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Report No. 12705

PROJECT COMPLETION REPORT

CAPE VERDE

**INDUSTRIAL FINANCE AND PROMOTION PROJECT
(CREDIT 1579-CV)**

JANUARY 26, 1994

**Industry and Energy Division
Sahelian Department
Africa Regional Office**

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CURRENCY EQUIVALENTS

(as of November 30, 1984)

Currency Unit	=	Cape Verdean Escudo (CVEsc.)
US\$1	=	CVEsc. 89.265
CVEsc. 1	=	US\$0.0112

ABBREVIATIONS AND ACRONYMS

BCV	-	Banco de Cabo Verde
CECV	-	Caixa Economica de Cabo Verde
ID	-	Investment Department (BCV)
IMF	-	International Monetary Fund
IPU	-	Industrial Promotion Unit (SEINE)
ISPS	-	Instituto de Seguros e Providencia Social
SEINE	-	Secretaria de Estado de Industria e Energia

FISCAL YEAR

January 1 - December 31

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of Director-General
Operations Evaluation

January 26, 1994

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

**SUBJECT: Project Completion Report on Cape Verde -
Industrial Finance and Promotion Project (Credit 1579-CV)**

Attached is the Project Completion Report on Cape Verde - Industrial Finance and Promotion Project (Credit 1579-CV) prepared by the Africa Regional Office. No contribution was received from the Borrower.

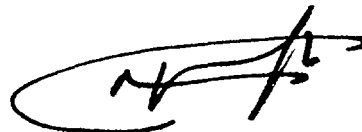
The project was the second IDA operation in the country and the first involving the industrial sector. Its objective was to promote industrial development through the provision of a line of credit to the Bank of Cape Verde (BCV) to finance small and medium enterprises; and technical assistance to BCV and the Directorate of Industry to help establish an institutional structure capable of stimulating industrial development.

Project objectives have been largely met. The line of credit was almost fully utilized and most of the subprojects financed are reported to be performing well. The two new institutional units created under the project have evolved into effective institutions for industrial development and financial intermediation in Cape Verde. In parallel with this project, the Government introduced important financial sector and regulatory reforms, which have improved the environment for private sector development.

Overall, the project is rated as satisfactory. Institutional development is rated as substantial and sustainability as likely.

The PCR is satisfactory. It does not adequately cover the performance of subprojects, because weak monitoring and evaluation arrangements have made it impractical to reestimate economic and financial returns of subprojects.

An audit of this project is not planned.

A handwritten signature in black ink, consisting of a large, stylized initial 'N' followed by a series of loops and a final flourish.

Attachment

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CAPE VERDE
INDUSTRIAL FINANCE AND PROMOTION PROJECT
(CR. 1579-CV)

PROJECT COMPLETION REPORT

PREFACE

This is the Project Completion Report (PCR) for the Industrial Finance and Promotion project in Cape Verde, for which Credit 1579-CV in the amount of SDR 4.1 million (US\$ 4.0 million equivalent) was approved on April 11, 1985. The credit was closed on December 1992, one year behind schedule.

The PCR was prepared by the Industry and Energy Division of the Africa Region (Preface, Evaluation Summary, Parts I and III). On May 21, 1993, the Bank sent the Borrower Parts I and III with the request to prepare Part II by June 14, 1993. As of today, June 29, no reply has yet been received.

Preparation of this PCR is based, *inter alia*, on the staff appraisal report; the president report; the supervision reports; correspondence between the Bank and the Borrower; and internal Bank memoranda.

CAPE VERDE
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PROJECT COMPLETION REPORT

EVALUATION SUMMARY

Objectives

The project aimed at supporting implementation of Government's program for broadening and diversifying Cape Verde's economic base, creating employment, and establishing an institutional structure capable of stimulating industrial sector development. Economic diversification and employment creation would be achieved by identifying, appraising and financing viable industrial projects (para. 9).

Implementation Experience

Appraisal was completed in December 1983. The project was approved on April 11, 1985 and was signed on June 6, 1985. It became effective on November 4, 1985. Actual implementation of the project started slowly due to difficulties experienced in fully staffing BCV's new Industrial Department, BCV's unfamiliarity with IDA's disbursement procedures which necessitated explanations from Bank staff, and difficulties experienced by BCV in collecting payments by sub-borrowers during the first two years.

Despite these problems, the objectives of the project consistently remained valid, and project implementation picked up significantly in 1986. Commitment and disbursement of funds under the line of credit component proceeded smoothly, and by 1990, 87 percent of this component had been disbursed. The final date for sub-project commitment was extended by one year from June 30, 1989 to June 30, 1990. The project's closing date was also extended by one year to December 31, 1992, to allow BCV to complete disbursements of committed funds for approved sub-projects (para 25).

Implementation of the TA components proceeded satisfactorily (para. 20).

The following amendments to the legal documents were made, at the request of the Government of Cape Verde: (i) On April 29, 1986, a small portion of the credit was re-allocated to allow financing of a portion of the rental costs of premises for the Industrial Promotion Unit while its new building was under construction; (ii) in December 1988, the ceiling for sub-loans financed under the credit line were increased from US\$300,000 to US\$650,000 and the ceiling for fixed assets of medium-scale enterprises was raised from US\$1,500,000 equivalent to US\$2,000,000 equivalent.

In addition, undisbursed funds originally targeted for financing technical assistance at BCV were re-allocated. On August 22, 1989, US\$30,000 were taken out of BCV's TA component and used to set up a Special Account as part of IPU's TA component (para. 17).

Results

The project achieved its expected results of creating the institutional structures needed to promote and stimulate industrial sector development. The two new units created by BCV (ID) and by the Directorate of Industry (IPU) performed well and have since then become effective institutions for industrial development and financial intermediation in Cape Verde. (para. 17).

A total of 49 sub-projects were financed under the credit, at an estimated total cost of SDR 3.2 million, which helped to diversify Cape Verde's economy and to create 337 jobs. All of the sub-projects were new ventures, and covered a reasonably broad spectrum of industrial and service activities (fishing, bakeries, hotels and tourism, textiles, carpentry) (para. 24).

With the support of the International Monetary Fund (IMF) and the World Bank, separation of the BCV into a central bank and a commercial/investment bank is currently under way. In addition, a new legal and regulatory framework is under preparation, to promote financial efficiency (para. 28).

Sustainability

Overall prospects for the project's sustainability are good. As mentioned above, the project succeeded in creating important institutional structures (IPU, ID) which have become effective instruments for industrial promotion as well as for private industrial finance. In addition, the improvements in the industrial and financial regulatory and institutional frameworks that were initiated by the project have set in motion a process of deregulation and market orientation that will be difficult to reverse (para. 27).

Findings and Lessons Learned

The main lessons that were drawn from this operation were: (a) in order to accelerate private sector led industrialization process, the need to create the policy environment and industrial regulatory framework, such as market oriented financial sector development confronting private sector operators (para. 26); (b) in order to reduce the excessive use of public sector resources, the need to depend, to the extent possible, on private institutions to assist private enterprises (para. 25); In Cape Verde, this was not possible because of the quasi-absence of the private sector initiative prior to the project. Indeed, this was one of the main reasons to finance the creation of ID and IPU (para.13); (c) in order to promote the private sector initiative, the need to provide appropriate institutional support in the design and follow-up of sub-projects. This was identified as instrumental to the preparation and evaluation problems of those sub-projects which experienced difficulties (para. 24).

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PART I. PROJECT REVIEW FROM BANK'S PERSPECTIVE

A. Project Identity

Project Name:	Industrial Finance and Promotion
Credit No.:	1579-CV
Date of Credit Effectiveness:	November 4, 1985
Completion Date:	April 30, 1993
Closing Date:	December 31, 1992
Original Project Cost:	SDR 4.1 million (US\$4.0 million equivalent)
IDA Credit:	SDR 4.1 million (US\$4.0 million equivalent)
IDA Credit, Total Disbursed:	SDR 3.9 million
IDA Credit, Total Canceled:	SDR 234,822.56
RVP Unit:	Africa
Country:	Cape Verde
Sector:	Industry
Subsector:	DFC

B. Background

1. Cape Verde, an archipelago consisting of ten islands scattered within 165 kms. radius, is a small country with the land area of 4036 square kilometers. It is located 650 kilometers off the coast of Senegal and gained its independence in 1975. Nine of the ten islands are inhabited. The country has a resident population of about 400,000, of which 50% live on the island of Santiago. Approximately a quarter of the population live in Praia, the capital. Actually, there are more Cap Verdeans (750,00) outside of the country than in country itself. This is due to heavy immigration to the USA, Europe and Continental Africa. Difficult living conditions and limited employment opportunities in Cape Verde have traditionally been inducing this immigration. Only one-tenth of the land surface area (426 km²) is arable, and 630,000 km², which include the maritime area 200 kilometers radius around each of the islands, have been declared an Exclusive Economic Zone. During the 1980's, the natural increase in the population was 2.7% per annum (adjusted to 1.5% for emigration). Per capita GNP is estimated to have more than doubled from US\$ 372 in 1980 to US\$ 803 in 1990. The country has very limited natural resource base. The lack of water resources severely limit most economic activities and this is especially acute in the urban centers. In addition, unfavorable climatic conditions, a small domestic market, and costly internal and external communications with the outside world create a further obstacles to the development.

2. **The Industrial Sector.** Following independence, Cape Verde's economic development strategy focused on infrastructure expansion, and advocated a cautious approach

towards industrial promotion. The share of manufacturing and mining in GDP declined from 6.9% in 1977 to 4.2% in 1982, while that of the construction industry increased during the same period from 16.5% to 24%. The fisheries sector, dominated by large industrial fishing units in the public sector, also contributed about 5% to GDP though they are still working below capacity. Infrastructure accounts for an estimated 4% of total employment. Manufacturing, mining and construction employ about 29%, agriculture and fisheries about 30% and the service sector approximately 37% of the economically active population.

3. There were no specific instruments of industrial policy prior to 1982, and no investment code had been published. Industrial policies in Cape Verde were strongly determined by a dominant public sector and the quasi-monopolistic position of larger and medium-sized enterprises. Measured by international standards, however, there is practically no large scale industry sector in Cape Verde. The largest part of industrial production originates from ten public and five mixed-ownership enterprises. Public and mixed enterprises have largely been self-supporting in the past and five of them have been reasonably profitable. Due to the low priority given to private industry, Cape Verde's private industrial enterprises were smaller than public enterprises. They had little capital and voice in determining national policies or regulations. They were also less capital intensive than public or mixed enterprises. However, the Government did not oppose the existence of the private sector and intended to promote and encourage private as well as cooperative enterprises.

4. Despite unfavorable natural constraints such as severe shortage of natural resources, small domestic markets and unfavorable factor costs, the new Government (1991) believes that, under the existing conditions, only industrial sector can vitalize the economy by assuming three major objectives:

- a-) reducing the unemployment;
- b-) reducing the country's extreme dependance in foreign aid; and
- c-) better satisfying basic national needs.

The new Government adopted the objective of minimizing the State's role in the economy by phasing out its portfolio in productive activities. It hopes to achieve this objective by shifting its role through:

- 1-) streamlining public administration (restructuring, civil service reform and rationalization, and decentralization);
- 2-) reforming the public enterprise sector (i.e. reducing government participation in the sector through restructuring, privatization, and liquidation);
- 3-) promoting the role of the private sector in the economy (including the establishment of appropriate institutional structures and a competitive environment);

- 4-) limiting the government investments to the basic infrastructure needed to facilitate the expansion of private sector activities.

In the Development Plan, areas identified as having potential for the private sector development were mainly:

- (i) fishing, fish processing and processing of agricultural products;
- (ii) services to international shipping and aviation (ship repair, bunkering, etc.);
- (iii) construction materials; and
- (iv) light metal, electrical and electronic engineering.

5. **The Financial Sector.** During the appraisal, the banking system in Cape Verde was very small and unspecialized. The formal financial sector has been operating in an entirely state-dominated and non-competitive financial environment. The sector comprised three state-owned institutions:

- (i) Cape Verde Bank (Banco de Cabo Verde = BCV): a monobank performing the services of central, commercial and investment banking, which continues to be the dominant financial institution responsible for some 90% of total domestic credit;
- (ii) Caixa Economica de Cabo Verde (CECV): a savings bank providing consumer and mortgage finance mostly to civil servants, the and
- (iii) Instituto de Seguros e Providencia Social (ISPS): an insurance and social security company.

Established in 1976, BCV has combined the function of different banking activities including the central bank. It has been a well managed institution since its establishment. BCV employs about 320 staff of which 190 are located in six branches and six small agencies spread among the islands. In order to play more active role in the economic development of the country, BCV (advised by IMF and the World Bank) has decided to separate the development finance activities from its central and commercial banking operations. For this purpose, the Department of Credit Services and Branches has been transformed into separate Investment Department (ID) which is in charge of medium and long term investment lending activities. The staffing of ID was difficult since the professionals knowing sub-project evaluation were non existing in the country. In fact, the technical assistance component of the project was mainly designed to finance the training of the future professionals. The development of the new procedures, policies and operations of ID and BCV has required intensive consulting and technical assistance which have been provided under the project. The IDA credit was channeled principally through this new department (ID).

6. The separation of the BCV into a central bank and a commercial and development bank is currently ongoing. After nine years, the separation is still not completed. BCV's overall financial position is rather sound but according to BDO's report (BDO Binder & Co.; an audit firm), the newly created BCA (Banco Commercial do Atlantico) has 35-40%

non-performing commercial loans in its portfolio. Before the implementation of the project and because there was no other institution to undertake private sector promotion activities BCV was undertaking this role. In fact, this was an auxiliary function and BCV was passive as regards to the identification, evaluation and, promotion of investment projects. Also, its project appraisal and supervision procedures needed improvement. The technical assistance and training components of the project contributed substantially to an improvement in ID/BCV's procedures and operational standards.

7. In an attempt to revitalize the economy, reduce unemployment and decrease the country's dependence on foreign aid, the Government, in early 1980s, adopted a program, aimed at improving the macro-economic framework and financial intermediation. It has introduced market signals into economy by promoting private sector development. In the financial sector, it also proposed to move towards adoption of a positive real interest rate policy to compensate for the past erosion of deposit and lending rates caused by rising inflation and fixed interest rates. Financial assistance to develop the private industrial sector was to be provided by the Industrial Finance and Promotion Project.

8. Actually, BCV is in the process of being reconstituted as an independent Central Bank with substantial IMF and bilateral support. Although the new BCA has been established as a separate unit, the key elements of its ultimate configuration remain unresolved. Overall, the financial system of Cape Verde remains embryonic. Substantive work is currently being carried out by the Bank Department in charge to develop this vital sector of the economy.

C. Project Objectives and Description

9. **Project Objectives.** The project aimed at supporting implementation of Government's program for broadening and diversifying Cape Verde's economic base, creating employment, and establishing an institutional structure capable of stimulating industrial sector development. Economic diversification and employment creation would be achieved by identifying, appraising and financing viable industrial projects. The project designed to be complemented by a UNDP/UNIDO technical assistance project (US\$ 0.5 million).

10. **Components.** The SDR 4.1 million (US\$4.0 million equivalent) project consisted of a:

- a. US\$3.3 million line of credit to the BCV to finance productive investments in small- and medium-scale industrial enterprises, including artisans and cooperatives;
- b. US\$0.3 million technical assistance component designed to set up and operate a new Investment Department (ID) within BCV; and

- c. US\$0.4 million to provide the *Secretaria de Estado de Industria e Energia* (SEINE), under the Directorate of Industry, with the technical assistance required to establish an Industrial Promotion Unit (IPU), as a well-managed and effective entity.

11. **Beneficiaries** US\$ 3.3 million would be onlent to BCV by the Government. Small and medium-size enterprises were the main target of the project. Eligible enterprises would include existing and new, private, mixed and public enterprises in the manufacturing, mining, processing, construction agro-industrial sub-sectors; service industries, like repair shops and hotels; fisheries and commercial farming, like poultry and pig farms. High priority would be given to the rehabilitation, modernization and expansion of existing viable or potentially viable enterprises. Medium-scale enterprises would be assisted whenever there are clear export prospects. In order to ensure financing of a range of small enterprises, cooperatives and artisans, a subloan ceiling of US\$ 300,000 would be established. In addition, BCV would establish a revolving fund of US\$ 500,000 from the proceeds of the first round of sub-loans in order to provide short and medium-term financing for working capital and investment needs of very small-scale and artisanal enterprises.

12. **Terms and Conditions of Sub-loans** BCV's sub-loans would finance up to 75% of the total cost of the projects, with the balance to be met by the sub-borrowers' equity contribution. Expansion and modernization projects could be financed up to 100%, subject to adequate equity base. Repayment periods of sub-loans would normally range between three and twelve years, including a grace period of up to three years. Originally, BCV would charge an interest rate between 7.5% and 12.5% depending on the size of enterprise and loans, the loan period and the type and size of the fixed assets. In addition BCV and IDA would review annually the interest rate structure in order to reach a positive return in real terms.

13. **Technical Assistance to BCV and SEINE** The project proposed a close cooperation between BCV's new Investment Department (ID) and the Industrial Promotion Unit (IPU) of SEINE. ID would receive from IPU the sub-project proposals. It would also accept loan applications directly from prospective borrowers and would develop its own project promotion, appraisal and supervision capacity. In order to create the functional ID within BCV, the project proposed US\$ 0.3 million technical assistance which provided:

- two man-year of a development finance expert (US\$ 220,000);
- short-term consultancy services (US\$ 50,000);
- training of ID's staff (US\$ 30,000)

The main functions of the new IPU were:

- (a) to identify and prepare industrial projects;
- (b) to identify suitable project promoters and to advise them on all aspects of project implementation; and

- (c) to provide technical assistance to existing enterprises.

IPU's project preparation work would benefit from the sector and sub-sector studies to be prepared with UNIDO assistance by the Division for Studies and Planning of SEINE. In order to provide SEINE with the technical assistance required to establish IPU as a well managed and effective entity, US\$ 0.4 million of the credit would be used for the following:

- two consultants as an industrial promotion expert (US\$ 220,000);
- short-term consultancy services (US\$ 150,000);
- training IPU staff in industrial promotion, project planning and advisory services (US\$ 30,000).

The project also aimed a close cooperation and simultaneous implementation with the UNDP/UNIDO technical assistance project which would concentrate on industrial planning, policies, sector studies and training.

D. Project Design and Organization

14. The project's design was appropriate at the time of project appraisal. Given the urgency of providing financial and technical assistance to a much neglected sector of the economy (small and medium industrial enterprises), the project was designed to use the existing institutional structure (BCV and SEINE). These were untested institutions in a country facing serious economic constraints, and they needed to be allowed to build up experience in operational and administrative capabilities before being entrusted with the management of industrial finance. A simultaneous effort was made to improve on the structure and the internal functioning of these institutions. This approach entailed certain risks, mainly implementation delays, as BCV's new Investment Department took time to develop the necessary mechanisms for providing and administering financial and technical assistance. In addition, the initial inexperience of BCV staff, and their unfamiliarity with Bank procedures, reduced their capacity and delayed the implementation of the project.

E. Implementation Experience

15. Although the appraisal was completed in December 1983, the credit effectiveness was delayed for several months due to the requirement of a general increase in interest rates as a condition of effectiveness. The project was approved on April 11, 1985 and was signed two months later on June 6, 1985. It became effective on November 4, 1985. Actual implementation of the project also started slowly, for the following reasons:

- (i) difficulties were experienced in fully staffing BCV's new Industrial Department, because of the limited availability of Portuguese speaking experts;

- (ii) BCV's unfamiliarity with IDA's disbursement procedures necessitated repeated explanations from Bank staff.
- (iii) BCV experienced difficulties in collecting evidence of payments by sub-borrowers to contractors for civil works, thus slowing down disbursements in the first two years of project implementation;
- (iv) it took also close to six months to find adequate housing, and the money to finance it, for the Industrial Promotion Unit of the Ministry of Economy and Finance, and this delayed the unit's start up.

16. Despite these initial problems, the project did not lose momentum and consistently remained up to date. Implementation picked up significantly in 1986, by which time all nine staff of the Industrial Department were in place. The project has also been coordinated with a UNIDO technical assistance project under which two industrial planning experts have been provided to SEINE. At the beginning, it was extremely difficult to identify suitable candidates (experts) for SEINE and BCV due to unattractiveness of this "hardship" country and the limited number of portuguese speaking candidates. Preparation of an adequate project pipeline, an objective originally planned to be achieved under PPF, was therefore delayed. The sporadic and modest lending operations of the past have continued largely due to limited investment opportunities in Cape Verde and the total absence of a systematic project promotion efforts.

17. In 1986, with the assistance of an IDA financed expert, ID was physically separated from the BCV's head office. However, the total separation of its accounts is still an ongoing process. The Department was adequately staffed with 23 employees including 7 professionals operating in Praia and San Vicente. Likewise, the IPU in SEINE was operational but at early stages, the non availability of adequate facilities for its location was problem. US\$ 30,000 of the project were allocated for the rental propriety. The staffing of IPU took more time than expected and its part time manager devoted inadequate time to manage the unit.

18. Coordination of the project with the UNDP/UNIDO project (Project CVI/84/002-Industrie) concluded with satisfaction with the completion of the UNIDO project in 1986. According to the conclusions and recommendations of the meeting between the Government, the Bank and UNIDO, the coordination was rather successful in creating a management capacity and an institution building in Cape Verde. The only issue for the Bank was to find the procedural solution in order to pay UNDP with IDA funds since the same technical assistance was already provided to SEINE by UNDP.

19. After a slow start, IDA's organization and operational procedures for sub-project evaluation, formulated by experts providing the technical assistance, have been implemented and the pace of project implementation improved substantially. More than 50 projects were in the pipe-line. Four sub-projects were demanding credits (between US\$ 450,000 and US\$ 650,000) over the agreed ceiling of US\$ 300,000. Following BCV request, the ceiling for sub-loans was increased from US\$ 300,000 to US\$ 650,000 and for fixed assets from US\$

1,500,000 to 2,000,000. Also, in order to make the process of the disbursements, the Bank agreed to a simplified version of "substantiation" for small construction outlays.

20. Implementation of the TA components also proceeded satisfactorily. However, staff of the Industrial Promotion Unit at the Ministry of Economy and Finance seemed to have a better capacity for administering technical assistance than did their counterparts at the BCV, and this was reflected in faster utilization of IPU's TA component. The Investment Department at BCV also outgrew its initial inexperience and evolved into a "breeding ground" for future administrators and managers in public institutions and the private sector. Modifications were made during project implementation to take advantage of the relative strengths of these two institutions.

21. In order to adapt the project to changing circumstances, the following amendments to the legal documents were made, at the request of the Government of Cape Verde:

- On April 29, 1986, a small portion of the credit (7%) was re-allocated to allow financing of a portion of the rental costs of premises for the Industrial Promotion Unit while its new building was under construction;
- In December 1988, the ceiling for sub-loans financed under the credit line were increased from US\$300,000 to US\$650,000 and the ceiling for fixed assets of medium-scale enterprises was raised from US\$1,500,000 equivalent to US\$2,000,000 equivalent. In addition, undisbursed funds originally targeted for financing technical assistance at BCV were re-allocated to pay for technical assistance to the Industrial Promotion Unit in the Ministry of Economy and Finance;
- On August 22, 1989, US\$30,000 were taken out of BCV's TA component and used to set up a Special Account as part of IPU's TA component.

F. Results

22. Notwithstanding the initial delays in implementation, the project achieved its expected results of creating the institutional structures needed to promote and stimulate industrial sector development. The two new units created (the ID at BCV, and the IPU at the Directorate of Industry) performed well during project implementation, and have since then become effective institutions for industrial development and financial intermediation in Cape Verde.

23. The total of 49 sub-projects financed under the credit, at an estimated total cost of SDR 3.2 million, helped to diversify Cape Verde's economy and to create 337 jobs. All of the sub-projects were new ventures, and covered a reasonably broad spectrum of industrial and service activities (fishing, bakeries, hotels and tourism, textiles, carpentry). Based on information available from BCV, most of the projects are operating, and only six are

reported as having difficulties, mainly because of insufficient working capital, inexperienced management, or marketing problems. Sub-project performance seemed to be quite successful and problem-free, when compared to projects in other countries in the region. Quality of ID's loan portfolio has decreased and the doubtful loans increased from 8.2% to 11.7% between 1988 and 1990. As of December 31, 1991, arrears on sub-loans granted by BCV averaged 14% which is low for sub-saharan Africa standards.

24. According to the supervision reports, the quality of project reports was generally good and the performance of the sub-projects was satisfactory. This quality level has been reached thanks to the technical assistance given by ID and IPU to the private sector entrepreneurs. The sub-project applications have indicated that the private sector entrepreneurs were not ready to prepare acceptable feasibility studies and their sub-project preparations have largely depended on the quality and design of the sub-project preparation of ID and IPU. The project processed 57 sub-loan applications. 49 sub-projects were approved and fully disbursed and 8 were cancelled. 18 out of 49 sub-projects were "A" project (US\$ 80,000 and over) (Annex-1). In general, the housing construction loans performed poorly. The approved and disbursed sub-projects have created about 337 employment. In 1990, the line of credit was fully committed and a technical assistance for financial sector development has been arranged. At the request of BCV, the Bank accepted that the financial sector study be changed into technical assistance to help BCV formulate a strategy for financial sector development. The existence of a satisfactory financial sector development strategy was made a prerequisite for a new Bank financing in the sector.

Utilization of Credit 1579-CV
Number of Sub-projects financed

<u>SECTOR</u>	<u>A" Projects</u>	<u>"B" Projects</u>	<u>TOTAL</u>
-Transport Maritime	6	7	13
-Industrial Services	7	14	21
-Construction	3	2	5
-Carpentry	-	7	7
-Bakery	-	1	1
-Textiles	-	2	2

TOTAL (number)	16	33	49

Total Loan in "SDR million"	2.5	0.7	3.2

Employment Creation (estimate)	120	217	337

25. Commitment and disbursement of funds under the line of credit component proceeded smoothly. The project agreement had minor modifications (Table C-Part III). At the end of 1990, 87 percent of the credit had been disbursed. In view of the good prospects for utilization of the credit line, and satisfactory performance of the Investment Department, the final date for sub-project commitment was extended by one year from June 30, 1989 to June 30, 1990. The project's closing date was also extended by one year to December 31, 1992, to allow BCV to complete disbursements of committed funds for approved sub-projects.

26. Parallel to the investment and technical assistance programs introduced by this project, Government initiated reforms of the industrial regulatory framework, and introduced measures to make the financial sector more dynamic in order to improve financial intermediation. In late 1988, the Government prepared a package of enabling legislation to promote private investment, including an investment code (the Foreign Investment Law), an Offshore Banking Law, Customs Regulations for *Entrepots*, an Industrial Development Law, and an Industrial Statute. These measures increased the potential for the private sector in general and foreign investors in particular, and introduced much needed transparency into the regulatory process. In addition, the Government maintained macro-economic stability and a prudent expenditure pattern throughout the 1980s, so that the relative absence of waste and corruption set a tone for honest business practices. More importantly, it never interfered in the internal management of BCV, allowing it to concentrate on its job.

27. Significant progress was also made in improving the financial sector's regulatory and institutional framework. As a first step towards achieving positive real interest rates, BCV agreed on an increase of 2% in all interest rates immediately prior to credit negotiations in 1985. BCV also reviewed the level and structure of interest rates for sub-loans financed under the IDA credit annually. As part of its efforts to compensate for past erosion of the deposit and lending rates caused by rising inflation and fixed interest rates, BCV adopted a program in 1991 that has moved Cape Verde to a positive real interest rate policy. Implementation of the program is proceeding in tandem with banking institutional restructuring (see para. 17) which is expected to be completed by end June 1993.

28. With the support of the International Monetary Fund (IMF) and the World Bank, separation of the BCV into a central bank and a commercial/investment bank is currently under way. Professional training is envisaged for about 60 bankers over a three-year period, and the Bank of Portugal is providing technical assistance for re-training, as well as for studies of the different aspects of banking. In addition, a new legal and regulatory framework is under preparation, to promote financial efficiency by enhancing the prospects for competition among financial institutions, including insurance companies, and by making possible the development of market-oriented financial instruments. State monopoly in insurance ended with the first private insurance company being set up in December 1991 as a joint venture with a foreign partner. These developments have resulted in lower fees and premiums, better services, transfer of know-how, and better professional training opportunities for local staff.

G. Sustainability

29. Overall prospects for the project's sustainability are good. As mentioned above, the project succeeded in creating important institutional structures (IPU, ID) which have become effective instruments for industrial promotion as well as for private industrial finance. In addition, the improvements in the industrial and financial regulatory and institutional frameworks that were initiated by the project have set in motion a process of deregulation and market orientation that will be difficult to reverse.

H. The Bank's Performance

30. About 58.9 staff weeks were spent on project preparation. This is not excessive considering that this project was the Bank's second operation in Cape Verde and the first one in the sector. IDA's supervision of the project was adequate, albeit irregularities (See Table F in Part III). There were nine supervision missions between effectiveness in 1985 and credit closing in 1992. IDA also fostered a continuous and constructive dialogue with implementation agencies which greatly facilitated expansion of the scope of Bank and IMF assistance to Cape Verde.

I. The Borrower's Performance

31. As an institution undergoing change, and given the initial inexperience of its staff for implementing these types of operations, BCV carried out its mandate under difficult conditions. It was, however, able to overcome many operational and organizational problems, mainly because of the commitment of its staff and their capacity for hard work. IPU implemented the promotional and technical assistance components creditably, as BCV did for the line of credit component.

J. Findings and Lessons Learned

32. The experience with this operation, which includes the first IDA-financed line of credit to BCV, suggests that the operation was reasonably successful in financing a number of priority industrial small- and medium-scale enterprise (SME) sub-projects. This was mainly due to the Government's commitment and support. Successful promotion of SME development requires an integrated package of financial and technical support both before and after they are launched, and the lessons to be drawn from their implementation have long been gleaned from similar Bank projects in Africa. This project therefore experienced the merits and weaknesses attached to its own design as well as those of classical DFC projects. However, for a small country like Cape Verde, the problems of DFC projects (large scale portfolio failure; inadequate TA and follow up of sub-projects, etc.) were not as pronounced as those experienced elsewhere in Africa in the 1980s.

33. The main lessons that were drawn from this operation were:

- in order to accelerate private sector led industrialization process, the need to create the policy environment and industrial regulatory framework, such as market oriented financial sector development confronting private sector operators (para. 26);
- in order to reduce the excessive use of public sector resources, the need to depend, to the extent possible, on private institutions to assist private enterprises (para. 25); In Cape Verde, this was not possible because of the quasi-absence of the private sector initiative prior to the project. Indeed, this was one of the main reasons to finance the creation of ID and IPU (para.13);
- in order to promote the private sector initiative, the need to provide appropriate institutional support in the design and follow-up of sub-projects. This was identified as instrumental to the preparation and evaluation problems of those sub-projects which experienced difficulties (para. 24).

K. Project Relationship

34. Bank relationships with the Government and BCV on the project have been good, and Bank personnel on mission have had liberal access to available documentation on the progress of the project.

L. Project Documentation

35. The legal agreements were quite adequate and appropriate for achieving project objectives and the appraisal report of the project provided a useful framework for review of project implementation. However, the information data base on actual sub-project status leaves room for improvement as a modernized and upgraded system would have allowed for better monitoring.

CAPE VERDE
INDUSTRIAL FINANCE AND PROMOTION PROJECT
(CR. 1579-CV)

PROJECT COMPLETION REPORT

PART II. PROJECT REVIEW FROM BORROWER'S PERSPECTIVE

No comments were received from the Government.

CAPE VERDE
INDUSTRIAL FINANCE AND PROMOTION PROJECT
(CR. 1579-CV)

PROJECT COMPLETION REPORT

PART III. STATISTICAL INFORMATION

A. Project Timetable

	<u>Date Planned</u>	<u>Date Actual</u>
Identification:		July 1982
Pre-appraisal mission:		October 1983
Appraisal departure:	November 1983	December 1983
Negotiations:	April 1984	November 1984
Board presentation:	July 1984	April 1985
Effectiveness:		November 1985
Credit Closing:	December 1991	December 1992

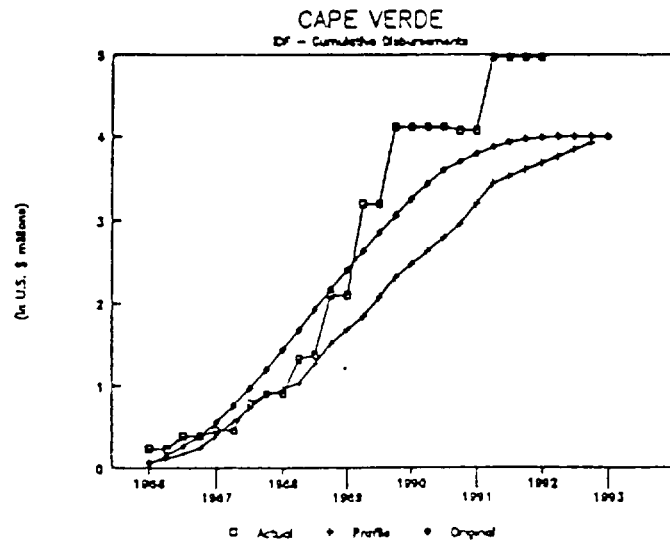
B. Allocation of Credit Proceeds

	(in SDRs)	
	<u>Original</u>	<u>Final</u>
Sub-loans Part A	3,400,000	3,197,338
Consultant Services-Part B	300,000	132,617
Consultant Services-Part C	<u>400,000</u>	<u>535,222</u>
	4,100,000	3,865,177

C. Loan Disbursements (in US\$ millions)

FISCAL YEAR	QUARTER	ACTUAL CUMULATIVE	PROFILE CUMULATIVE	ORIGINAL CUMULATIVE	ACTUAL % OF TOTAL
1986	I			0.06	0
	II		0.05	0.14	0
	III		0.10	0.26	0
	IV		0.17	0.39	0
1987	I	0.23	0.24	0.55	6%
	II	0.23	0.40	0.75	6%
	III	0.38	0.56	0.97	10%
	IV	0.38	0.72	1.20	10%
1988	I	0.45	0.83	1.44	11%
	II	0.45	0.96	1.68	11%
	III	0.78	1.04	1.93	20%
	IV	0.90	1.23	2.17	25%
1989	I	0.90	1.52	2.41	25%
	II	1.33	1.63	2.64	31%
	III	1.38	1.84	2.86	35%
	IV	2.10	2.08	3.06	53%
1990	I	2.10	2.32	3.25	53%
	II	3.19	2.48	3.43	80%
	III	3.19	2.64	3.59	80%
	IV	4.11	2.80	3.69	103%
1991	I	4.11	2.96	3.79	103%
	II	4.11	3.20	3.87	103%
	III	4.11	3.44	3.93	103%
	IV	4.07	3.52	3.97	102%
1992	I	4.07	3.60	3.99	102%
	II	4.97	3.68	4.00	124%
	III	4.97	3.76	4.00	124%
	IV	4.97	3.84	4.00	124%
1993	I	4.97	3.92	4.00	124%
	II				
	III				

a/ The SDR234,822.56 balance (US\$) was cancelled due to lapsing of closing date.



D. Status of Covenants

<u>Covenant</u>	<u>Subject</u>	
3.01(a)	BCV shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and separate accounts to reflect in accordance with consistently maintained appropriate accounting practices the operations and financial condition of the Investment Department, and shall enable the Association's representatives to examine such records.	Complied with
3.01(b)	Without limitation to the foregoing, BCV shall: (i) maintain or cause to be maintained separate accounts reflecting all expenditures on account of which withdrawals are requested from the Credit Account on the basis of statements of expenditure; (ii) retain, until one year after the Closing Date, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing the expenditures on account of which withdrawals are requested from the Credit Account on the basis of statement of expenditure; and (iii) enable the Association's representative to examine such records.	Complied with (no SOEs were applied under project)
3.02	BCV shall: (i) have the Investment Department's accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association; (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including without limitation to the foregoing, a separate opinion by said auditors in respect of the expenditures and records referred to in paragraph (b) of this Section as to whether the proceeds of the Credit withdrawn from the Credit Account on the basis of statements of expenditure have been used for the purpose for which they were provided; and (iii) furnish to the Association such other information concerning the accounts and financial statements of the Investment Department and the audit thereof as the Association shall from time to time reasonably request.	Complied with (received with some delay)
3.03	BCV shall take such steps satisfactory to the Association as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the various currencies (including escudos) used in its borrowing and lending operations.	Complied with

E. Staff Inputs (in staffweeks)

<u>Stage of Project Cycle</u>	<u>Actual</u>
Lending/Preparation	17.8
Appraisal	41.1
Negotiations	9.4
Supervision	<u>55.5</u>
Total:	123.8

F. Mission Data

Type of Mission	Month/Year	No. of persons	SWs in Field	Perform Status
Identification	7/82	n/a	n/a	n/a
Prep/preappraisal	10/83	n/a	n/a	n/a
Appraisal	12/83	3	3	n/a
Supervision I	7/85	1	.2	2
Supervision II	4/86	1	1	2
Supervision III	12/86	1	1	2
Supervision IV	4/88	1	1	1
Supervision V	6/89	2	1	1
Supervision VI	3/90	1	1.5	1
Supervision VII	10/90	1	1	1
Supervision VIII	9/91	1	.3	1
Supervision IX	11/92	2	1	1

NAME OF DFC: BANCO DE CABO VERDE (BCV)
 LOAN NO: CREDIT 1579-CV
 CLOSING DATE: DEC. 31, 1992

AS OF: 10-Dec-93
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#	SUBPROJECT		NO. OF JOBS CREATED	TYPE OF SUBPROJECT	DATE APPROVED	AMOUNT	AMOUNT	SUBTOTAL	
	NO.	NAME OF SUBPROJECT				AUTHORIZED (in SDRs)	DISBURSED	BALANCE	PER CATEGORY
1	A-1	Adriano Antonio Lima	8	Trans.Marit.	11/12/87	235,000	232,989	2,011	
2	A-2	Avicola Ildo Antonio Duarte	7	Ind.Services	11/12/87	112,840	110,561	2,279	
	A-3	Pao-D'Ouro 3/	5	Bakery	12/15/87	113,000	0	113,000	
3	A-4	Custodia da Conceicao Quintino	10	Trans.Marit.	3/16/88	86,000	81,791	4,209	
4	A-5	SODIGAS		Ind.Services	2/3/89	496,000	463,376	32,624	
5	A-6	CARGOMAR / Pedro A. Santos e Rui	8	Trans.Marit.	9/20/88	162,000	183,153	(21,153)	
6	A-7	SOPECA	9	Trans.Marit.	10/03/88	190,000	193,307	(3,307)	
7	A-8	MAC/SOBIL	8	Ind.Services	10/20/88	89,970	94,770	(4,800)	
8	A-9	Graf. de Minedelo	2 1/	Ind.Services	10/20/88	99,970	100,728	(758)	
9	A-10	DUNASOL		Ind.Services	12/19/88	126,000	120,103	5,897	
	A-11	PESCA AFRICANA 3/		Trans.Marit.	12/19/88	0	0	0	
10	A-12	MAC - EP		Construction	12/19/88	147,700	145,728	1,972	
11	A-13	SYPEDE		Trans.Marit.	12/19/88	120,600	118,746	1,854	
12	A-14	EMPREITEL FIGUEIREDO, LTDA.		Construction	12/19/88	105,500	105,972	(472)	
13	A-15	Joaquim de Pina		Ind.Services			85,268		
14	A-16	Alicerce S.A.R.L.		Construction			129,007		
15	A-17	CAVIBEL LTDA.		Ind.Services			203,758		
16	A-18	Soc. de Transp. Maritimos Ltda. Starse		Trans.Marit.			92,000		
									2,461,258
1	B-1	SERI-CV	4	Textiles	1/15/87	40,000	40,000	0	
	B-2	Manuel Jesus da Conceicao 3/	11	Ind.Services	1/15/87	0	0	0	
2	B-3	Jose Pedro do Rosario	10	Construction	1/15/87	0	0	0	
3	B-4	Pedro Tomas Mota	6	Trans.Marit.	1/15/87	8,300	8,300	0	
4	B-5	Padaria Atlas	0	Bakery	1/15/87	8,100	8,100	0	
	B-6	EMAP 3/	4	Trans.Marit.	6/4/87	0	0	0	
5	B-7	Carlos Alberto Ferreira Ferro	2	Ind.Services	6/87 & 12/88	20,750	20,750	0	
6	B-8	Isabel Maria Rodrigues Santos	7	Ind.Services	6/9/87	6,910	6,910	0	
7	B-9	Justino Lopes de Barros, Monteiro, Joa	2	Carpentry	7/20/87	5,663	5,663	0	
8	B-10	Marciano Cardoso Lopes	6	Trans.Marit.	7/20/87	14,324	14,324	0	
9	B-11	Manuel da Silva Rocha		Ind.Services	11/11/87	32,200	32,200	0	
10	B-12	Augusto Lopez		Carpentry	12/15/87	8,600	8,600	0	
11	B-13	Aderito Gomez Lobo		Carpentry	12/15/87	4,900	4,900	0	
	B-14	Antonio Ramos Lopez 3/		Carpentry	3/16/88	0	0	0	
12	B-15	Alberto Loff Fernandez		Ind.Services	3/16/88	32,320	32,320	0	

NAME OF DFC: BANCO DE CABO VERDE (BCV)
 LOAN NO: CREDIT 1579-CV
 CLOSING DATE: DEC. 31, 1992

AS OF: 10-Dec-93
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#	SUBPROJECT		NO. OF JOBS CREATED	TYPE OF SUBPROJECT	DATE APPROVED	AMOUNT AUTHORIZED	AMOUNT DISBURSED	BALANCE	SUBTOTAL PER CATEGORY
	NO.	NAME OF SUBPROJECT				(in SDRs)			
	B-16	Francisco Andre Lima 3/		Ind.Services	B	3/16/88	0	0	0
13	B-17	Manuel Teixeira		Ind.Services	B	4/6/88	8,700	8,700	0
14	B-18	Saturnino Monteiro		Ind.Services	B	4/6/88	10,800	10,800	0
15	B-19	Manuel Dias		Trans.Marit.	B	4/27/88	11,200	11,200	0
16	B-20	Orlando Santos Costa		Ind.Services	B	4/27/88	18,720	18,720	0
17	B-21	Sunset Snack Bar		Ind.Services	B	6/26/88	30,264	30,264	0
18	B-22	Jorge Brito Costa		Carpentry	B	6/26/88	7,250	7,250	0
19	B-23	Jose Luis Jardim		Ind.Services	B	7/7/88	14,434	14,434	0
20	B-24	Felisberta da Conceicao Samedo		Textiles	B	9/20/88	4,200	4,200	0
21	B-25	Joaquim Antonio Cosmo		Trans.Marit.	B	9/20/88	13,670	13,670	0
22	B-26	Manuel Jesus Fernandes		Trans.Marit.	B	9/20/88	29,230	29,230	0
23	B-27	Faustino Jose Ferreira Ferro		Construction	B	9/20/88	63,090	63,090	0
24	B-28	Florencio Monteiro		Trans.Marit.	B	12/5/88	23,400	23,400	0
25	B-29	EVA		Ind.Services	B	12/5/88	32,617	32,617	0
26	B-30	Nicolau Alfredo Machado		Trans.Marit.	B	12/19/88	15,100	15,100	0
27	B-31	Manuel da Luz Monteiro		Carpentry	B	12/19/88	15,500	15,500	0
28	B-32	Mario Eduardo Alves		Carpentry	B	12/19/88	12,260	12,260	0
	B-33	Eloy Joao Araujo 3/		Trans.Marit.	B	1/13/89	0	0	0
	B-34	Humberto Gomes 3/		Ind.Services	B	1/13/89	0	0	0
29	B-35	SITA (Soc. Ind. de Tintas)		Carpentry	B	1/13/89	63,036	63,036	0
30	B-36	SOFT, S.A.R.L.		Ind.Services	B		58,865	58,865	0
31	B-37	Miguel Lime		Ind.Services	B		59,200	59,200	0
32	B-38	Tipografia Santos		Ind.Services	B		41,382	41,382	0
33	B-39	Regalinda Rocha Samedo		Ind.Services	B		23,420	23,420	0
									738,405
Number of sub-projects "A":			16						
Number of sub-projects "B":			33	103	2/	4,725,284	2,461,258	133,356	3,199,663
Number of cancelled sub-projects:			8						

- 1/ safeguards employment for existing 7 employees.
 2/ data is not complete.
 3/ Cancelled sub-projects.

INDUSTRIAL FINANCE & PROMOTION PROJECT

Subprojects by sector

