces both in manufacturing, and in marketing the product, it's not possible to produce cured cheese in any other time of the year since *"it dries up very quickly, becoming a dried cheese and losing its cured properties. Actually curing works as form of conservation"* (Interviewee Nº 3).

Aside from the cured cheese, the Transformation Center produces cream cheese and the traditional *"queijo da terra"* cheese. According to interviewee Nº 3, there hasn't been any training in cheese manufacturing. Although the production of cured cheese is still in an experimental phase and is not yet certified, there's an effort to follow certain hygiene standards required in the manufacturing of cheese, using the knowledge acquired in the training provided in the scope of the *Porto Novo Rural* Project. They try to continuously improve the hygiene conditions, and the quality of the product, in order to offer the customers the best guarantees.

As a result of the difficulties in selling the product and the characteristics of the *Planalto Norte* region, the Center relies on the support of the PARES Cooperative – an Associated Producers in Solidarity Economy Network, based in *Porto Novo, Santo Antão*, responsible for marketing, distribution and dissemination of Cured Cheese, as well of the *Atelier Mar*, in *Mindelo, São Vicente* Island. *“We needed a strategic initial position for this product, so both institutions are helping in the outflow of the product, but in order to succeed in getting the market, the PARES Cooperative, which handles the marketing of their own products ”* (Interviewee N° 3), also handles the cured cheese marketing, which is also a product of this Cooperative.

The PARES Cooperative is expecting a funding from the ESSOR NGO for the certification of the products associated with the cooperative, including the Cured Cheese. They state that it's important and necessary to have an entity that certifies the products in the country. *“It's an extremely positive thing. Once the quality of the products is guaranteed, we can expand the market, including to the Diaspora. Even locally to the hotels (...).”* (Interviewee N° 4)

With this partnership, the *Resistentes* Cooperative relies on a financial support *“to help market, label and pack the product”* (...) *“I believe that within the next month we will be ready to go forward in entering this emerging market.”* (Interviewee N° 3)

The main marketplace for the cured cheese has been *Porto Novo*, in *Santo Antão* Island, where the cheese can be found in minimarkets, in the *Santão Antão* Art Resort Hotel, in bars and restaurants. Meanwhile, the cured cheese is also being sold in *Mindelo*, through *Alternativa*, a direct buyer, and a few restaurants. There has been a positive experience in *Praia*, but it's still in an early stage. The idea is to expand as much as possible to other national markets and who knows, international markets too *“the cheese is already known in the Slow Food Fair in Italy. Our dream is that it becomes known all over the world (laughing)”*, says Interviewee N° 3.

The biggest consumers of this type of cheese are tourists, especially French, who visit the islands of *Santo Antão* and *São Vicente*. This is due to the fact that it's a sturdy and spicy cheese, very similar to French cheese. Interviewee n° 3 reports: *“we think this cheese is consumed by tourists, that's the information we have, we know that it goes to other countries besides Cape Verde. We're taking it slowly, within our limitations, but the idea is to get out there, it's our goal”*. For now, there still aren't conditions to export the cheese.

The cured cheese *“can be eaten with herbs, which give it a special flavor, or with olive oil. One can enhance the cheese flavor in various ways, and produce several types depending on the time of curing. The longer the curing takes, the sturdier the cheese. As a result, we get a high quality cheese that cheese lovers enjoy, because not everyone likes cured cheese and this way there is no loss in production”* (Interviewee N° 2).

Marketing and dissemination strategies for Cured Cheese

The Cured cheese has been well accepted in the market, especially by tourists. However, as pointed out by the Interviewee N° 2, *“not everyone likes cured cheese”*, and *“most Cape Verdeans prefer their traditional cheese”*, (Interviewee N° 3), therefore tourism should be a niche market that deserves to be better explored.

According with research associated to the Turin University, the *Planalto Norte's* cured cheese is a quality product and is already considered a world heritage of taste by the *Terra Madre* Foundation, an award received in Italy as part of the Slow Food Fair. Despite receiving this award, the cured cheese is a product that still "*needs to be better known and deserve the trust of customers.*" (Interviewee Nº 3)

All products marketed by the PARES cooperative, including cured cheese, are genuine or innovative, and are imbued with much of *Santo Antão's* culture, having a strong identity, which can also contribute for its dissemination and market acceptance. (Interviewee 2 and 4).

The official presentation of the cured cheese has not been made yet. The event is scheduled for March 2013. Meanwhile, it has been presented whenever possible in regional fairs, tasting events, exhibitions etc. Both the PARES cooperative and *Atelier Mar* have designed marketing strategies for the year 2013. Currently they're working on flyers, labels and packaging to improve presentation, product image, and dissemination, especially in the islands of *Santo Antão*, *São Vicente*, and later, *Santiago - Praia*. In partnership with ESSOR, they plan to resume a quarterly information newsletter that has been suspended since the end of the project due to lack of funds.

At this time, the PARES cooperative is negotiating points of sale in *Santo Antão* (Maritime Station) and *Santiago* (*Calú* and *Ângela* Shopping Center) for the exhibition / sale of products, including cured cheese. (Interviewee Nº 4).



The sale of cured cheese by *Alternativa*, at *São Vicente*



Cheese during the curing process

The Main Constraints

The production of Cured Cheese faces several constraints. Nevertheless, these factors have not hindered the production: location, weather conditions, absence of electricity of water, of telephone and of regular transportation, or even lack of transports, are fundamental aspects that should be evaluated by the competent authorities.

In Production: Lack of water both for production and for watering the cattle; the need of transportation means for the Transformation Center; the need for training in this specific area; the inability of the Center to collect all raw material (milk) from all producers / members, since production is limited by the several constraints already mentioned; the need for funding to support producers; the limited space for

production. There is only a small basement for the curing facility. The seasonality limits the production because of logistics, transportation, storage, outflow and market for the product.

In Marketing: The difficulty in placing the products on the market, especially in mini-markets, because its price is higher than imported products. This is a unique and/or genuine product, and there is still strong resistance, since imported products are bought in large quantities at low prices. This kind of product should be valued for its artisanal characteristics, which is the reason why it is more expensive compared to the competition.

The need for certification represents one of the major marketing limitations. Although one might take advantage of the niche market represented by the big hotel chains operating in Cape Verde, these refuse to buy agri-food products that are not certified.

There is need to improve the image, labeling, design, and to identify a more adequate packaging for the product, in other words, investing in marketing the product.

The inter-island transportation, aside from not being regular, causes the product to be much more expensive to the consumer and does not guarantee its safety and quality.

There is also the Cape Verdeans' resistance in trying new products. The need for a larger dissemination and awareness of Cape Verdean customers to try, enjoy and experience a new flavor of cheese produced in the country, because "*(...) the Cape Verdean's first reaction is to reject it because of its intense smell and flavor and we are not used to that. We are used to that all white cheese. When one sees the pictures it does not even look like Santo Antão cheese*". (Interviewee N° 2).

There is also need to expand into the local market, so that they can produce in larger quantities.

Other constraints

There is the need to involve competent authorities in order to discuss an intervention policy that can ensure the sustainability of this production. "*The responsible entity, for example, the Ministry of Agriculture has paid little attention to this area, (...) we would like to have that support, and be at that level of improvement, but it does not depend only on us. It is not a product that has a market price warranty. Its price is so flexible that it is not even sustainable for the producer (...) when you want a product with some guarantee you need other investments where the price of this product will include a degree of certification and sustainability*" (Interviewee N° 3).

"This is an activity that needs timely attention, a certain timely motivation. Often the producers are left with a certain blockage in the outflow of their products and difficulty in producing their products with better quality, better hygiene conditions, etc., because of these difficulties " (ibid).

CHALLENGES: increase sales; expand to the local market and increase the volume of clients; larger impact on production, certification and involvement of other entities.

Critical factors for success

Despite these limitations and amid the adversities of a population isolated in the planes of *Santo Antão*, the cheese producers of *Planalto Norte* turn out to be great entrepreneurs. Because entrepreneurship is innovation, creativity, initiative, and a lot of persistence, features which abound in this community.

Although the cured cheese is handmade, this does not limit its production, as stated by the interviewee Nº 3. This production may contribute significantly to the income of these families and promote their self-employment. *"(...) our experience started with a traditional experience and we keep improving what we can manually. Our cheese is all handmade. However, but if we use machines it will be another product, will have another price, there will be other requirements, other expenses. In our perspective, the manual production is not a limitation. We will continue to produce this way for now. Another aspect is that there are difficulties in employment in this area and this way we can give people jobs in the region" (Ibid).*

In the meantime, as stated by Interviewee Nº 2, *"I don't think it's an activity of self-sufficient income to producers. We believe they are still in an experimental phase; they began only a few months ago to really produce the cheese. All of the previous stages were of a research, of preparation (...) only now they are into producing, and therefore it is still early to draw any conclusions. I believe that this product has a lot of potential, but other support measures are necessary."*

In face of this scenario, although this is a product acknowledged as world heritage of taste in the Slow Food Fair in Italy, recognized as a high quality product, and much appreciated by tourists, for now, *"we realize that cured cheese is a product mainly for tourists: The Spanish and French love it" (Interviewee Nº 2), "and it goes to other countries " (Interviewee Nº 3), "it is unable to respond to those opportunities that are created yet. It can be marketed to all countries that are members of the Slow Food. But they are not prepared to produce, store and package. There is still a long way to go, and to be able to do it, we need the participation of new institutions. We are not the State, we are half a dozen people. We have awoken, we have begun, but the rest should follow its course" (Interviewee Nº 2).*

For the members of the cooperative, all income generated in this community comes from the sale of traditional or cured cheese. This has been the activity that sustains the people of *Planalto Norte*, *"the income changes the situation of the members, and it's worth the billing and helps the subsistence "(Interviewee Nº 3*

The cooperative spirit has been a positive experience, in which members have invested and believed. For the mentors of the process, there was a whole work of sensitization to break the ideological barrier of cooperatives created during the first republic in Cape Verde, where most had failed. They continue to improve production conditions in order to have in fact an income generating activity able to improve these families living conditions. They see the cooperative as a company; it has to work well with efficient management and good leadership. According to interviewee Nº 2 *"The Resistentes Cooperative already walks on their own feet (...) last year, the Cooperative had to develop a strategic plan, and needs a production plan (...) We have been talking to our partners, to those we have more links to see if it is possible to one day get to this point, to achieve this result. Therefore, I think that is one of the major steps that the cooperative will have to take. For the cheese production, the Cooperative can be used as a partner to assist in the organization of this production plan, but there has to be the involvement of other entities soon. The consumer himself expects it, and it should happen soon".*

Meanwhile, the *Planalto Norte* cured cheese production might be considered a success case, given the conditions and adversities faced by the producers. It was an initiative of the Cooperative current President, without prior experience in the field. The efficiency and procedures have been gradually improving; and they have been producing with persistence, resilience, innovation, courage and lots of willpower.

Final Considerations

The initiative of cured cheese production by the *Resistentes do Planalto Norte* cooperative, which started in November 2012, tends to be a business with prospects of improvement both at the production and at marketing levels, although the challenges the Transformation Center has ahead.

There is need for clear policies by the government entities that support this kind of initiatives. In the case of the cured cheese production, there are structural aspects which must be overcome for this initiative to become a profitable business, one which might be marketable nationwide, and even worldwide, ensuring the self sustainability of that community.

Apart from the lack of funding for these initiatives, there is a major problem that inhibits the marketing: the certification issue. Despite the news published in one Cape Verdean newspaper that the *Santo Antão* cheeses will be certified, the project mentors and partners, are unaware of these news. They assume the importance of the cheese certification and claim that it would be a way to gain consumers confidence.

However, the production and processing of the *Planalto Norte* cured cheese is an initiative evaluated positively by its mentors. These are local initiatives that do not require large investments.

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Presentation of products from PARES cooperative



Presentation of the cured cheese



Production of cheese to be cured



Cheese during the curing process



Cheese during the curing process at the Northern High Plane, *Santo Antão* Island

Cape Verde DTIS Update 2013

InPharma

The Long Road to Internationalization (Untranslated)

INPHARMA

o (longo) caminho da internacionalização

1. A história

INPHARMA, é uma sociedade anónima sediada na Cidade da Praia, Cabo Verde, que tem como objecto social a produção, comercialização e exportação de medicamentos, artigos de higiene, cosméticos, e outros produtos medico-farmacêuticos e hospitalares, podendo dedicar-se também a outras actividades afins, conexas ou complementares, incluindo a importação de matérias-primas e subsidiárias necessárias à sua actividade³²².



Ilustração 1: Inpharma's head office (Praia)

Fundada em 1991 (mas com início de produção em 1993), a sociedade tem um capital social de 50.000.000\$00, detida pela EMPROFAC (40%), e investidores privados, nacionais e estrangeiros (60%). A sua criação visava, como objectivo estratégico, em primeiro lugar reduzir a dependência interna de produtos farmacêuticos importados e, em segundo lugar, dar corpo à política de densificação do sector de produção industrial do país.

Cape Verde: The market	
População (2010)	491.000
PIB (2011 est FMI) – US\$ Millions	M\$ 1.901
PIB per-capita (2011 est FMI) - \$	\$ 3.798
IDH (2012)	0,586
Import. medicamentos (2011) – Mil contos	931
Hospitais existentes (centrais e regionais)	7
Camas, por 1.000 habitantes (2008)	2,7
Médicos por 1.000 habitantes (2008)	0,572
Farmácias privadas	39

A INPHARMA “nasce” num mercado marcado por quatro grandes condicionantes. A primeira, a pequena dimensão do mercado que impedia economias de escala e coloca(va) sérios desafios em termos de competitividade de preços face a produtos concorrentes importados e em termos de fornecimento de matérias primas. A segunda condicionante prende-se com a própria estrutura do

mercado, caracterizada pelo monopólio de distribuição por parte da EMPROFAC (empresa detida a 100% pelo Estado e que detêm, por seu lado, 40% de participação na INPHARMA). A terceira condicionante, de ordem legal-regulatória, que impede a utilização de ferramentas tradicionais de marketing. A quarta condicionante prende-se com o próprio sistema público de seguro médico, que prevê cobertura universal e em que a rede de hospitais é predominantemente pública (apenas recentemente começam a surgir clínicas privadas, de diversas especialidades). Esta característica condiciona a demanda por medicamentos, tornando-a comparativamente bastante rígida.

³²² BO nº 03 III Série, de 21 de Janeiro de 2005.

Assim, estrategicamente, a INPHARMA aposta desde o início numa marca institucional forte e confiável e na garantia de qualidade, como elementos distintivos. O slogan da empresa – **“Inpharma, a qualidade na saúde”** – reflecte precisamente estas opções estratégicas de posicionamento da empresa.

Dois anos depois de entrada em operação, a empresa já facturava 140.000 contos (1995), tendo ultrapassado o volume de 240.000 contos em 2000. Neste período, o único mercado da empresa era o mercado interno. Mais de 3/4 das suas vendas eram destinadas à EMPROFAC (que tem o monopólio de distribuição de produtos farmacêuticos em Cabo Verde, sendo a parte restante canalizada para o Estado (farmácias hospitalares).

A partir de 2000, a empresa começa a exportar pequenas quantidades, para os mercados de Angola e Moçambique. Essas exportações eram feitas de forma muito pontual, não resultando propriamente de uma estratégia claramente definida em direcção à internacionalização. As exportações, neste período, representaram em média 2% do total da facturação da empresa - a prioridade, então, era a consolidação da actuação da INPHARMA no mercado nacional. Em 2003 a empresa ultrapassa a linha dos 300.000 contos de facturação ano, patamar que se vai manter até hoje, exceptuando-se em 2004 (228 mil contos) e 2011 (116 mil contos).

A partir de 2009, no entanto, uma confluência de factores obriga a empresa a repensar toda a sua estratégia. No plano interno, a estagnação do mercado levou a uma quebra de 21% nas vendas (-81 mil contos), o que, conjugada com atrasos de pagamentos por parte do Estado, levou a uma piora dos principais indicadores de resultados. No plano externo, a crise mundial despoletada a partir de 2007 ganhava uma amplitude mais vasta, ameaçando sectores não financeiros, incluindo o de medicamentos. O encerramento de fábricas no exterior, o excesso de genéricos e a contrafacção fizeram aumentar o risco de práticas de “dumping”, traduzindo-se em concorrência desleal de produtos importados.

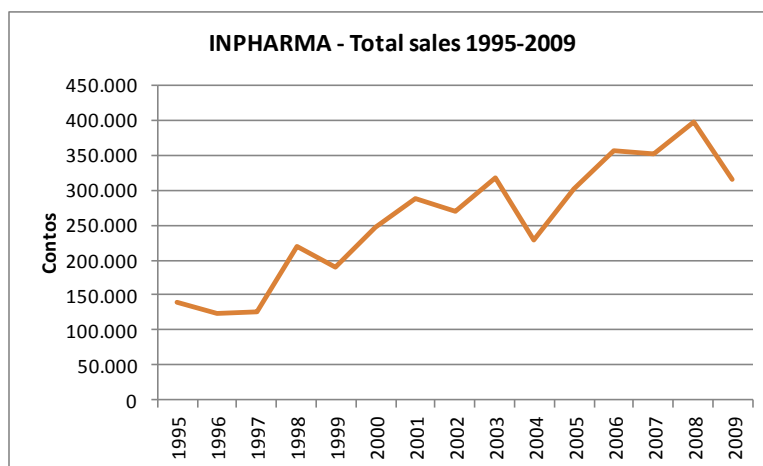
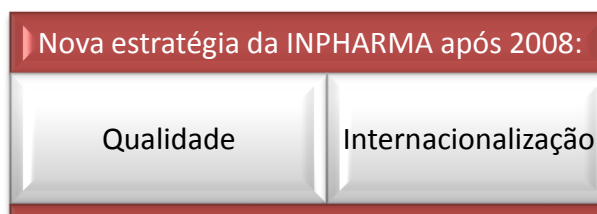


Ilustração 2: Total sales 1995-2009 (source: Inpharma)

Neste quadro, a empresa decidiu rever a sua estratégia de actuação a partir de 2009, apostando em dois eixos: (i) Crescer com Qualidade; e (ii) Crescer para Fora.

No que se refere ao primeiro eixo, a estratégia foi materializada em duas fases. Numa primeira fase (2008-2010), a empresa implementou melhorias visando a certificação externa de qualidade dos seus produtos, para garantir que estes seriam reconhecidos internacionalmente. Assim,



foi conseguida a acreditação internacional do Laboratório de Controlo de Qualidade da empresa (InLab), através do IPAC (Instituto Português de Acreditação - <http://www.ipac.pt/>), norma 17025³²³. Conforme referido pelo agora Coordenador da Direcção Executiva da empresa, Dr. Gil Évora³²⁴, a acreditação trouxe confiança local e internacional aos medicamentos da empresa – condição importante para qualquer processo de internacionalização.

Learning box 1:

Driving forces para a internacionalização

O que “forçou” a INPHARMA a internacionalizar-se:

- **Estagnação do mercado interno** – quebra de vendas de 21% em 2009, em relação ao anterior;
- **Atrasos nos pagamentos do Estado** – entre 2000 a 2008, o Estado representava em média 16% das vendas da empresa; por outro lado, os atrasos afectavam também a capacidade de pagamento da principal Cliente da empresa (EMPROFAC), que representava 81% da sua facturação;
- **Crise internacional** – afectou a empresa através de vários canais: aumento do risco de práticas de “dumping” (queima de stocks de empresas encerradas no exterior), aumento da contrafacção, concorrência desleal de produtos importados, etc;
- **Oportunidades no mercado regional** – região com taxas sólidas de crescimento económico e com necessidades ainda não satisfeitas no sector de produção e distribuição de medicamentos.

Na segunda fase, a INPHARMA complementou o processo de melhoria da gestão de qualidade com mais duas certificações estratégicas: (i) Certificação do Sistema de Distribuição e Logística – ISO 9001 APCER; e (ii) Implementação sistema gestão qualidade visando a satisfação do cliente (área não produtiva). As próximas etapas deste processo incluem mais duas certificações, a Certificação Ambiental ISO 14001 e a Certificação Segurança Higiene da Saúde no Trabalho ISO18001.

³²³ Esta Norma especifica os requisitos gerais para competência em realizar ensaios e/ou calibrações, incluindo amostragem. Ela cobre ensaios e calibrações realizados utilizando métodos normalizados não normalizados e métodos desenvolvidos pelo laboratório. (Fonte: <http://pt.scribd.com/doc/53969650/NORMA-17025>)

³²⁴ Apresentação feita no Fórum sobre Industrialização em África, realizada na Cidade da Praia no dia 20 e Novembro de 2012 (organização: UNIDO)

Learning box 2:

INPHARMA como um possível “player” na estratégia nacional para a qualidade

A INPHARMA detêm, neste momento, o único laboratório em Cabo Verde internacionalmente certificado. Este laboratório pode desempenhar um papel muito importante na estruturação e implementação do sistema nacional de qualidade e certificação, no quadro de uma estratégia mais ampla de promover a qualidade como vector de competitividade do país em *key drivers* de crescimento económico, como por exemplo, o turismo, as exportações e a economia marítima.

A empresa tem interesse em participar activamente neste processo, disponibilizando o seu laboratório e o seu *know-how*, dentro de uma estratégia concertada e num quadro de objectivos partilhados, entre o poder público, as entidades reguladoras e o sector privado³²⁵. Neste momento o laboratório tem capacidade excedentária, pelo que não seria globalmente eficiente avançar-se com investimentos em novos laboratórios, de cariz público, quando o país já dispõe de capacidade de resposta suficiente. Para o efeito, bastaria um quadro legal-regulatório que definisse eficazmente as responsabilidades do Estado e do sector privado nesta matéria.

O facto de o laboratório da INPHARMA ser internacionalmente certificado conferiu uma competitividade adicional à empresa na sua estratégia de internacionalização, que teve (e tem) como um dos seus pilares, a qualidade (certificada) dos seus produtos. O mesmo poderá também beneficiar empresas de outros sectores, que queiram igualmente apostar na qualidade como elemento diferenciador para a sua internacionalização, no quadro de uma estratégia nacional concertada para o efeito.

³²⁵ Conversa com o Presidente do Conselho de Administração da Empresa, Setembro/2012

2. Rumor à internacionalização

O segundo eixo da estratégia da INPHARMA foi a aposta na internacionalização/abertura de novos mercados. Os objectivos imediatos eram (i) reduzir a dependência do mercado interno, (ii) aumentar os volumes de venda e (iii) aumentar as margens de venda. A médio prazo, a ambição é(ra) de posicionar estrategicamente a INPHARMA nesta sub-região africana, no decorrer do período 2010-2015.

Como política orientadora central – definida exclusivamente pela empresa, sem que tenha havido propriamente uma concertação estratégica com, por exemplo, o Governo, no quadro de uma política nacional de internacionalização das empresas caboverdeanas -, a INPHARMA optou por não se limitar à mera exportação de medicamentos para mercados seleccionados. Antes, definiu como estratégia a criação de parcerias sólidas com Governos de países seleccionados, para a resolução de problemas de abastecimento de medicamentos.

INPHARMA: Rumor à internacionalização	
Objectivos:	Reduzir dependência do mercado interno; Aumentar volumes; Aumentar margens.
Estratégia:	Parceria com Governos de países seleccionados, para resolução de problemas de abastecimento de medicamentos. Esta estratégia visa, paralelamente, reduzir os riscos associados a eventuais instabilidades políticas, através do envolvimento dos Governos.
Países-alvo (1ª fase):	Guiné-Bissau São Tomé e Príncipe Guiné Equatorial

Análises prévias de mercado permitiram identificar 03 países-alvo para a estratégia de internacionalização da INPHARMA, numa primeira fase: Guiné-Bissau, São Tomé e Príncipe e Guiné Equatorial. De comum, esses países apresentavam praticamente as mesmas características:

- *Mercados não regulados;*
- *Dominio de medicamentos de contrafeição;*
- *Legislação farmacéutica inexistente;*
- *Farmácias com licença de importação;*
- *Ausência de qualquer tipo de controle qualidade;*
- *Medicamentos fora prazo validade;*
- *Preços desregulados.*

GUIPHARMA (Guiné Bissau)
Criação: 2011
Estrutura acionista
40% <i>Inpharma</i>
40% <i>Estado guineense</i>
20% <i>Hospital Simão Mendes</i>
Gestão – <i>Inpharma</i>
Vendas 2011 – EUR 100.000,00
Previsão 2012 – EUR 1.000.000,00 (não cumprida)
Quota Mercado – 33% (3 licenças)
Estabilidade política condiciona evolução

Tendo como base os objectivos e a estratégia acima referidos, a empresa, encetou contactos, em primeiro lugar, com o Governo e outros parceiros na Guiné-Bissau, visando a criação de uma empresa de importação e distribuição de medicamentos naquele país, denominada “GUIPHARMA”, empresa esta constituída em 2011, com a seguinte estrutura: INPHARMA (40%), Governo da Guiné Bissau (40%) e Hospital Simão Mendes (20%), cabendo a gestão à INPHARMA. À GUIPHARMA foi atribuída uma das 03 licenças de distribuição de medicamentos concedidas no país, arrancando, por conseguinte, com uma quota de mercado teórica de 33%.

Em 2011 as vendas da INPHARMA à GUIPHARMA ascenderam aos € 100.000,00 (11 mil contos). As projecções para 2012 ultrapassavam os € 1.000.000,00 mas as instabilidades políticas ocorridas no país em Abril de 2012 levaram ao bloqueio do processo, pelo que as expetativas não se realizaram.

Praticamente em simultâneo, negociações foram estabelecidas com o Governo de São Tomé e Príncipe, nos mesmos moldes. Na sequência, foi criada, em 2012 a empresa EMPHARMA STP, SA, com a seguinte estrutura: INPHARMA (36%), Estado Sãotomense (37%) e Farmácias Sãotomenses (27%), com a INPHARMA controlando a gestão.

EMPHARMA (São Tomé e Príncipe)

Criação: 2012
Estrutura acionista
36% Inpharma
37% Estado Sãotomense
27% Farmácias Sãotomenses
Gestão – Inpharma
Vendas 2011 – € 330.000,00
Vendas 2012 - € 1.000.000,00
Previsão 2013 – € 2.000.000,00
Previsão quota mercado: 70% 2012 90% 2013

Também neste caso a criação desta empresa contribuiu para alavancar as exportações da INPHARMA. As vendas desta empresa à EMPHARMA ascenderam aos € 330.000,00 em 2011 (36 mil contos), ultrapassaram os € 1.000.000,00 em 2012 (110 mil contos) e, para 2013, as previsões são para € 2.000.000,00.

Com uma crescente notoriedade na região e alavancada pela imagem de qualidade conseguida com as certificações obtidas na primeira componente da sua estratégia, a INPHARMA foi abordada pelo Governo da Guiné Equatorial para uma parceria similar, visando, neste caso, não apenas o abastecimento de medicamentos e consumíveis para os hospitais mas também a montagem completa e a certificação de um laboratório local.

Em 2012 o Governo da Guiné Equatorial propôs à INPHARMA a constituição da GUINEAPHARMA, SA, com a seguinte estrutura: INPHARMA (50%) e privados Guineenses (50%), com gestão conjunta.

GUINEAPHARMA (Guiné Equatorial)

Criação: 2013 (previsão)
Estrutura acionista
50% Inpharma
50% Privados locais
Gestão – Conjunta
Abastecimento medicamentos e consumíveis para os hospitais
Montagem de um laboratório “chave-na-mão” gestão Inpharma – processo certificação;
Exportação quadros caboverdeanos

O processo está ainda em fase de montagem e consolidação – se tudo correr bem, a constituição da empresa deverá ser formalizada agora em 2013 -, pelo que ainda não teve impacto a nível de exportações da INPHARMA. No entanto, as previsões são bastante optimistas, tendo em conta a dimensão deste país e a sua população e as carências que se registam no sector de medicamentos. Complementarmente, a constituição desta empresa na Guiné Equatorial e a montagem/gestão do laboratório permitirão a colocação de quadros caboverdeanos da área, neste momento excedentários no país.

A estratégia de marketing da INPHARMA para a sua internacionalização tem assentado em quatro vertentes:

- Forte ênfase na qualidade (certificada) dos seus medicamentos;
- Aposta na comunicação institucional e marketing directo junto à classe médica/farmacêutica;
- Foco na satisfação dos clientes; e

- Política de apoio institucional às Direcções Gerais de Farmácias e Ministérios de Saúde dos países-alvo, para acções de formação e qualificação dos seus Quadros em Cabo Verde.

Internamente, a empresa decidiu pela adequação da sua estrutura organizacional e do seu modelo de governança, para suportar a consolidação e aceleração do processo de internacionalização. Assim, a partir do início de 2013, foi ajustado o modelo anterior de um Conselho de Administração com um Administrador Executivo que se encarregava da gestão corrente da empresa – incluindo a internacionalização. O anterior Administrador Executivo passou a ocupar-se apenas da Presidência (não executiva) do Conselho de Administração e dos assuntos relacionados com a abertura de novos mercados externos, passando a gestão corrente da empresa a ser assegurada por uma Comissão de Directores (Comercial + Administrativa/Financeira + Operacional), liderada pelo Director Comercial.

3. Os resultados

Os resultados alcançados até 2012 com a implementação da sua estratégia de internacionalização são encorajadores, no dizer do Director Geral (Att. Contradição em termos de designação da função com página 3) da empresa, Dr. Gil Évora³²⁶.

Os resultados começam a aparecer, quer em termos de evolução do volume de negócios global quer quanto a outros parâmetros de sucesso, como a crescente notoriedade da INPHARMA na região. No período 2009 a 2012 – que coincide com o início da sua estratégia de internacionalização, a facturação da empresa aumentou 44% em termos nominais, a uma média anual de crescimento de 52%. Este crescimento médio anual é bastante superior ao desempenho médio nos períodos 1996 a 2000 (16%) e 2001 a 2008 (8%).

A facturação da empresa em 2012 ultrapassou os 450 mil contos, um crescimento de 288% em relação ao ano anterior (que havia sido de uma forte quebra nas vendas) e 34% em relação a 2010. Dessas vendas, 21% foram para o mercado externo (exportações), que atingiram perto de € 1.000,000,00.

Como ilustram os gráficos abaixo, a contribuição das exportações nas vendas totais da INPHARMA passou de meros 1% em 2000 e 2% em 2006 para 21% em 2012, o que espelha o relativo sucesso da sua estratégia de internacionalização nos últimos 03 anos, conforme objectivos preconizados.

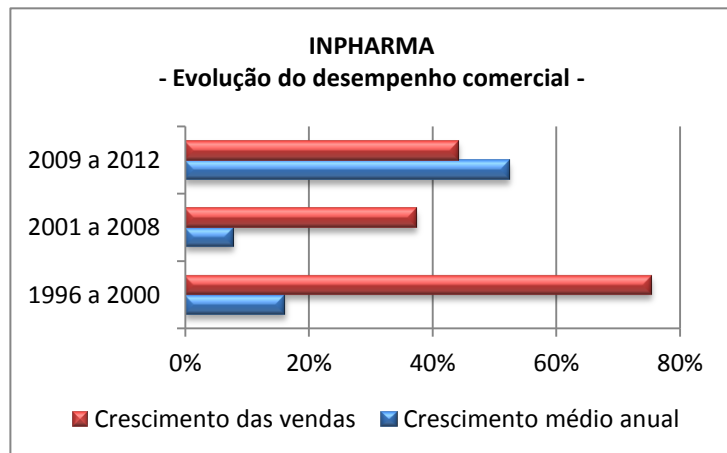


Ilustração 3: Evolução do desempenho comercial

³²⁶ Entrevista concedida ao Consultor em Janeiro/2013

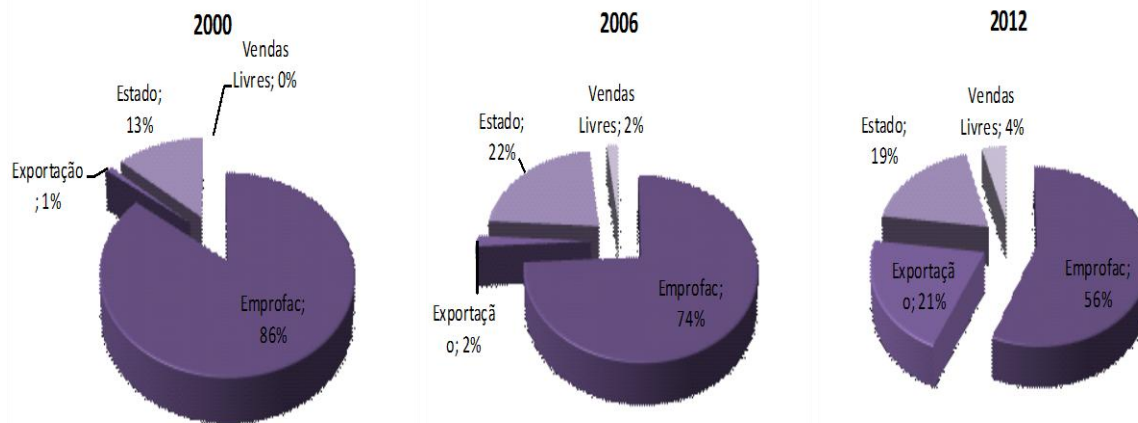


Ilustração 4: Evolução do peso dos segmentos nas vendas da INPHARMA

No entanto, o **ambiente político de instabilidade** tem prejudicado muito os negócios em 2013. A mudança de governo ocorrida em Dezembro de 2012 em STP fez com que os pagamentos que antes vinham sendo feitos com regularidade, parassem e por isso desde Janeiro a INPHARMA não exportou nada para STP aguardando o pagamento da dívida existente no valor aproximado de € 200.000,00. O mesmo se passa em relação à Guiné Bissau – a GUIPHARMA foi constituída mas o golpe de estado em Abril de 2012 não deixou a empresa arrancar. Agora a instabilidade volta a reinar pondo em perigo o ambiente económico e a hipótese de a empresa explorar em pleno a licença de importação que o governo pretende conceder-lhe.

4. Os desafios

A nível externo

A nível externo, os principais desafios enfrentados pela INPHARMA no seu processo de internacionalização prenderam-se com os seguintes aspectos:

- *Riscos de instabilidades sociais e políticas nos países-alvo* – para minimizar estes riscos, a INPHARMA optou pela estratégia de associar-se sempre a parceiros locais, preferencialmente o Estado, mas também parceiros privados. No entanto, este continua a ser um risco relevante nesta região; a título de exemplo, os problemas políticos na Guiné-Bissau atrasaram a implementação do projecto GUIPHARMA, com impacto na projecção de exportações da INPHARMA.
- *Logística e operações* – os serviços de transporte e logística de Cabo Verde para os demais países de região ainda são insuficientes, caros e não regulares. Para reduzir os custos, a INPHARMA planifica com bastante antecedência os cronogramas de entrega de mercadorias e negocia com empresas de transporte aéreo, para entregas de menor peso (normalmente casos de urgência).
- *Mercados desregulamentados* – a INPHARMA procura trabalhar com os Governos dos países-alvo, no sentido de incentivar a adopção de políticas de regulamentação do sector mais eficientes. Tem também adoptado a política de apoiar os Governos na formação/capacitação de quadros da área.
- *Falta de informação sobre os mercados* – antes da decisão de investir em um determinado mercado, a INPHARMA tem procurado levantar informações relevantes e encomendar estudos de mercado específicos.

- *Burocracia pesada nos países-alvo* – neste caso, a estratégia de envolver o Estado local como parceiro nos projectos ajuda a remover determinados obstáculos burocráticos. No entanto, a empresa não tem conseguido explorar eficazmente os benefícios de livre circulação de mercadorias no espaço CEDEAO, previstos nos acordos de facilitação de comércio inter-regional, por causa da complexa e trabalhosa burocracia necessária. A título de exemplo, a INPHARMA tem necessidade de obter um certificado de origem individual para cada tipo de medicamento exportado, sendo o processo extremamente complexo.

A nível interno

A nível interno, os principais constrangimentos enfrentados (e que continuam a ser enfrentados) pela INPHARMA são:

- *Inexistência de políticas eficazes de promoção das exportações* – Cabo Verde não dispõe neste momento de quaisquer incentivos, que funcionem de facto, para suportar as empresas que decidem pela internacionalização. Em 2010 foram criados os Centros Internacionais de Negócio (CIN) e um Fundo de Apoio à Internacionalização, ambos com o objectivo de promover as exportações, mas na prática os mesmos ainda não funcionam, por falta de regulamentação e de recursos.
- *Custos com prospecção de mercados* – a INPHARMA não retirou qualquer benefício em sede do IUR. A legislação e os procedimentos existentes não são incentivadoras das exportações, quer pela sua pouca eficácia, quer pela morosidade dos processos administrativos necessários à obtenção dos benefícios.
- *Falta de suporte institucional por parte do Estado* – quer em termos de instrumentos de política para apoiar a internacionalização de empresas caboverdeanas, quer em termos, por exemplo, de orientação da rede diplomática e consular como “cabeças de ponte” na abertura de mercados externos.

5. Learning points

Da análise do “caso INPHARMA”, pode-se extrair os seguintes *findings* principais:

1. A estratégia de internacionalização das empresas caboverdeanas é uma opção viável e desejável para Cabo Verde, enquanto via para minimizar os impactos dos choques externos a nível do país e das empresas aqui instaladas, através da exploração de oportunidades existentes sobretudo no mercado Africano.
2. Outros mercados externos podem ser igualmente explorados por empresas caboverdeanas ou baseadas em Cabo Verde, no quadro dos acordos de acesso preferencial de que o país beneficia – AGOA, parceria especial com União Europeia, etc. Contudo, é necessário uma conjugação de políticas públicas adequada e uma estratégia clara das empresas voltada para a internacionalização.
3. A internacionalização permite também reduzir a dependência das empresas nacionais em relação a um único mercado, a um cliente dominante, a um fornecedor. Esta opção requer, contudo, uma planificação prévia, uma correcta avaliação dos riscos envolvidos, e uma adaptação da estrutura organizacional para suportar o processo de internacionalização.
4. A internacionalização de empresas caboverdeanas pode ser materializada de diferentes formas: através da simples exportação, através da abertura de filiais e/ou empresas participadas em mercados-alvo, entre outras. A escolha da opção mais adequada deve levar em conta os objectivos preconizados pelas empresas, as estratégias definidas e os riscos associados.
5. A questão logística/transporte é uma variável crítica para o sucesso de processos de internacionalização, especialmente quando envolve exportações de Cabo Verde para países da região. Contudo, soluções optimizadas podem ser encontradas, conjugando-se, por exemplo, planificação de longo prazo (que permite maior flexibilidade na identificação e negociação de soluções) com a negociação de acordos especiais com empresas de transporte.
6. De igual forma, os custos de produção em Cabo Verde são comparativamente elevados, afectando a competitividade externa de sectores com potencial de internacionalização. A título de exemplo, o custo elevado de electricidade e água (que em Cabo Verde são dos mais elevados da África, de acordo com um recente estudo do Banco Mundial³²⁷) constituem um sério desafio às empresas que queiram produzir em Cabo Verde para a exportação. No caso da INPHARMA, apenas a água representa mais de 10% dos custos de produção da empresa, sendo que a electricidade tem, igualmente, um peso muito grande na estrutura de custos.
7. Pelas especificidades de Cabo Verde – onde o custo de contexto é comparativamente elevado – a competição via preços pode não ser a melhor estratégia em mercados externos e para determinados sectores, especialmente os deficientemente regulamentados ou com elevados níveis de contrafação. Uma opção poderá ser a competição via valor acrescentado (especificidade do produto, inovação, qualidade, soluções “chave-na-mão”, etc.).
8. Há necessidade premente de políticas públicas em Cabo Verde para incentivar e apoiar os processos de internacionalização de empresas caboverdeanas ou baseadas em Cabo Verde. Entre as quais, políticas fiscais mais ajustadas, instrumentos financeiros de suporte à prospecção e às operações, estruturas diplomáticas que trabalhem em conjunto com as empresas, etc.
9. Igualmente é necessário que sejam removidos os obstáculos administrativos/burocráticos que emperram as relações comerciais no espaço CEDEAO, permitindo assim a materialização das facilidades previstas no quadro dos acordos de livre circulação de pessoas e mercadorias na região.

³²⁷ C. Garmendia e D. Benitez: “Cape Verde’s Infrastructure - A Continental Perspective”, World Bank, 2011

10. O risco de instabilidade política na região ainda é um factor limitativo da internacionalização das empresas caboverdeanas.

ANNEX B: List of Interviews and Consultations

Individuals, Institutions and Stakeholders Consulted, September-November 2012	
NAME	INSTITUTION
Joana Flor	MTIE – North Region
Adriana Bettencourt Pinto, Director	Project Marangatu/Paraguay
Adriano Antonio Soares, Admin.	ENAPOR
Adriano Cruz, Sec. Exec.	CCIASB – Barlavento Chamber of Com.
Alcidio Nascimento Lopes, Admin.	ENAPOR
Benvindo D'Oliveira Fonseca, Dir. Exec.	COVA INGLESA Fisheries Complex
Berlamindo Lucas, Pres.	CCIASB – Barlavento Chamber of Com.
Carlos Ferreira Santos	INDP
Carlos Rocha, Admin.	CI Cape Verde Investments
Carlos Santos, Dir. Exec.	UCRE
Claudia Brito, Dir.	EHTCV Hotel and Tourism School
Curator da Cidade Velha	Cidade Velha
Administration	Banco da Cultura/Bank of Culture
Administration	Bureau Export da Cultura
Administration	Bureau of Cultural Training and Access
National Directorate of Arts	Ministry of Culture-Mindelo
Director National Networks of Workshops	Ministry of Culture-Mindelo
Administration, Project ACCVE	ACCVE
Project Directors	Ministry of Culture
DNP - Min. Finance	MFP
Elisabeth Goncalves	CI Cape Verde Investments
Emanuel Almeida, Gen. Dir.	GOV CV
Embaixador, Brasil	Embassy of Brazil
Franz Tavares, Dir. Exec.	ADEI
Helio Varela, Coord.	NOSI
Joao Isaac Monteiro, Production Chief	Monteiro & Filhos, Ltda
Jorge Mauricio	ENAPOR
Manuel Pinheiro, Coord.	Center for Policy Strategy CPE
Members – Special Task Force	Ministry of Culture
Members, EIF-CV Steering Committee	QIR-CV Steering Committee
Participants – Brainstorming Session	DTIS Brainstorming, Nações Unidas
Narjess Saidane, Dir.	United Nations-Cape Verde (UN-CV)
Oscar Melicio, Pres.	INDP
Patricio Silva, Commercial Dir.	CABNAVE
Paulo Lima, Admin. CEO	Inpharma
Petra Lanz, Resident Coord.	UN-CV
Vera Lopes (Mission Assistant)	Fly Agencia Turismo
Vera Santos	MTIE – North Region
Management	FRESCOMAR