Public Disclosure Authorized

Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 03-Jan-2018 | Report No: PIDISDSC21552

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BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Cabo Verde	P160796		SOE Related Fiscal Management Project (P160796)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	Feb 05, 2018	May 31, 2018	Governance
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	Unidade de Acompanhamento do Sector Empresarial do Estado (UASE)	

Proposed Development Objective(s)

The Project Development Objective is to strengthen SOE related fiscal management

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA)	20.00
Total Project Cost	**20.00**

Environmental Assessment Category	Concept Review Decision
C-Not Required	Track II-The review did not authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

Cabo Verde has made substantial development progress since independence and is currently the 9th richest country in Sub-Saharan Africa (SSA). In 2016 its gross national income (GNI) per capita was US$ 2970, almost six times what it was in 1982.

The country also witnessed a sustained decline in the number of poor and has high human capital achievements. Using a national poverty line, the incidence of poverty fell from 58 percent in 2001 to 35 percent in 2015 while extreme poverty, defined as those below the national food poverty line, dropped from 30 percent to 10 percent during this period.

However, the country's growth collapsed since 2008 as the economy was hit hard by the global financial and the European sovereign debt crises, and the associated fiscal response has led to a rapid build-up in debt.

Adjusting the country's development model to ensure fiscal sustainability require urgent actions to address public sector balances, as well as resolving multiple public financial management issues which impairs government decision making. A new administration took office in June 2016 and presented a plan which emphasized the gradual deceleration of the budget deficit and a progressive decline in the debt-to-GDP ratio over the medium-term as central to the country's development progress.

Sectoral and Institutional Context

The 2013 Country Economic Memorandum (CEM) concluded that there was an urgent need for the government of Cabo Verde to strengthen fiscal management, which includes the adoption of strong program of fiscal consolidation to curb increasing indebtedness. Significant indebtedness of the SOE sector has also become a significant source of fiscal risks, thereby exacerbating medium-term vulnerabilities. This has been further aggravated by relatively weak macro-fiscal and debt management practices. Accordingly, accelerating and deepening the process of fiscal risk management requires urgent reforms in the SOEs sector supported by institutional strengthening on macroeconomic management and SOE oversight.

The SOEs sector in Cabo Verde has long been a source of high risk contingent liabilities for the government due to their generally weak commercial and financial performance. Some SOEs have 'technically' defaulted on debt obligations requiring government assistance through emergency loans and or recapitalizations. TACV is the most critical in the short term, given that it poses the largest burden on the budget and continues to need financial support from government.

The situation in the SOE portfolio is underpinned by a weak corporate governance environment, and improving SOE monitoring and oversight has become a priority for the country.

Relationship to CPF

The proposed support for strengthening SOEs and fiscal risks management mirrors the two complementary pillars of the Country Partnership Strategy (CPS) of the World Bank Group (WBG), covering the years 2014-2017 (Report No. 92248-CV): (a) enhancing macro-fiscal stability, setting the foundations for renewed growth; and (b) improving competitiveness and private sector development. The proposed operation supports the objectives of Pillar 1 which includes specific targets

on reducing GoCV lending to SOEs (from 8.8 percent of GDP in 2013 to 6.7 percent in 2017) and increasing accountability for results in select SOEs.

C. Proposed Development Objective(s)

The Project Development Objective is to strengthen fiscal risk and SOE monitoring and to reduce the operational fnancing needs of selected SOEs.

Key Results (From PCN)

Fiscal risk monitoring reports on SOE portfolio published
Reduced operating costs of TACV
Reduced public financing to SOEs (including transfer from the budget and capitalization)

D. Concept Description

The project consists of two complementary components: (i) Component 1: Results-Based Financing (US$ 17 million) will provide incentives for achieving results in two distinct areas: staff retrenchment in the national airline (TACV); and reduced public financing for the airline's operations, and (ii) Component 2: Technical assistance (US$3 million) to support the GoCV in several technical areas related to the reforms under Component 1. Component 1 will disburse against agreed eligible expenditure programs (EEPs) upon achievement of Disbursement Linked Indicators (DLIs).

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

B. Borrower's Institutional Capacity for Safeguard Policies

After the Rio Conference on Sustainable Development, in 1992, Cape Verde has been undertaking a legal and institutional transformation to promote sustainability by: (a) adhering to and adopting international and regional environmental and social protection and conservation conventions and protocols; (b) approving domestic legislation, and (c) establishing and strengthening public institutions.

Taking into consideration the size of the country and the magnitude of most development operations that have taken place so far the existing legal and institutional framework is generally assessed to be adequate to ensure a reasonably sound management of the country's environmental and social issues in a way that is in line with the WB guidelines. However, there are a few differences between the country's legislations and practices and those of the WB. The SOE project should try to find ways of streamlining and increasing convergence and consequently strengthening the

sustainability of the past and planned interventions, including ensuring that the adopted practices are, to the extent possible, fully in line with existing national guidelines that embed recommended best practices. Reference is made only to the aspects that are relevant for the SOE project, namely (i) environmental and social management of the construction and operation of houses under “Casa para Todos Program -CPT)”, particularly those that are expected to be transferred to the municipalities (Class A); (ii) the process of transferring the houses to municipal management per se; and (iii) the process of retrenching TACV employees.

C. Environmental and Social Safeguards Specialists on the Team

Daniel P. Owen, Social Safeguards Specialist
Alexandra C. Bezeredi, Social Safeguards Specialist
Mbaye Mbengue Faye, Social Safeguards Specialist
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D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Jan 03, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

A PSIA related to staff retrenchment is under preparation and will be finalized before project effectiveness

CONTACT POINT

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Borrower/Client/Recipient

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Implementing Agencies

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APPROVAL

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