Report Number: ICRR0024100

1. Project Data

Project ID P160796	**Project Name** SOE Related Fiscal Management Project	
Country Cabo Verde	**Practice Area(Lead)** Governance	
L/C/TF Number(s) IDA-62510,IDA-69240	**Closing Date (Original)** 31-Jul-2023	**Total Project Cost (USD)** 21,703,693.93
Bank Approval Date 04-Jun-2018	**Closing Date (Actual)** 30-Sep-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	20,000,000.00	0.00
Revised Commitment	23,813,652.65	0.00
Actual	21,703,693.93	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Financing Agreement co-signed on June 6, 2018 and June 22, 2018 (FA, p. 5) by government authorities and the World Bank (WB), and the Project Appraisal Document (PAD, p. 14), the Project Development Objective (PDO) was:

“To strengthen SOE related fiscal management.”

The PDO remained unchanged over the project lifecycle. For the purposes of this review, the PDO will be assessed as it is:

To strengthen SOE related fiscal management.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

18-Jun-2021

c. Will a split evaluation be undertaken?

No

d. Components

Component 1: Results-Based Financing (Cost at approval: US$16 million. Revised cost: US$16 million. Actual cost: US$16.77 million).

This component aimed to support reforms in Cabo Verde Airlines (TACV) to prepare the company for privatization and to strengthen the SOE oversight unit (UASE) to improve the monitoring of SOEs. Activities included: (i) preparation of annual reports on the SOE portfolio; (ii) TACV human resource reconfiguration and preparation of the retrenchment plan; (iii) implementing cost cutting measures to decrease public financing for TACV; and (iv) retrenchment and severance payments to staff of TACV (PAD, para 21-24).

Component 1 was to disburse against eligible expenditure programs (EEPs) upon the achievement of the following Performance Based Conditions (PBCs) (PAD, Table 1):

PBC 1: TACV has adopted and publicly announced a Retrenchment Plan acceptable to the WB.

PBC 2: TACV has established a grievance mechanism acceptable to the WB to hear retrenchment related grievances.

PBC 3: Staff targeted by the Retrenchment Plan has been retrenched.

PBC 4: Detailed annual SOE reports prepared by UASE.

The subcomponents and EEPs consisted of (PAD, Table 2):

<u>1.1 fiscal risk assessment and monitoring</u>: the EEP consisted of salaries of UASE staff, technical assistance, operating costs, and training.

1.2 TACV restructuring and reduced public financing: the EEP consisted of salaries and social security contributions of TACV staff, retrenchment packages of approximately 207 TACV staff, training, and small grants.

Component 2: Technical Assistance (Cost at approval: US$3.5 million. Revised cost: US$10.5 million. Actual cost: US$6.6 million).

This component aimed to strengthen the capacity of the Ministry of Finance and Planning (MoFP) for macro-fiscal monitoring, and SOE oversight and monitoring. Activities included: (i) supporting the implementation of the SOE reform program; (ii) strengthening the GoCV capacity for macro-fiscal and SOEs monitoring, to better manage fiscal risks associated to SOEs; and (iii) improving corporate governance of SOEs (PAD, p. 16, ICR para 12). There were two original sub-components (2.1 and 2.2) and two new sub-components (2.3 and 2.4) were added at the time of the first restructuring: 2.1 improved SOE-related fiscal management; 2.2 improved corporate governance of SOEs; 2.3 support investment promotion for further divestment; and 2.4 regulatory capacity building and fiscal risk monitoring of concession contracts and PPP's (PAD3683, para 25-26).

Component 3: Project Management Support (Cost at approval: US$0.5 million equivalent. Revised cost: US$0.5 million. Actual cost: US$0.5 million).

This component aimed to support project management and implementation needs including the financing of activities for project coordination, procurement, financial management, audit, legal and monitoring and evaluation (M&E), including an independent verification agent (IVA) (PAD, para 27).

Component 4: IFH and housing sector reform (Cost at restructuring: US$3.0 million. Actual cost: US$0.20 million).

This component was added after the AF/ First restructuring. It aimed to reduce the fiscal risks from the Housing Financing Institute (IFH), which had not been able to meet its loan obligations after the COVID-19 pandemic, and improve the performance of the national Social Housing Program "Casa para Todos" (CPT), including considerations of climate, gender, and citizen engagement (PAD3683, p. 17) (ICR para 15). Activities were to improve social housing rent collection (class A); develop a business plan for IFH; strengthen the capacity of the Ministry of Infrastructure, Spatial Planning and Housing (MIOTH) and participating municipalities to execute the National Housing Plan; and improve and unify information management systems. There were no sub-components.

Significant changes during implementation

A **first restructuring** was approved on June 18, 2021 after three years of implementation and 84% of the original funding (of US$20 million) disbursed. The restructuring aimed to scale-up and expand on activities financed under the Parent Project by supporting the restructuring and privatization of at least eight SOEs, promoting reform in the social housing sector, further strengthening SOE oversight, building capacity for fiscal risk monitoring of concession contracts and PPP, and promoting Foreign Direct Investment in the SOE sector (PAD3683, para 1). An additional Financing (AF) of US$10 million was approved to support the new activities and the project's closing date was extended from July 31, 2023, to December 31, 2025 (PAD3683, p. 14-18).

The PDO was not revised, but the target for PDO indicator 3 (Annual public revenues from SOEs in tax payments, dividends, concession payments, and divestment proceeds) was increased from US$10 million to US$20 million annually and eight new Intermediate Results Indicators (IRI) were added (PAD3683, p. 17).

A **second restructuring** on June 14, 2023, addressed disbursement category overruns caused by exchange rate fluctuation by retroactively reallocating funds across disbursement categories. At the time of this restructuring, the project's total disbursement rate was 76% (of US$30 million) (RES56559, para 2, para 7).

A **third restructuring** on September 29, 2023, allowed for the project's early cancellation on September 30, 2023 given that progress on several key indicators had stalled and given the re-nationalization of TACV. The project had been in "Problem Status" over the last 21 months, from January 2022 with substantial implementation delays related to the COVID-19 pandemic and design shortcomings, particularly in monitoring and evaluation (M&E). At the time of this restructuring, the project total disbursement rate was 80% (of US$30 million). The undisbursed balance of US$6 million was canceled (RES58083, para 1-2).

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project cost at appraisal was US$20 million (PAD, p. 2). Additional financing at the time of the first restructuring increased the total cost by US$10 million to US$30 million (PAD3683, p. 6). The actual cost was US$24 million (ICR, Annex 3). Section 1 of the ICRR reports a total project cost of US$22 million due to exchange rate fluctuations between SDR and USD throughout the life of the project.

Financing: The actual project financing at closing was US$24 million. The project was originally financed by an IDA loan of US$20 million and an additional IDA financing of US$10 million approved in June 2021. The final restructuring of September 2023 canceled the project and the undisbursed IDA balance of US$6 million.

Borrower Contribution: The Republic of Cabo Verde did not intend and did not provide any counterpart funding.

Dates: The WB approved the project on June 4, 2018, and the project became effective on October 22, 2018, with an original closing date of July 31, 2023. The first restructuring approved on June 18, 2021, extended the closing date from July 31, 2023, to December 31, 2025. The second restructuring on June 14, 2023, formalized retroactive funds reallocation. The third restructuring on September 29, 2023, allowed for the project's early cancellation on September 30, 2023. The project mid-term review was finalized on September 12, 2022.

3. Relevance of Objectives

Rationale

Country context: At appraisal, the SOEs weight in the Cabo Verdean economy was significant. As of February 2018, there were 32 SOEs in Cabo Verde, with 22 of them under privatization and/or concession processes (PAD, Annex 4, Table 4.1).

Out of 32 SOEs, 17 were entirely owned by the state. Out of the remaining 15, the state was a majority shareholder in 7 and a minority shareholder in 8. SOEs contributed 26% of GDP in sales in 2016 compared to about 15% for SOEs in the Africa region; their assets were worth over 60% of GDP and debts were 50% of GDP. Many SOEs were operating with continued losses, increasing their debt levels and dependence on state support. The five largest SOEs represented 80% of total sales, held 75% of assets, and 78% of debt of the entire sector. TACV and IFH were two of the five largest SOEs by sales and assets, the biggest contributors to SOE losses over the last three years, and two of the three largest SOE debt holders (IFH held the largest debt, followed by the water and electricity company, and TACV) according to 2017 data estimates (PAD, para 7; Annex 4 para 1, 4, 6; ICR, para 4, p. 7).

The governance of SOEs was determined by the commercial code, their own founding legislation, and the 2016 SOE Framework Law. The legal framework was strengthened in 2016 to expand the scope of government oversight, establish clearer guidance and limits on SOE debt, include new articles on the fusion and liquidation of SOEs, and introduce stronger sanctions for noncompliance with reporting obligations. However, reporting to the public continued to have limitations (PAD, p. 61). Oversight remained weak, although improved slightly in 2016 when the SOE Directorate and PPP unit merged, leading to the creation of the UASE. The institutional framework for monitoring SOEs was a dual system where the MoFP and line ministries were in charge of monitoring technical and operational performance, while the Treasury was responsible for monitoring the financial performance (PAD, Annex 4, para 13).

Historically, SOE sector reforms in Cabo Verde had yielded mixed results. Between 1992 and 2004, the country succeeded in privatizing more than 27 SOEs, including CVT (telecom) and ELECTRA (water and electricity), and the two major commercial banks, reducing its portfolio from 50 to 23 SOEs. However, these efforts failed to privatize many SOEs, including TACV, which was among those identified for sale.

In 2016, TACV and IFH went bankrupt and became dependent on direct state support. In response, the government decided to implement an ambitious restructuring plan that included, among other key reforms, the airline’s withdrawal from the domestic and regional markets; restructuring and privatization of its international operations; and debt restructuring. The restructuring of IFH was not initially considered during the project appraisal but became a priority for both the government and the WB during the 2021 project restructuring. The revised operation aimed to address the fiscal risks associated with IFH, which struggled to meet its loan obligations during the COVID-19 pandemic, thereby threatening the viability of the CPT Social Housing Program.

Bank strategy: The project’s PDO was aligned with a long-standing WB engagement on SOE reform in Cabo Verde. At appraisal, the project was aligned with the WB’s *Country Partnership Strategy* (CPS) FY15-FY17 whose two complementary pillars emphasized: Pillar 1) enhancing macro-fiscal stability and setting the foundation for renewed growth; and Pillar 2) improving competitiveness and private sector development. The project supported the objectives of Pillar 1 which included specific targets on reducing the government lending to SOEs (from 8.8% to 6.7% from 2013 to 2017) and increasing accountability for results (CPS, para 58, PAD, para 14).

The project was also aligned with the WB strategy for FY20-FY25, which aimed to enhance fiscal and macroeconomic resilience by reforming Cabo Verde SOEs and improving government oversight. This strategy sought to reduce SOEs' dependence on the public budget, improve SOE governance, and enhance service performance. The WB support aimed to reduce public financing to SOEs (including transfers and capital) from 10.9% of GDP in 2017 to 6% in 2023 (CPF, p. 39).

Government strategy: The PDO was well-aligned with the government's *Strategic Plan for Sustainable Development (PEDS) 2017-2021*, which focused on achieving economic stability and improving public spending efficiency, including through the privatization of SOEs. However, during the COVID-19 pandemic, SOE reform was de-emphasized and sometimes reversed as the GoCV had to financially support SOEs to ensure the provision of public services (ICR, para 6, 19). Nevertheless, the PDO was also aligned with the GoCV development strategy at closing (PEDS II, 2022-2026) which aimed to reduce the dependence of SOEs on state support, focusing on decreasing public debt and fiscal risk (PEDS II, p.34).

Previous Bank experience: In the 1990s and early 2000s, the WB had supported the privatization program of the GoCV through a Structural Adjustment Credit (P075700, FY2002) and the Cabo Verde Privatization TA project (P055467, FY1999-2004). The privatization program targeted seven SOEs, including TACV for which the WB operations supported the publication of a privatization decree and a privatization action plan for the airline company. More recently, the WB had a long history of support to SOE reform through numerous operations, including the *Poverty Reduction Support Credits VIII and IX* (P127411 and P147015, FY2013-2015) that aimed to reduce contingent liabilities in SOEs, particularly TACV, ELECTRA, and the National Port Authority (ENAPOR). These operations were complemented with TA under the *Privatization and Regulatory Capacity Building Project* (P055467, FY1999- 2005). Furthermore, the current project was aligned with the *Recovery and Reform of the Electricity Sector Project* (P115464, FY2012-2018) and the *Transport Sector Reform Project* (P161248, FY 2017-2023) which targeted specific sectors and SOEs, including ELECTRA, ENAPOR, and TACV (PAD, para 16).

In 2004, a specialized firm Sterling Merchant Finance Ltd was hired through the WB *Privatization and Regulatory Capacity Building Project* (P055467) to implement TACV's restructuring, develop a privatization strategy, and identify and initiate negotiations with potential international partners. Initially, the restructuring seemed to be successful, as management was able to reduce the number of staff and streamline some operations (PAD, Annex 4, para 26). However, the divestiture program of TACV and other transport companies were not completed, despite two project extensions (ICR, Report 32656, p. 4). Sterling's contract was terminated, halting the privatization of TACV. Numerous studies, business plans, and proposed measures followed without success (PAD, Annex 4, para 22, 24). This includes a WB-financed study conducted in 2016, which recommended a partial liquidation and controlled winding down of TACV operations with the sale of assets. However, the GoCV ultimately decided against these recommendations and chose to restructure and partially privatize TACV in partnership with Loftleidir Icelandic.

The PDO was formulated very broadly, aiming to strengthen SOE-related fiscal management to improve the SOE sector performance and reduce the need for state support (PAD, para 19). The project's PDO was relevant given Cabo Verde's macro-economic challenges, in particular its fiscal and debt situation, and the critical situation of SOEs, in particular TACV and IFH which had become technically insolvent. There was a need to enhance SOE related fiscal management to relieve the state of their fiscal and economic burden, improve the efficiency of public investments, and ensure the effective delivery of public services provided by the SOEs. However, the significant role of the SOE sector in the Cabo Verdean economy, the dual legal and institutional framework for monitoring SOEs, and previous failed attempts to privatize many SOEs made the PDO overly ambitious and too broad for sufficient monitoring, particularly after the AF/first restructuring.

The overall relevance of the PDO is rated as Substantial.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1
Objective
To strengthen SOE related fiscal management.

Rationale
Theory of Change. The original PAD did not include an explicit Theory of Change (ToC), but one was added under the AF/first restructuring (PAD3683, p. 14). The project aimed to strengthen Cabo Verde's SOE-related fiscal management. This objective was to be measured by three indicators: 1) reduced public financing to SOEs, 2) improved operating margin of TACV, which was the majority-owned SOE contributing the most to losses, and 3) increased annual public revenues from SOEs in terms of tax payments, dividends, concession payments, and divestment proceeds (PAD, p.58).

These outcomes were to result from implementing a series of activities, including supporting the restructuring and privatization of TACV through a staff retrenchment plan, privatizing at least eight SOEs targeted by the government's SOE restructuring agenda, and restructuring the social housing sector, which was crucial for service delivery amid the pandemic. Additionally, TA was to be provided to support the broader SOE reform agenda, focusing on improving the SOE legal and regulatory framework and enhancing the government of Cabo Verde's oversight, monitoring and reporting capacity. TA activities also aimed to build the government's ability to design, implement, and monitor concession contracts and PPPs, and strengthen the framework to attract and engage with foreign investors. By the end of the project, these reforms were expected to reduce public sector financing from 9% to 6%, double the cumulative public revenue generated from the SOE sector from US$40 million to US$80 million, and improve TACV's operating margin (operational costs/ operating revenues) from 144% to 80%.

The causal links between project activities (inputs), outputs and some intermediate outcomes were clear. However, the links to the PDO outcomes were missing. It was not clear how these capacity strengthening activities could stimulate reforms to improve the sector performance and reduce the need for state support.

The original focus of the operation was the restructuring of SOEs identified by the GoCV, but following the COVID-19 pandemic, additional activities emerged as priorities. Beside supporting the restructuring and privatization of SOEs, the project scope was expanded to include reforms in the social housing sector (including IFH), strengthening the GoCV's capacity to monitor concession contracts, improving the effectiveness of Foreign Direct Investment in the SOE sector, developing a platform and system for high-quality after-care service to private investors, and conducting outreach campaigns targeted towards specific sectoral investments and investors (PAD3683, para 1, 11). While these measures may indirectly contribute to the SOE privatization agenda, they made the project more complex and further weakened the ToC.

Outputs

The project delivered the following outputs (ICR, ToC, Annex 6 and Key Outputs by Component, p. 29-30):

Component 1: Result Based financing

There were four (4) PBCs aimed at restructuring TACV, focusing on the retrenchment of staff (PBCs 1, 2 and 3) and improving the annual aggregate reports prepared by the SOE oversight entity, UASE (PBC 4) (ICR, Table 4). They were all achieved, and a total of US$16.77 million was disbursed:

1. PBC 1: TACV has adopted and announced a Retrenchment Plan acceptable to the WB. Baseline: No; Target: Yes; Actual: Yes. The project achieved the end-target.
2. PBC 2: TACV has established a Grievance mechanism acceptable to the WB. Baseline: No; Target: Yes; Actual: Yes. The project achieved the end-target.
3. PBC 3: Staff targeted by the Retrenchment Plan has been Retrenched. Baseline: 0; Target: 207; Actual: 330. The project exceeded the end-target.
4. PBC 4: Detailed annual SOE reports prepared by UASE. Baseline: 0. Target: 5; Actual: 5. The project achieved the end-target.

Component 2: Technical Assistance

- SOE policy developed, but formal adoption (enactment) remained delayed (ICR, p. 21)
- Operational SOE database established on the entire SOE portfolio (ICR, p. 21)
- Strengthened legal framework for debt management with a greater emphasis on contingent liabilities. A legal framework was adopted and published.
- SOE portfolio and structuring oversight/holding of SOEs reviewed.
- A concession contract for the seven airports and airfields managed by Aeroportos e Segurança Aérea (ASA) was signed with Vinci Airports.

Component 3: Project Management Support

- Project management tools and reports (manuals, audit and verification reports, etc.).

Component 4: IFH and housing sector reform

- The Grievance Redressed Mechanism (GRM) was successfully created but no complaints were received (ICR, Table 4).

Outcomes

The achievement of the PDO was assessed using the indicators listed below (ICR, Table 4). The actual results are based on the most recent available data at the time of the ICR (all after 2022). The baseline year is 2018, and the targets represent the expected results by the extended project closing date of December 31, 2025.

PDO Indicator 1. Reduced public financing to SOEs - including transfers from the budget and capitalization (% of GDP). Baseline: 10.90%. Target: 6%. Actual: 10.50%. The project did not achieve the end-target.

Public financing to SOEs was expected to increase from 2022 to 2024 due to the planned support for TACV amounting to 3 billion escudos (EUR27 million), with 1 billion escudos (EUR9 million) allocated annually until 2024. According to data from UASE, provided by the project's TTL, capital injections and support for TACV amounted to 1.04 billion escudos in 2022 and 1.0 billion escudos in 2023.

PDO Indicator 2. Improved operating margin of TACV (operational costs/ operating revenues). Baseline: 144%. Target: 80%. Actual: 258%. The project did not achieve the end-target.

TACV's operating margin of 258% greatly missed the project's target of 80%. The indicator's relevance was limited by the project's lack of direct leverage on the airline's revenues and other operating costs, which were significantly impacted by the COVID-19 pandemic and the rising fuel prices due to the war in Ukraine.

PDO Indicator 3. Annual public revenues from SOEs (tax payments, dividends, concession payments, divestment proceeds). Baseline: US$5 million. Target: US$20 million. Actual: US$15 million. The project did not achieve the end-target, only 66% of the targeted change was achieved.

There were inconsistencies between the PDO and IRI results reported in ISRs throughout project implementation (Annex 1 of the ICR), and those reported at project closing in the ICR (Table 4 of the ICR). The data reported in the ICR was provided by the project management unit (UGPE) and considered more reliable by the Task Team (TTL interview). The data from Table 4 is used in the ICRR.

There were 14 **Intermediate Results Indicators** (excluding PBCs) that informed the achievement of the PDO (ICR, Table 4). Four out of 14 IRIs were achieved:

1. IRI1: Comprehensive SOE policy adopted. Baseline: Current (2016) SOE framework law outlines general rules for corporate governance of SOEs and government oversight and reporting. Target: The government adopts a policy on SOEs including clear performance targets and transparency obligations of SOEs. Actual: SOE policy was developed, but its formal adoption (enactment) remained delayed. The project did not achieve the end-target.
2. IRI2: Implementation and utilization of the SOE financial database. Baseline: UASE operates general excel sheet with basic aggregated information on six (6) largest SOEs. Target: Database with complete financial and operational performance information on the entire SOE portfolio. Actual: The database was developed and launched by 2023. The project achieved the end-target.
3. IRI3: Strengthened legal framework for debt management with a greater emphasis on contingent liabilities. Baseline: Fragmented debt management legislative framework. Target: Clear legal framework that is respected by SOEs and the government. Actual: Legal framework adopted and published in the Official Journal. The project achieved the end-target.
4. IRI4: Review of SOE Portfolio and structuring oversight/ holding of SOEs. Baseline: Some individual performance reviews carried out as part of performance agreement preparations. Target: Greater clarity on SOEs that need to be restructured, sold or partially privatized. Actual: The Government put forward a new SOE reform agenda for 2022-2026, which calls for various degrees of privatization of 11 SOEs. This agenda was adopted by the Council of Ministers on 16 November 2022. The project achieved the end-target.
5. IRI5: Fiscal risk monitoring reports on SOE portfolio published. Baseline: Annual report on contingent liabilities from 6 largest SOEs. Target: Comprehensive reports on all SOEs published on MoF's web

site including analysis of financial and operational performance (including, benchmarking) and all financial transfers with the state (including all transfers, arrears, implicit subsidies, etc.). Actual: 2018, 2019, 2020 and 2021 fiscal risk monitoring reports on SOE portfolio published on the MoF's website. 2021 report published in November 2022. The project achieved the end-target.

6. IRI6: Citizen Feedback on SOE Reform Process with sex disaggregated data. Baseline: No information on citizen opinion. Target: Information available on citizens' opinion on how well government has planned for, communicated and implemented SOE sector reforms. The project was not gender-tagged at appraisal, but the AF revised IRI 6 to be gender disaggregated and also added gender related IRIs 9.1 and 14.1. Actual: This indicator had little time to materialize. The target was not met.

New **Intermediate Results Indicators** (8) introduced after the AF/restructuring.

7. IRI7: SOE restructured or privatized. Baseline: 0. Target: 8 SOEs. Actual: 1 SOE. Not on track. The one SOE counted under this IRI is the concession contract for ASA with Vinci Airports. By May 2022, the GoCV approved the selection of VINCI Airports as the concessionaire for its seven airports and airfields. Also, "restructured" or "privatized" would be different from one SOE to another and could mean full or partial privatization, PPPs, and concession arrangements.
8. IRI8: Improved SOE financial accountability and transparency (audited annual financial reports published). Baseline: None. Target: 100%. Actual: 83.30%. The indicator measures the proportion of SOEs (out of all SOEs) publishing annual audited financial reports at the end of 2022, the ICR is not clear on whether reports were published every year.
9. IRI9: Improved capacity of SOE's board members including women (measured by the percentage of board members in total, and women on the board, who received material, and training on guidance and standards developed for SOEs). Baseline: None. Target: 100%. Actual: 0%. This was a new gender-related indicator introduced during the AF. Not measured/Not achieved.
   - IRI9.1: Female SOE board members trained. Baseline: None. Target: 100% female trained at the SOE board. Actual: 0%. Not measured/Not achieved.
10. IRI10: Enhance climate co-benefits of SOE's investment (measured by the percentage of SOE's investment screened based on the climate co-benefits analysis procedures). Baseline: None. Target: 100%. Actual: 0%. Not measured/Not achieved. This indicator was identified at project's end as difficult to measure.
11. IRI11: Grievances received and addressed through the project GRM within the specified timeframe. Baseline: None. Target: 100%. Actual: 0. No complaints received to date. The ICR notes in Table 4 and in paragraph 26 that IRI11 was met (no complaints received). According to the TTL, no grievances were received, so the decision was to say that IRI 11 was achieved/ met. IEG has concluded that the lack of complaints does not necessarily indicate that the IRI was achieved. This indicator cannot be measured.
12. IRI12: Improved social housing (class A) rent collection (measured by social housing rent paid at the latest one month after due date). Baseline: N/A. Target: 90%. Actual: Activity had not started. Not measured/Not achieved.
13. IRI13: IFH business plan informed by the institutional, organizational, and business review adopted. Baseline: No. Target: Yes. Actual: No. Activity had not started. Not measured/Not achieved.
14. IRI14: Increase the satisfaction rate of class A housing beneficiaries. Baseline: The first survey was to help establish the baseline. Target: 50% increase over the baseline satisfaction and by gender. This was one of two new gender-related indicators introduced during the AF. Actual: Activity had not started. Not measured/Not achieved.

- IRI14.1: Satisfaction rate from female beneficiaries. Baseline: n/a. Target: 50% increase over the baseline satisfaction and by gender. Not measured/Not achieved.

In addition to the concession contract between ASA and Vinci Airport, the GoCV continued to utilize the foundations provided by the project to move the SOE restructuring agenda forward. By the project's closing, tender processes had been launched for seven SOEs: (i) CEVC bank (privatization); (ii) CV handling (partial privatization), (iii) ENAPOR (sub-concession); (iv) ELECTRA (privatization); (v) EMPROFAC (privatization); and (vi) INPHARMA (privatization). In some cases, the tendering processes are directly supported by sectoral WB operations, as part of a built-in transition plan set for the early closing of the current project. The plan prioritized completion of well-performing contracts of strategic and foundational importance to the SOE sector ahead of project cancellation, and the carry-over of follow-on (reform) stages to relevant WBG sectoral operations. These included the new *Improving Connectivity and Urban Infrastructure in Cabo Verde Project* (P178644) for *ENAPOR and CV Handling, and the Renewable Energy and Improved Utility Performance Project* (P170236) for ELECTRA (TTL interview and ICR, para 30).

Rating
Modest

OVERALL EFFICACY

Rationale
The project partly achieved its objectives. It did not achieve two of its three PDO indicators (PDO Indicators 1 and 2) but achieved 66% of the targeted change for PDO Indicator 3. The operation achieved its four (4) PBCs, but only four (4) IRIs out of 14. Cabo Verde's economy, and especially the SOE sector, was strongly affected by the impact of the COVID-19 pandemic and the subsequent economic crisis which significantly undermined the achievement of the project objective (ICR, para 44). Among the affected SOEs, TACV was one of the most impacted, due to a combination of restricted/reduced international travel and rising fuel costs.

Overall Efficacy Rating	Primary Reason
Modest	Low achievement

5. Efficiency

Economic Efficiency: There was an Economic and Financial Analysis (EFA) prepared at the time of appraisal which focused on future savings in the public budget through the retrenchment of TACV staff. The NPV was equivalent to US$6.60 million based on an internal rate of return (IRR) of 12% and a net benefit of US$10 million over 10 years. Costs for retrenchment were expected at US$13.20 million. The AF paper included additional economic benefits expected from higher revenues from the SOEs in the form of taxes, dividends, divestment proceeds and higher income after their restructuring. A five-year forecast by the MoF expected US$80 million in accumulated revenues from SOEs. However, the AF did not include an updated NPV/IRR.

The ICR presents an ex-post EFA measuring the benefits achieved by reducing public financing to SOEs (PDO 1) and increasing annual public revenues from SOEs (PDO 3), using a discount rate of 10% The ICR did not provide an updated analysis for PDO 2 (Improved operating margin of TACV). According to the ICR, without correcting for external shocks (Russia's invasion of Ukraine and the COVID-19 pandemic), economic and financial results are modest, with an NPV of US$28.14 million at the end of the project and an IRR of just 2% for PDO 1. For PDO 3, the NPV stands at US$31.28 million and an IRR of 55%. When controlling for external shocks, the benefits of the project were greater. For PDO 1, the NPV was US$207 million, and the IRR was 315%. For PDO 3, the NPV was US$42.07 million and the IRR was 67% (ICR, p.36).

In the ex-post financial analysis, the NPV and IRR are corrected for the war in Ukraine and the COVID-19 pandemic by maintaining the ratios achieved in 2021 until the end of 2024. However, this approach has serious caveats. It corrects for all events occurring after 2021 that reduced the economic benefits of the project, as well as events prior to 2021 for which the negative impact materialized after 2021.This includes, for instance, the re-nationalization of TACV in July 2021, which will result in increased public financing to the SOE sector.

Operational Efficiency: The unforeseen COVID-19 pandemic and the economic crisis negatively impacted the project's implementation efficiency. Operational efficiency was affected by the government's policy shift in its privatization agenda after the COVID-19 pandemic which led to the renationalization of TACV and hindered the achievement of project objectives. Additionally, the expansion of the project scope in 2021 increased its complexity in an already challenging implementation environment.

The project management budget was not increased as part of the US$10 million AF. US$0.50 million. Less than 2% of the total project cost of US$24 million was spent on project management. These costs are deemed reasonable when compared to country and regional averages, according to the ICR (ICR, para 33).

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	12.00	66.00 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The PDO was of substantial relevance, but there were significant shortcomings in the project's achievement of its objectives and its efficiency. The overall outcome rating of the project is Moderately Unsatisfactory.

a. Outcome Rating

Moderately Unsatisfactory

7. Risk to Development Outcome

Economic/ political / social. The project's early cancellation within a challenging economic, social and political context reflects a substantial risk to the development outcome. Macroeconomic conditions had deteriorated after the COVID19 crisis and fiscal and financial challenges have further increased along with the government's policy shift on the privatization agenda. The political economy combined resistance to change and limited interest in investing from internal and external stakeholders given the country's small market size and competition from other West African countries for becoming hub economies.

Financial risk. There is an elevated risk that the deterioration of the fiscal situation since the COVID-19 pandemic and the re-nationalization of TACV could undermine future SOE reform plans. Fiscal and debt sustainability may be further threatened by: (i) increases in the duration or scope of Russia's invasion of Ukraine, and related price increases for oil, for example, that would negatively affect operation costs for TACV; (ii) potential continued SOE reform delays and further financial support to SOEs; and (iii) potential climate-related shocks (ICR, para. 54).

8. Assessment of Bank Performance

a. Quality-at-Entry

The original project design benefitted from a long-standing WBG engagement on SOE reform in Cabo Verde and the GoCV's commitment to reform the SOE sector. However, the government's decision to partially privatize TACV was inconsistent with WB-funded studies which recommended a partial liquidation and controlled winding down of TACV operations with the sale of assets.

In addition, the project's design failed to identify appropriate indicators to measure the project's contributions to the intended outcomes. The main design shortcomings were related to the broad PDO, an ambitious M&E framework, several indicators that were difficult to measure, and some IRIs introduced during the AF/restructuring that measured reforms that were not necessary to achieve the PDO (e.g., enhancing climate co-benefits of SOE investments). Furthermore, the 2021 AF/restructuring expanded the project scope to target IFH without addressing key implementation challenges.

The project's design also overlooked the political and social dynamics impacting SOE reforms in Cabo Verde. The SOE sector was one of the main public employers in the country and a major provider of basic and non-basic public services. In the case of TACV, the national pride associated with the airline as a national carrier in a small island nation along with the government's vision to further develop the tourism sector were strong political components that may have derailed the government from its original plan to privatize the company. TACV had had several failed attempts to be restructured and privatized.

Quality-at-Entry Rating
Moderately Unsatisfactory

b. Quality of supervision

The results framework was not revised, despite some PDO indicators losing relevance and many of the newly introduced IRIs at AF/restructuring faced measurement challenges due to poor design. In fact, the M&E framework worsened as IRIs doubled and many unrelated activities were added after the AF. Furthermore, results were not properly monitored or measured during project implementation, and the results framework was not updated (ICR, Annex 5), hindering timely decision-making.

Given implementation challenges, the AF should have not been pursued. The ICR argues that the COVID-19 pandemic and the re-nationalization of TACV in July 2021 (only one month after the first restructuring/AF) placed all PDO indicator targets out of reach. The Task Team agreed with IEG's assessment, that the first restructuring/AF in 2021 was a missed opportunity to reduce the project's ambition. The results logic underlying the AF was that deepened support to the SOE sector would be critical to maintain fiscal and debt sustainability during the then ongoing pandemic, and to support post-pandemic economic recovery (by enhancing competitiveness and improving service delivery). In practice, the risks to the results logic overwhelmed the mitigation measures. The need for financial support to the SOEs increased, leading to a reversal of the government's privatization agenda on which the AF/ restructuring was based (TTL interview).

Quality of Supervision Rating
Moderately Unsatisfactory

Overall Bank Performance Rating
Moderately Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

M&E design did not provide a ToC at appraisal because it was not required. Nevertheless, while the links between project activities, outputs, and some intermediate outcomes were clear, it was not entirely logical how they would contribute to the broad PDO. Furthermore, the broadly worded PDO made it difficult to deduce the expected results from the statement. Consequently, it was difficult to justify that the three PDO level indicators were the direct measurement of the outcome defined in the PDO statement. Additionally, the number of IRIs (14) was too large and their design very poor, making project supervision challenging. Additionally, the relevance of some indicators was limited. For example, achieving PDO Indicator 2, which measured an improved operating margin of TACV, depended on changes in TACV's revenue or operating costs. However, the project had little direct influence over these factors, aside from staff costs.

b. M&E Implementation

M&E implementation was affected by poor indicator design, data shortcomings, late monitoring of project indicators and lack of proactivity to fix a sub-optimal M&E framework. Data was not always collected and analyzed in a methodologically sound manner. Data was produced for semi-annual ISRs, but reporting was not always accurate due in part to delays in hiring a dedicated M&E specialist.

The effective monitoring of the project's indicators started late in August 2019, more than a year after the project became effective, with the delayed hiring of the M&E specialist. The delay in hiring the M&E specialist hindered accurate reporting of project results. Moreover, once hired, the M&E specialist was required to manage more than 10 projects in the GoCV's development portfolio, which significantly undermined the attention paid to this project and led to inconsistencies between data presented by UGPE and data presented in WB ISRs. This was due mainly to inadequate verification of project outputs during supervision by the UGPE as well as poor monitoring of project results. For example, data was never collected for several IRIs.

The WB lacked proactivity in addressing the sub-optimal M&E framework. This may have been a result of the many changes in TTLs, five during the project cycle.

c. M&E Utilization

The M&E data was not systematically used to inform project management and decision making by the government or the WB for project restructuring purposes. The project MTR carried out in September 2023 provided direct recommendations related to reforming M&E and the restructuring of several aspects of the project, but MTR recommendations were superseded shortly after (ahead of their implementation) by the decision to cancel the project.

Overall, M&E quality is rated as modest, in view of the significant shortcomings in the M&E system's design, implementation, and utilization.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

Environmental/ Social Safeguards: The project was classified under Category C (no assessment project) under the WB safeguard policies at appraisal, as it did not include any activities that involved environmental or social risks. A Poverty and Social Impact Analysis (PSIA) was prepared to assess the social, economic, and distributional impacts of the TACV's restructuring and retrenchment, but no significant issues were triggered. The project established a GRM, but no complaints were received. However, for the TACV retrenchment, two international and five domestic employee complaints were received and were pending resolution at the time of project closure (ICR, para 49).

b. Fiduciary Compliance

There were some delays in the implementation of key activities and procurement processes (e.g., 9 red flags out of 24 processes in STEP). The ISR reports noted that US$983,327 was overcommitted under IDA credit 6251 (Parent Project).

In addition, resources from one category or component were used for the purpose of another such as the funds allocated to PBC 4 used to cover for PBC 3 cost overruns. These were addressed by the second restructuring.

Finally, the share of single source contracts was relatively high with one fourth of contracts (6 out of 24) processed through direct selection method, but in line with standards for WBG-financed operations in Cabo Verde (ICR, para 50).

c. Unintended impacts (Positive or Negative)

None.

d. Other

N/A

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	
Bank Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

The following three lessons are drawn from the ICR.

A more incremental reform approach, centered on results-based financing, could have been more suitable for this operation. The WBG past experience in the sector and the observed reversibility of reforms suggest that a focused intervention on restructuring and privatizing SOEs might have led to a more realistic strategy. This project was designed as a combination of Results-Based Financing and Technical Assistance (TA) resulting in strong performance of PBCs, which incentivized key results, relative to TA elements. While the program achieved significant results in SOE reform, it also embarked on activities that were too ambitious in scope, timeline, or sequencing. A more incremental approach and careful selection of additional activities under the AF that were directly linked to the core of the operation, could have led to better project performance. A PforR could have facilitated the expansion of PBCs towards further critical expected results that could not have been achieved through TA inputs alone. As a PforR combines the use of country – systems and strong cross-sectoral government collaboration and is grounded on strong government ownership, the instrument could have led to a better performance of the TA implementation.

SOE reform agendas must better balance measures linked to fiscal sustainability and privatization, as well as comparative service delivery and political economy aspects. The case of TACV illustrates a complex scenario. Analytical recommendations suggested a partial liquidation and controlled winding down of operations, which could have decreased fiscal risks and improved the SOE sector performance. However, these recommendations overlooked the political and social dynamics, the impact on service delivery and tourism, and the national pride associated with the national carrier in a small island nation.

PDO indicators should provide accurate and reliable evidence of achievement that can be credited to the operation's interventions. PDO indicator 1 on Reduced Public Financing to SOEs was related to the health of the overall SOE sector and prone to exogenous shocks such as the COVID-19 pandemic that led to increased financing needs of SOEs in order to keep and expand the provision of public services. SOE projects should build a ToC that expresses the logical relationships between project activities, outputs, and intermediate and long-term outcomes, establishing a clear contribution to the PDO.

IEG adds that a robust M&E framework is essential for providing reliable evidence on reform progress, which is crucial for informed project management and timely decision-making. Project implementation was hampered by poorly designed indicators, data limitations, and delayed monitoring. Additionally, there was a lack of proactive efforts to address and rectify deficiencies in the M&E framework.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR presented a clear, coherent and well organized overview of the project. The analysis discussed in the text provides sufficient evidence for assessing project performance. The report is concise, follows most of the guidelines, and is focused on results. The ICR lessons are useful and logically flow from the data and analysis provided in the ICR.

The evidence provided is aligned with the messages outlined in the ICR, although there were minor shortcomings in the completeness of data, data discrepancies, and missing information that for the most part were resolved during the interview with the TTL.

However, the ICR could have more effectively captured and described the direct impact of the government's reversal of its privatization agenda, on which the AF/Restructuring was based, on the project results. Instead, the ICR attributed TACV's re-nationalization primarily to the COVID-19 pandemic and placed less emphasis on changes in the country's context and policies, as well as on project design shortcomings that hindered the project from achieving its objectives.

Other shortcomings included an unreliable ex-post economic and financial analysis.

a. Quality of ICR Rating

Substantial