



INVESTMENT **POLICY** REVIEW



CABO VERDE



UNITED NATIONS



IPR
INVESTMENT **POLICY** REVIEW



CABO VERDE



UNITED NATIONS
New York and Geneva, 2018

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United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/DIAE/PCB/2018/2

UNITED NATIONS PUBLICATION

ISSN: 2414-5084 eISSN: 2414-5475

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ACKNOWLEDGEMENTS

This report was prepared by the Investment Policy Reviews Section under the supervision of Chantal Dupasquier, Chief of the Section, Division on Investment and Enterprise (DIAE). Overall guidance was provided by Joerg Weber, Head of the Investment Policies Branch, and James Zhan, Director, DIAE. The report was drafted by Ariel Ivanier, Massimo Meloni, Kai Partale and Irina Stanyukova. Substantive inputs were provided by Hamed El Kady, Fulvia Farinelli, Laina Maia and Irene Rey Landeira.

At various stages of preparation, the report benefited from comments, discussions and/or inputs from Ermias Biadgleng, Joseph Clements, Maha El Masri, Joachim Karl, Teresa Moreira, Fiorina Mugione, Jason Munyan, Claudia Roethlisberger, Christoph Spennemann, Elisabeth Tuerk and Paul Wessendorp. FDI data were provided by the Central Bank of Cabo Verde and the Trends and Data Section, DIAE. Overall statistical assistance was also provided by Jovan Licina. Graphic, production and printing support was under the responsibility of the Document Management Service of UNCTAD and the Production and Support Service of the United Nations Office in Geneva. The report was funded by the Government of Cabo Verde and by the Government of Sweden.



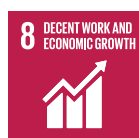
PREFACE

UNCTAD Investment Policy Reviews (IPRs) are intended to help countries improve their investment policies with the objective of meeting the Sustainable Development Goals and to familiarize governments and the international private sector with an individual country's investment environment. The reviews are considered by the UNCTAD Commission on Investment, Enterprise and Development. The analysis is based on the UNCTAD Investment Policy Framework for Sustainable Development (IPFSD) and its core principles and guidelines (UNCTAD, 2015a). The recommendations of the IPR are then implemented with the technical assistance of development partners, including UNCTAD. The support to beneficiary countries is delivered through a series of activities that can span several years.

Consistent with the SDGs, IPRs encourage official development assistance and investment in countries where needs are greatest. The IPR recommendations are in line with countries' national development plans and focus on key development sectors, including agriculture, mining, manufacturing, tourism and infrastructure. By helping countries in this manner, the IPR programme contributes to:



SDG 1 target b: “to create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions”.



SDG 8 target 2: to “achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors”.



SDG 10 target b: “to encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes”.



SDG 17 target 3: “to mobilize additional financial resources for developing countries from multiple sources”.

The IPR of Cabo Verde was initiated at the request of the Government. It analyses the legal and regulatory framework for investment, and contains a strategic analysis on how to better utilize FDI in the tourism sector as a leverage for sustainable development. The IPR is based on two fact-finding missions undertaken in July and December 2017 and information current at that time, as well as additional information made available to UNCTAD until May 2018. The mission received the full cooperation of the relevant ministries, departments and agencies, in particular Cabo Verde TradeInvest. The mission also benefited from the views of the private sector, both foreign and domestic, as well as bilateral donors and development agencies. The Government and the United Nations Development Programme (UNDP) in Cabo Verde provided substantive contributions as well as logistical support to the IPR process. A preliminary version of this report was discussed at national validation workshops in Praia on 23 April, Santa Maria on 24 April and Mindelo on 25 April 2018. The final report reflects comments from stakeholders, including ministries and agencies of the Government of Cabo Verde.

Geneva, June 2018



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ABBREVIATIONS

ACP	Africa, the Caribbean and the Pacific
AfDB	African Development Bank
ADEI	Agência para o Desenvolvimento Empresarial e Inovação (Agency for Entrepreneurial and Innovation Development)
AJEC	Associação dos Jovens Empresários de Cabo Verde (Association of Young Entrepreneurs of Cabo Verde)
AMEPCV	Associação de Mulheres Empresárias e Profissionais de Cabo Verde (Association of Professional and Business Women of Cabo Verde)
AMP	Agência Marítima Portuária (Maritime Port Authority)
ANAC	Agência Nacional de Comunicações (National Communications Authority)
ARE	Agência de Regulação Económica (Economic Regulation Authority)
ASYCUDA	automated system for customs data
BCA	Banco Comercial do Atlântico
BIT	bilateral investment treaty
CAIMA	Câmara Internacional de Mediação e Arbitragem da Comunidade dos Países da Língua Portuguesa (Chamber of Mediation and Arbitration of the Community of the Portuguese Speaking Countries)
CI	Cabo Verde Investimentos (Cabo Verde Investments)
CIN	Centro Internacional de Negócios (International Business Centre)
CIS	Código do Imposto de Selo (Stamp Duty Code of 2008)
CIT	corporate income tax
CNT	Conselho Nacional de Turismo (National Tourism Council)
CPI	Centro de Promoção de Investimento (Centre of Investment Promotion)
CPLP	Comunidade dos Países da Língua Portuguesa (Community of the Portuguese Speaking Countries)
CRP	Código do Registo Predial (Registration Code)
CSR	corporate social responsibility
DEF	Direcção de Estrangeiros e Fronteiras (Foreigners and Borders Directorate)
DGTT	Direcção Geral do Turismo e Transportes (General Directorate of Tourism and Transport)
DIAE	Division on Investment and Enterprise
DNA	Direcção Nacional do Ambiente (National Directorate for Environment)
ECOWAS	Economic Community of West African States
EHTCV	Escola de Hotelaria e Turismo de Cabo Verde (Hotel and Tourism School of Cabo Verde)
EIA	environmental impact assessment
EIF	Enhanced Integrated Framework
EIS	environmental impact studies
EMPROFAC	Empresa Nacional de Produtos Farmacêuticos
ENACOL	Empresa Nacional de Combustíveis
ENAPOR	Empresa Nacional de Administração dos Portos



EPZ	export processing zones
FDI	foreign direct investment
FEE	Foundation for Environmental Education
FET	fair and equitable treatment
FTA	free trade agreement
GDP	gross domestic product
GNI	gross national income
GSP+	Generalized System of Preferences Plus
GSTC	Global Sustainable Tourism Council
ICSID	International Centre for the Settlement of Investment Disputes
ICT	information and communication technology
IGQPI	Instituto de Gestão da Qualidade e Propriedade Intelectual (Quality Management and Intellectual Property Institute)
IGT	Inspecção Geral do Trabalho (General Inspectorate of Labour)
IIA	international investment agreement
ILO	International Labour Organization
IMF	International Monetary Fund
INE	Instituto Nacional de Estatísticas (National Institute of Statistics)
INGT	Instituto Nacional de Gestão do Território (National Institute of Land Management)
IP	intellectual property
IPFSD	Investment Policy Framework for Sustainable Development
IPICV	Instituto de Propriedade Intelectual de Cabo Verde (Intellectual Property Institute of Cabo Verde)
IPR	Investment Policy Review
ISAR	International Standards of Accounting and Reporting
ISDS	investor–State dispute settlement
ISO	International Organization for Standardization
JAMPRO	Jamaica Promotions Corporation
JAPEX	Jamaica Product Exchange
JSC	joint-stock company
LDC	least developed country
LLC	limited liability company
LMITS	Land Management Information and Transaction System
MDG	Millennium Development Goals
MFN	most-favoured nation
MSMEs	micro, small and medium-sized enterprises
NOSI	Núcleo Operacional para a Sociedade de Informação



NT	national treatment
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
PE	permanent establishment
PEDS	Plano Estratégico de Desenvolvimento Sustentável (National Strategy for Sustainable Development)
PPP	public–private partnership
PROMEX	Centro de Promoção Turística, do Investimento e das Exportações (Centre of Tourism, Investment and Export Promotion)
PROMITUR	Associação Cabo-verdiana de Promotores Imobiliários e Turísticos (Cabo Verdean Association of Real Estate and Tourism Promoters)
R&D	research and development
REMPE	Regime Jurídico Especial das Micro e Pequenas Empresas (simplified tax system)
SDE	Sociedade de Desenvolvimento Empresarial
SDGs	sustainable development goals
SEZ	special economic zones
SOE	State-owned enterprise
TAB	Tourism Advisory Board
TACV	Transportes Aéreos de Cabo Verde
TAP	Transportes Aéreos Portugueses
TIFA	trade and investment framework agreement
TIP	treaty with investment provisions
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UASE	Unidade de Acompanhamento do Setor Empresarial do Estado (State Business Sector Monitoring Unit)
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNOTUR	União Nacional dos Operadores Turísticos de Cabo Verde (National Association of Tourism Operators of Cabo Verde)
USAID	United States Agency for International Development
VAT	value added tax
WDI	World Development Indicators
WHT	withholding tax
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
WTTC	World Travel and Tourism Council
ZDTI	Zonas de Desenvolvimento Turístico Integral (integrated tourism development zones)



KEY MESSAGES

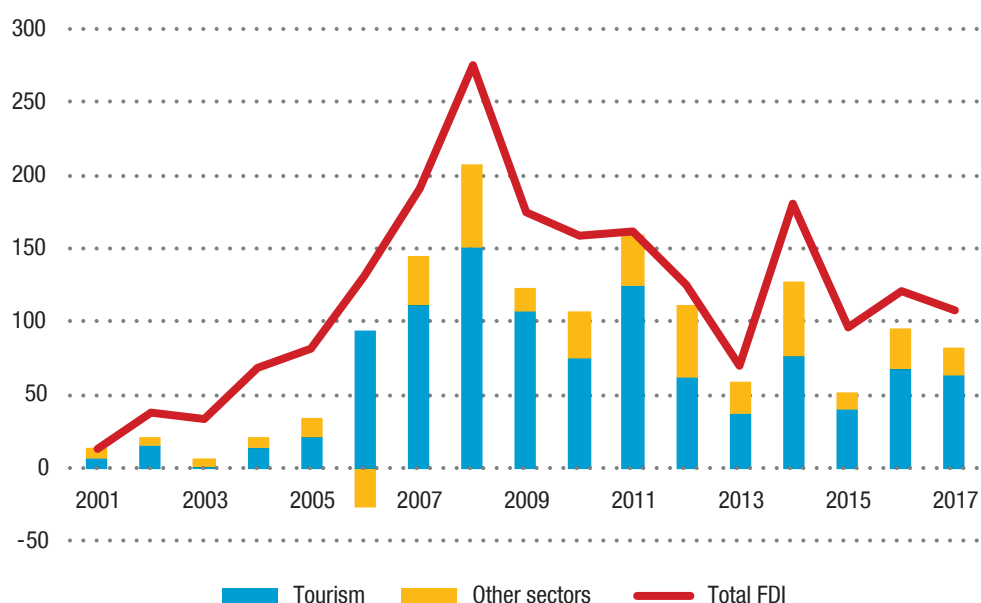
- In Cabo Verde, natural resources, sound economic policies, good governance and the adoption of one of the most open investment regimes in Africa have produced a solid foreign direct investment (FDI) attraction performance since the early 2000s. Notwithstanding the global economic and financial crisis and its impact on Europe – its main trading partner, and primary source of investment and tourists – Cabo Verde is still performing above the average for high-income developing economies in terms of FDI inflows relative to the size of gross domestic product (GDP).
- FDI has had a transformational impact on the economy and was instrumental in the development of the tourism industry, which accounts for close to 45 per cent of GDP and about 40 per cent of employment. It has also played a role in the fishing sector, which is a significant contributor to export earnings. Indeed, without FDI, it is unlikely that Cabo Verde would have graduated from LDC status in 2008 or experienced the remarkable progress recorded in terms of poverty reduction and improvement of other social indicators.
- However, foreign investment remains heavily concentrated in one activity, all-inclusive tourism, and in two locations, the islands of Sal and Boa Vista. Cabo Verde is now seeking to diversify the economy and to broaden its tourism offer beyond the “all-inclusive” model, so as to secure greater development impact, in terms of increased business opportunities for the local private sector, as well as more balanced development among the 10 islands of the archipelago.
- The country's approach to FDI attraction has for long been reactive, and characterized by contract-based, bespoke conditions offered to large investors, rather than determined by the quality of the overall regulatory environment and the effectiveness of its promotional efforts. Despite ongoing business facilitation efforts, which have streamlined business establishment and introduced modern eGovernment tools, several aspects of the investment climate remain challenging, notably for smaller companies. Heavy bureaucratic processes related to licensing, permitting or trading and a complex tax regime affect business competitiveness, while weaknesses in the environmental impact assessment, land allocation process and inspection regimes pose serious risks for the country, including with respect to the achievement of the sustainable development goals (SDGs).
- Other challenges continue to hamper private sector development, and micro, small and medium-sized enterprises (MSMEs) in particular. These include the high cost of electricity as well as poor connectivity both among the country's islands and with its main trading partners. The local private sector also faces skills shortages and access to finance issues, which result in a sizeable informal sector. With notable exceptions, few enterprises have the size and capacity to either become suppliers to larger foreign companies or to internationalize.
- For Cabo Verde to drive FDI towards new sectors and its stated development objectives, including economic diversification through sustainable tourism, a more pro-active approach to FDI policy is required. In this regard, the laws and policies on access to land, social and environmental protection, taxation and competition, for instance, can be strengthened to promote concrete development outcomes and better balance investors' needs with protection of the public interest.
- At the same time, a more pro-active investor targeting effort can do much to attract the type of investment most likely to contribute to job creation, entrepreneurial development, and economic diversification, both by sector and by region, as recognized in the new strategic plan of Cabo Verde TradeInvest. This effort needs to be matched with programmes and initiatives that increase the benefits from FDI by, for example, actively supporting linkages with local suppliers, and promoting sustainable business practices. To support such an effort, this report proposes some policy measures, tools and initiatives to utilize tourism FDI as a leverage for sustainable development.



CONTEXT

Foreign investment greatly influenced the recent economic history of Cabo Verde. While FDI inflows were almost negligible during the period of centralized planning after independence (1975), a series of reforms, undertaken in the mid-1990s, opened the economy to private foreign capital. Between 1992 and 2000, the country attracted about \$190 million in foreign investment, half of which was generated through privatizations.¹ The continued implementation of sound economic policies fostering integration into global value chains, coupled with good governance and a favourable world economic situation, led to a phase of FDI-driven growth, which was characterized by significant greenfield investments (figure 1). During that time, Cabo Verde has registered solid inflows, particularly from foreign investors in the “all-inclusive” tourism sector, with peaks in 2008, 2011 and 2014, when large projects were completed.

Figure 1.
FDI inflows to Cabo Verde, 2001–2017
(Millions of dollars)



Note: FDI by economic activity excludes diaspora investment and intra-company loans. For this reason, it does not add up to total FDI.
Source: Bank of Cabo Verde.

Since 2000, Cabo Verde made considerable progress on various socio-economic indicators. FDI and other external financial flows (official development assistance – ODA, loans and remittances) helped the country achieve economic growth, improve the quality of its infrastructure, boost some important sectors of the economy, such as financial services and some manufacturing, and make headway toward meeting most of the Millennium Development Goals (MDGs).² The country successfully improved its performance on a number of indicators, including poverty reduction, child and maternal health, literacy, education, gender equality as well as access to electricity. Between 2000 and 2007, average GDP growth reached 7.2 per cent (compared to 6.4 per cent for sub-Saharan Africa), and nominal gross national income (GNI) per capita doubled from \$1380 to \$2750. In December 2007, Cabo Verde officially graduated from least developed country (LDC) status, one of only four countries to have done so to date. In 2008, it also joined the World Trade Organization (WTO).

The global economic downturn in 2008 left the economy exposed. The European Union is Cabo Verde's main export market, its main source of foreign investment as well as an important consumer of tourism services. The European Union's share in the country's merchandise exports fluctuated between 73 per cent and 89 per cent over the period 2008–2016.³ Travel services account for half of Cabo Verde's total export revenues, and more than 90 per cent of tourists are from Europe. Since 2000, the local currency, the escudo, has been pegged to the euro, which has helped keep a lid on inflation.⁴ However, the Eurozone crises of 2009–2014 had a serious impact on Cabo Verde's growth. Real GDP growth plummeted from its 15 per cent peak in 2007 to minus 1.2 per cent in 2009 and averaged around the 1.5 per cent level over subsequent years. By 2016, the economy showed signs of a stronger recovery, with GDP growth reaching 3.9 per cent. Nevertheless, following Cabo Verde's graduation from LDC status, the share of grants in ODA decreased substantially over the period 2008–2016 (box 1) and with the share of public debt reaching more than 125 per cent of GDP, debt sustainability has become a concern (IMF, 2016).⁵

Box 1.

LDC graduation: Cabo Verde's transition experience

The economy of Cabo Verde is characterized by its significant dependence on external financing, including FDI, ODA and remittances, and a high level of structural vulnerability. Government concerns about the impact of graduation centred on the potential loss of ODA, which averaged 18 per cent of GNI in the 10 years prior to 2007. While ODA as a percentage of GNI has fallen since then, it has remained relatively high at 14 per cent.

After graduation, Cabo Verde negotiated trade privileges with the European Union (i.e. through the Everything But Arms Initiative until 2012 and the Generalized System of Preferences Plus (GSP+) since 2013). The country also approached multilateral agencies, including the World Bank and the African Development Bank (AfDB), to ensure that it retained partial access to concessional financing (though at somewhat greater cost) through classification as a “blend” country. It also benefited from an additional three-year transitional period for access to the Enhanced Integrated Framework (EIF) for LDCs, with a further two years subject to approval by the EIF Board.

While growth of the tourism sector provided the means to reduce Cabo Verde's dependence on aid and remittances, it was adversely affected by the global financial and economic crisis and by the weak and slow economic recovery in key partner countries (notably in the European Union). Cabo Verde is now at a crossroads, facing challenges to put in place a more sustainable growth model and develop a more diversified productive base.

Source: UNCTAD, 2016b.

Investment flows slowed down and Cabo Verde lost ground vis-à-vis other comparator countries.

While FDI inflows to Cabo Verde declined in the aftermath of the economic and debt crises in Europe, the average level remained above that of the early 2000s (figure 1). However, Cabo Verde's exposure to the crisis can be seen more clearly in its relative FDI performance between 2009–2016. FDI inflows per capita, per \$1000 GDP and as a share of gross fixed capital formation all increased at a much slower rate than, for example, in Ghana, Mauritius, Senegal and the Seychelles (table 1).

Tourism has attracted the lion's share of FDI. According to available data, three quarters (over \$1 billion) of overseas investment flows over 2001–2017 were directed to the tourism industry.⁶ The majority of tourism-related FDI has been attributed to greenfield projects of well-known hotel chains, resort developers and international tour operators, such as the Resort Group (United Kingdom), RIU (Spain), Meliá and Iberostar (Spain), Hilton (United States) and Oásis Atlântico (Portugal). The other main players in Cabo Verde's tourism sector include TUI Group and Thomas Cook, two of the world's largest tour operators. These are vertically integrated firms that manage bookings, inbound and outbound transport, in-country



Table 1.

FDI attraction performance of Cabo Verde and selected African economies

Country	Average inflows of foreign direct investment								Foreign direct investment stock			
	Millions of dollars		Per capita (dollars)		Per \$1 000 gross domestic product		As percentage of gross fixed capital formation		Total millions of dollars	Per capita (dollars)	Percentage of gross domestic product	
	2007-2011	2012-2016	2007-2011	2012-2016	2007-2011	2012-2016	2007-2011	2012-2016	2016			
Cabo Verde	177	122	364	238	104	70	27	18	1 630	3 093	100	
Ghana	2 148	3 311	89	124	70	81	31	30	29 882	1 066	69	
Mauritius	367	372	295	293	39	31	16	16	4 606	3 605	39	
Morocco	2 277	3 033	72	90	25	29	8	10	54 784	1 573	53	
Namibia	774	747	358	314	77	61	32	21	4 367	1 737	40	
São Tomé and Príncipe	43	22	256	120	222	69	48	25	427	2 196	115	
Senegal	324	358	26	24	25	25	10	10	3 696	237	25	
Seychelles	191	202	2 064	2 114	197	160	63	44	2 917	30 064	209	
High-income developing economies	471 835	560 696	202	230	31	25	10	8	7 479 897	3 023	32	

Source: Bank of Cabo Verde and UNCTADStat.

transfer, accommodation, leisure and entertainment, as well as excursions. Besides hotels, Cabo Verde also attracted FDI to the entertainment, catering and restauration services sector. The first casino was built on Sal island, in 2013, with an investment valued at €5 million. In 2016, the Macau Legend Development (China) began construction of a new casino complex in the capital Praia with an announced investment of €250 million.⁷

The direct and indirect contribution of the tourism sector to the economy is sizeable and tourism will likely continue to be a pillar of Cabo Verde's development. The country's objective is to reach one million annual tourists by 2021. The proximity to Europe, a stable political environment, a relatively low threat of terrorism, all year-round sunshine and beautiful landscapes contribute to Cabo Verde's attractiveness for tourists. Cabo Verde was the African country with the highest contribution of tourism to GDP over the period 2011–2014 (43.4 per cent), after only the Seychelles (61.5 per cent) and before Mauritius (26.7 per cent) (UNCTAD, 2017b). The total contribution of tourism to the economy comprises its wider impacts, including GDP and jobs generated by capital investment, supply chains, government expenditures (e.g. on security services, resort area sanitation services, etc.) as well as spending by those who are directly or indirectly employed by the tourism industry. With respect to job creation, the World Travel and Tourism Council (WTTC) estimated that in 2016 the total impact (direct and indirect) of tourism to be about 39 per cent of total employment (91,000 jobs). The direct impact alone accounted for 15 per cent of total employment (35,000 jobs, out of which 7,700 in hotels and accommodation) (WTTC, 2017).⁸ Furthermore, since 2007, the sector has steadily generated more than half of the country's export earnings. Since 2004, the number of international tourists has more than tripled and exceeded, for the first time in 2016, the number of residents.

FDI to sectors other than tourism also plays an important role in economic development. Foreign investment in public infrastructure (i.e. water and sanitation, and renewable energy), information and communication technology (ICT), organic agriculture, fish processing and other types of light industry has also made a contribution to growth and has been influential in upgrading national industries. For instance, tuna processing and canning generate significant export earnings and employment.⁹ The main foreign-owned operators are the Atunlo fish processing and refrigeration complex (Atunes and Lomos SL, Spain), which provides refrigeration services for fish, meat, vegetables and ice to the local fleet and port community, and to the Frescomar cannery, whose production accounts for 43 per cent of Cabo Verde's export of goods.¹⁰

Europe accounts for the bulk of FDI inflows. Four key source countries account for about 70 per cent of cumulative inflows to Cabo Verde: the United Kingdom (27 per cent), Spain (18 per cent), Portugal (17 per cent) and Italy (8 per cent). This reflects, to a certain extent, Cabo Verde's historical relations and its proximity to the European continent. While Portuguese and Spanish businesses are of a different size and operate in various industries, FDI from the United Kingdom and Italy is closely associated with tourism. Although relatively small, some investment also came from Africa, primarily from Angola, whose businesses are active in the banking sector and in the import and distribution of fuels. FDI from other regions of the world is negligible.

Despite its overall impact on the economy, tourism FDI has generated limited economic opportunities for local entrepreneurs. Mainly shaped as all-inclusive packages by big international tour operators, tourism projects in Cabo Verde have not generated significant linkages with other productive sectors of the economy. Tourism resorts operate largely as isolated enclaves and so local businesses remain shut out of the value chains of large foreign companies. WTTC data show that purchases of domestic goods and services by

the tourism industry grew at an annual average of 4.6 per cent between 2011–2016 and amounted to \$170 million in 2016. However, most goods and services are still imported. In the case of food products, estimated to be worth \$60 million per year for big hotels alone, the small scale of local production and poor transport links mean local production is insufficient to meet demand. Consequently, local players have been unable to supply the big hotels or otherwise join international supply chains. Still, some successful examples exist in coffee and food processing that could be replicated (Monteiro and Ferro, 2017).

FDI is unevenly distributed among the country's islands, which has partly contributed to increased internal migration and pressure on public services. Cabo Verde is an archipelago of 10 volcanic islands, three of which have attracted significant FDI (table 2). Between 2000 and 2016, the island of Sal, accounting for 6.4 per cent of Cabo Verde's population, received half of total FDI inflows. Boa Vista is the third largest recipient of investment but is the least-densely populated island in the country. Consequently, average FDI inflows per capita on these islands are many times higher than the national average. Santiago, the largest island of the archipelago and home to half of the nation's population, received almost a third of FDI inflows, and has experienced some FDI diversification due to the presence of financial, ICT and other business services in the capital, Praia. In contrast, the island of São Vicente received 3 per cent of overseas investment, and the remaining islands, which make up almost one fifth of the population, received only 6 per cent of FDI inflows. The new employment opportunities created by foreign investment has spurred internal migration, but housing and infrastructure have not kept pace with the changing economic geography of the islands. In some cases, this pressure has resulted in the mushrooming of illegal settlements with poor sanitary conditions, scarce water supply, fast spreading infectious diseases and a rise in unemployment and crime (AfDB et al., 2015).

A more diversified economy, and a more varied tourism offering could lead to a more sustainable development model... Cabo Verde's strategic location, its natural beauty and diversity, coupled with vibrant creative industries, deep-rooted democratic traditions and political stability open opportunities for development across many sectors of the economy, such as in ICT, financial services or agrobusiness. The country also benefits from its overall liberal trade policy, the presence of a large educated diaspora and the quality of its telecommunications infrastructure. Its geographic configuration, while posing challenges, also represents an asset for developing a broader and more diversified tourism offering, and better distributed economic opportunities. The 10 islands of the archipelago, with their diversity, can become a favourite destination for cultural, ecological, rural and adventure tourism, and FDI can be a driving force to develop such activities. As will be discussed in chapter II of this report, moving beyond the all-inclusive and 'sun-sea-sand' model can also do much to broaden the local economic base and lead the country to the next stage of economic and social development.

...but it requires overcoming the challenges associated with the country's fragmented topography...

The absence of regular low-cost and safe internal maritime transport impedes inter-island integration and affects not only the potential movement of tourists among the islands, but also the capacity of local goods and services suppliers to reach the potential market in other islands. Three major ports in Praia (Santiago), Mindelo (São Vicente) and Palmeira (Sal) handle the bulk of passenger and trade flows and ensure the distribution of goods to other islands. The inter-island maritime traffic is costly and often disrupted. The delivery from local agricultural producers to final consumers can take up to two to three weeks (Monteiro and Ferro, 2017). Encouragingly, the Government is considering the concession of transport services and other infrastructure to private providers. It is working on a strategy to develop capacities of the public-private partnership (PPP) unit and of the local private sector to encourage its participation in the PPP process.



Table 2.



GDP, population and the distribution of FDI inflows between the islands

Island	GDP				Population				Total FDI*		Average FDI* per capita
	2007		2015		2007		2015		Millions of dollars	Percentage of total	
	Millions of dollars	Percentage of total	Millions of dollars	Percentage of total	Persons	Percentage of total	Persons	Percentage of total			
											Dollars
Boa Vista	37	3	68	4	7 328	2	14 451	3	118	8	1 339
Maio	20	1	14	1	6 962	2	6 980	1	7	1	53
Sal	193	13	168	11	22 098	5	33 747	6	700	50	2 210
Santiago	792	52	876	55	264 935	56	294 134	56	451	33	141
São Vicente	244	16	255	16	74 034	16	81 014	15	41	3	35
Others	227	15	214	14	102 230	21	94 506	18	72	6	90
Total	1 514	100	1 596	100	477 587	100	524 833	100	1 388	100	244

Note: FDI inflows include equity investment, real estate and other participation in capital, but exclude emigrants' investment and intra-company loans.

Source: Instituto Nacional de Estatísticas (INE), Bank of Cabo Verde.

...and adopting a more pro-active approach to FDI policy and promotion. Cabo Verde has for long adopted a reactive, piecemeal approach to FDI policy and promotion, in which investors who approached the authorities would be enticed with individual contracts and tailor-made conditions. This has started to change, with investment promotion activities taking a more pro-active and targeted stance. This Investment Policy Review (IPR) supports the adoption of a more coherent and proactive approach to FDI promotion, facilitation and regulation in which Cabo Verde takes control of its investment path. Without losing sight of the factors that have determined FDI attraction to date, the Government can more clearly articulate what type of investment and investors it wishes to attract, and more pro-actively develop local productive capacity to benefit from the positive spill-overs that FDI can generate. To this end, chapter I of this report provides policy recommendations on how to strengthen the regulatory and institutional framework for investment to enhance FDI attraction as well as its benefits, thus fostering diversification beyond tourism (e.g. in innovation-led activities) and within tourism. Chapter II assesses the institutional and policy framework for the promotion of tourism-related investments and identifies ways of steering them towards the achievement of more sustainable development outcomes, including the SDGs, by supporting the development of local entrepreneurship across various sectors of the economy. Annex 1 presents a matrix summarizing all the recommendations contained in this report.



In the mid-1990s, following decades of central planning, Cabo Verde started a process of economic liberalization which created one of the most open investment regimes in Africa. New legislation was adopted with the goal of attracting investment and promoting the economic, social and cultural welfare of the population. More recently, the authorities have been working to improve and streamline business procedures and enhance the efficiency of the public administration and the overall business climate is supported by regulatory flexibility and efficiency. Despite these efforts, many challenges continue to hamper private sector development, and reforms have so far mainly addressed the needs of large firms (particularly in the tourism industry). As a consequence, the regulatory balance between investment promotion and protection of the public interest has often tilted towards the former. The tax regime and the proliferation of incentives, including through investment contracts for large investments (*convenções de estabelecimento*), have created *de facto* discrimination in favour of large foreign companies, and resulted in tax and customs administration hurdles. At the same time, procedures linked to licensing and permitting are still burdensome. Private sector development is also hampered by the uneven development between islands, difficulties in accessing land, real estate or finance, as well as the absence of a robust competition regime and protection of intellectual property. Finally, the institutional capacities in key policy areas such as environmental protection and labour inspections are often limited.

Chapter

1



The
Investment
Framework

A. FDI-SPECIFIC POLICY FRAMEWORK

1. *Entry and establishment*

Cabo Verde has adopted an open, though fragmented FDI entry regime. Investment is regulated by Law 13/VIII/2012 of 11 July 2012 (hereafter referred to as the Investment Law), amended by Decree-Law 34/2013 of 24 September 2013.¹¹ The Investment Law applies to both foreign and domestic investors, and it enshrines the principle of freedom of investment. It states that the realization of investment in any sector of activity is free regardless of the nationality of the investor. However, other sectoral legislations impose restrictions on some activities related to fishing and maritime transport (see below). Other relevant legislation includes Decree-Law 41/2016 of 26 July 2016, which defines the mandate of Cabo Verde TradeInvest, and Law 26/VIII/2013 (amended by Law 102/VIII/2016) on fiscal benefits and other legislation regulating investment incentives (see section F). Finally, Law 49/VII/2009 of 30 December 2009, which defines the general regime of entry in economic activities, also guarantees freedom of enterprise and equal treatment of foreigners. Given the current fragmentation of investment-related provisions, future amendments of the Investment Law should incorporate key aspects, which are currently contained in other regulations, such as the list of sectors closed to investment (i.e a negative list) and the mandate of investment promotion institutions.

The investment regulations define foreign investment in an all-encompassing manner. The Investment Law applies to portfolio and direct investment. The definition of investment includes “all economic activities carried out with contributions from abroad which can have their monetary value estimated.” These comprise: investment in freely convertible currency deposited in a financial institution established in the country; goods, services and intellectual property (IP) rights imported in-kind; and the profits and dividends from an external investment, as well as reinvested profits in the same or another activity (art. 4). The law is less clear about what constitutes FDI. For instance, there is no definition of what threshold of foreign ownership is required for an investment to qualify as FDI in terms of percentage of shareholding, location of headquarters or substantive business activities.

Only few activities are legally closed or restricted to foreign investors. For any fishing activity, licensing is limited to national vessels, which are defined as those that are either: owned by the State; exclusive property of national natural persons; property of national natural persons under co-ownership arrangements with foreigners (regardless of the value of the participation in the acquisition of the vessel); or belonging to legal persons governed by Cabo Verde law and headquartered in the country (Decree-Law 53/2005 of 8 August, art. 8 amended by Decree-Law 47/2014). Licensing for inter-island shipping is also limited to national vessels, whose registration must be previously authorized by the Maritime Port Authority (AMP). However, foreign investors can be authorized to operate in Cabo Verde if no local company expresses an interest in the offer (Legislative Decree 14/2010 on a Maritime Code, art. 428 and Decree-Law 26/93). The Government has indicated its intention to remove those foreign investment restrictions in a future reform. Finally, with regards to ports, the rights conferred by a concession or the licences and the assets assigned to the concessions shall in no case be assigned, encumbered, mortgaged or transmitted to a foreign State (Legislative Decree 1/2013 and art. 40.3 of the Law on Ports).

Since the mid-1990s, privatization programmes have sought to attract FDI in services and infrastructure.

The number of State-owned enterprises (SOEs) had been reduced to 25 at the time of this review.¹² Among key sectors that have recently been fully or partially privatized are the State monopolies in public utilities and fixed-line telecommunications (Cabo Verde Telecom). Also, government stakes in major banks and tourism sector firms have been sold to private investors.¹³ In 2017, in light of the recommendations resulting from the studies and analyses carried out by the State Business Sector Monitoring Unit (UASE) of the Ministry of Finance, the Government approved a new privatization plan, which includes a list of SOEs subject to restructuring, privatization or concession in the next three years. This list comprises major transport and logistics companies, including those managing ports and airports, as well as SOEs in finance and real estate sectors (see Resolution 87/2017 of 3 August 2017). Some activities, in sectors where there are public concerns, can only be offered as a concession for a temporary period, according to Law 49/VII/2009 of 30 December 2009.¹⁴

Although there are no legal restrictions on access to land, agricultural State lands are typically allocated through lease.

There are no restrictions on foreign persons owning land in Cabo Verde. However, when the land required for an investment is publicly-owned (State or municipal land), the authorities usually propose a long-term lease (25 to 50 years), rather than an outright sale of the plot. The reason for this being concerns over large agriculture investments that could have a crowding out effect on domestic firms. In addition, foreign land owners are requested to relinquish rights to international litigation on land issues should any conflict arise (see section E).

There are no approval nor screening mechanisms in place, except for the mandatory registration of foreign exchange operations in the central bank.

According to the Investment Law, foreign investment does not require prior authorization from the Government, provided the activity is permitted by the law (art. 11). Foreign investment need only be registered with the Bank of Cabo Verde. An amendment requiring that registration be done electronically was passed in 2013 to reduce business costs (Decree-Law 34/2013).

2. Treatment and protection

Equality of treatment and non-discrimination are granted to all investors, but the use of incentives and contracts can create advantages for large investors.

According to the Investment Law, all investors, regardless of their nationality, have the same rights and are subject to the same duties and obligations.¹⁵ The law authorizes the use of both general and specific incentives, which could be conditional or automatic, contractual, contingent or temporary, in the form of exemptions, tax cuts, deductions from taxable income, accelerated depreciation and amortization, or investment tax credit. Incentives cannot be revoked or diminished before their termination date unless the beneficiary investor fails to comply with their obligations. However, certain investment projects, given their nature or size, can access special treatment and support from the State through the signing of an investment contract (*convenção de estabelecimento*) (art. 5.2).

In recent years, the bulk of FDI benefited from contract-specific guarantees, creating a complex incentives regime.

According to statistics from Cabo Verde TradeInvest, between 2000 and 2016 the Government signed 45 contracts with foreign investors, published in the Official Gazette, which amounted to about €10 billion. This suggests that a handful of investors, responsible for the lion's share of foreign investments in terms of value, have benefited from substantial facilitation and incentive packages beyond what is usually available to other investors, both foreign and domestic. These benefits, which are contract-specific, are decided by a Commission of the Ministry of Finance and submitted to the Council of Ministers for approval. They can take the form of additional tax holidays, customs exceptions, fast-track procedures for permitting and access to skills, among others. A multi-layered regime has

therefore emerged, which is complex to administer, limits policy space and the ability to undertake reforms (e.g. on tax matters). Moreover, the impact of these incentives is not subject to full cost-benefit analysis (see section F).

The transformation of export processing zones (EPZs) into special economic zones (SEZs) provoked some uncertainty among investors. One outcome of the country's accession to the WTO in 2008 was the issuing of the Code of Tax Benefits (2013) that eliminated the legal framework for EPZs (i.e. *zonas/empresas francas*) and replaced it with one for SEZs (i.e. Centro Internacional de Negócios – CIN). Since by-laws were not issued until 2017 to make the CINs operational, a legal vacuum was created. It generated some uncertainty for companies established under the previous regime in the island of São Vicente (e.g. regarding their tax and customs benefits) and may have delayed re-investments. However, in February 2017, the Ministry of Finance and the Ministry of Economy and Employment created a transitional legal regime, which will be in force until the CIN by-laws are adopted (see section F).

Foreign investors have the right to convert the proceeds of their investment into any other freely convertible currency and transfer abroad all income resulting from their business activities. Cabo Verde accepted the obligations of Article VIII, sections 2, 3 and 4, of the International Monetary Fund (IMF) Articles of Agreement, effective July 1, 2004. The country maintains a foreign exchange regime that is free of restrictions on payments and transfers for current international transactions.¹⁶ Both residents and non-residents may hold foreign exchange accounts. Provided the funds have been duly registered with the Bank of Cabo Verde and that foreign investors have complied with all legal obligations, they have the right to freely convert and transfer abroad the proceeds from their investment. Transfers are authorized by the central bank within 30 days from the date of the request. After this period, the Bank will be liable to pay interest, at the 30-day LIBOR rate, on the amount to transfer deposited in financial institutions that are in the country legally, with past due interest being transferable at the same time as the capital. Whenever the amount to be transferred is likely to cause serious disturbances in the balance of payments, the Governor of the Bank of Cabo Verde may exceptionally authorize capital outflows rationing over a period not exceeding two years.

The Investment Law protects against direct and indirect expropriation. Private property is protected against requisition and nationalization, except for public interest reasons, in accordance with the Law, obeying the non-discrimination principle, and subject to prompt, full and fair compensation (Investment Law, art. 6.1). Compensation is mandated at the value of property on the day a decision to expropriate is taken. Guarantees against indirect expropriation are also mentioned, but the law does not explicitly define what type of actions constitutes indirect expropriation. The Investment Law also mandates that in the event of an investment project being the subject of a nationalization or expropriation process, there is the right to seek constitutional guarantees or other forms of dispute resolution provided by any agreement between the investor and the Government (art. 6.2). Still, at the time of this review, there have been no reported cases of unlawful expropriations, and the Government had not shown a pattern of discriminatory behaviour specifically targeting foreign investors.

Commercial arbitration is available, although its use is limited. The main national arbitration statute in Cabo Verde is the Arbitration Law 76/VI/2005 of 16 August 2005, which applies to parties seeking extra-judicial dispute resolution. According to the law, arbitration should be carried out in Cabo Verde and in Portuguese, unless the parties agree to another location and language. The decision of the single referee or the arbitration committee is final, and there is no appeal. Cabo Verde also has a centre for mediation and hosts the International Chamber of Mediation and Arbitration (CAIMA) of the Community of the Portuguese Speaking Countries (CPLP), an international entity that provides conflict resolution among the nine members of the organization. Foreign arbitral awards are recognized as having binding force, irrespective of the State in which they were rendered and upon written request to the competent court to obtain the *exequatur*, except under circumstances listed in



the law. These include situations where the arbitral award is contrary to public order or if there is no reciprocity of recognition and enforcement of awards rendered in Cabo Verde (art. 45). Cabo Verde is not a signatory to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention).

Investor-State dispute settlement (ISDS) is available at both the national and international level. Article 17 of the Investment Law regulates dispute resolution between the State and investors when these cannot be resolved amicably. Disputes can be submitted to the domestic judicial authorities, but they can also be solved through arbitration (domestic or international).¹⁷ Arbitration must be in accordance with Cabo Verdean laws, unless other procedures are established in international investment agreements (IIAs) to which Cabo Verde is a party.¹⁸ Furthermore, investment contracts may also contain additional provisions on ISDS. Although international arbitration does not preclude recourse to national courts if both parties agree, the legislation does not establish a clear priority to exhaust proceedings in national courts.

Access to international arbitration is limited with regards to land-related disputes. Public and private entities as well as individuals can hold land, independently of their nationality (see section E). However, entities that do not possess Cape Verdean nationality must expressly state that they submit to Cape Verdean laws, authorities and courts, and that they renounce access to any foreign court in any potential litigation (see section A). The latter provision is inapplicable in the presence of an international convention to the contrary provided that it is duly signed and regularly ratified by the State of Cabo Verde (Legislative Decree 2/2007, known as the Land Law, art. 36).

3. International investment agreements

Cabo Verde's IIA network includes bilateral investment treaties (BITs) and treaties with investment provisions (TIPs). As of March 2018, Cabo Verde had concluded 10 BITs, of which seven are in force. The country has also concluded seven TIPs, out of which five are in force (box 1.1).¹⁹ The development of Cabo Verde's BIT network follows the global trend, which saw the negotiation of IIAs substantially increase in the 1990s. One BIT, concluded with Austria, was terminated in 2013.²⁰ The majority of Cabo Verde's BITs have been signed with developed economies, mainly in Europe (six BITs), and the rest with developing economies (four BITs).

The BITs signed by Cabo Verde have a broad asset-based definition of investment, which covers "any" or "every" kind of asset. The only exceptions are BITs with Cuba and China, which require investments to be made "in accordance with the laws and regulations of the host State" and the BIT with Portugal, which sets out a closed (exhaustive) list of assets covered. Furthermore, less than half of the treaties under review contain some form of limitation for foreign corporations qualifying as investors. Two BITs under review – Cabo Verde-Switzerland and Cabo Verde-Angola – require that corporate investors be established under the laws of their home State and have "real economic activities" or "effective economic activities" in, or a "real and continuous link" with that State. With regards to clarifying the definition of investors that are granted protection, only the BIT with Cuba expands the definition of "natural person" to persons that have a permanent residence in the signatory country.²¹

Nearly all BITs provide for national treatment (NT) or most-favoured nation (MFN) treatment. Only the Cabo Verde-China BIT omits a NT and MFN obligation, and none of the reviewed BITs explicitly excludes ISDS from the scope of application of its MFN clause. In all BITs that include NT and MFN clauses, these are granted for the post-establishment phase of an investment. Still, almost all BITs include carveouts from the MFN obligation. These are linked to norms regulating regional economic integration or taxation agreements (except for *Cabo Verde-Angola* and *Cabo Verde-Switzerland*, which do not exclude taxation treaties as carveouts).



Box 1.1.

Bilateral investment treaties and other international treaties with investment provisions

Since its independence, Cabo Verde concluded bilateral investment treaties with the following countries: Angola (1997), Austria (1991, terminated), China (1998), Cuba (1997), Germany (1990), Italy (1997, not in force), Mauritius (2017), Netherlands (1991), Portugal (1990) and Switzerland (1991).

In addition, seven multilateral treaties contain investment provisions. These are:

- **Economic Community of West African States (ECOWAS) Treaty** (1975, revised in 1993). It calls for the harmonisation of national investment codes for the adoption of a single investment code for the Community.
- **ECOWAS Protocol on Movement of Persons and Establishment** (1979). It provides for the freedom of residence and establishment of persons within the Community.
- **Treaty Establishing the African Economic Community** (1991). It includes provisions on the free movement of capital within the Community through the elimination of restrictions on the transfer of capital funds between member States.
- **Africa, the Caribbean and the Pacific (ACP)-European Union Partnership Agreement** (Cotonou Agreement, 2000). It does not include substantive investment protection provisions. However, it contains provisions on investment and private sector development to support economic reforms and policies at national and/or regional level aimed at creating a favourable environment for investment.
- **ECOWAS Energy Protocol** (2003). It establishes a legal framework for promoting long-term cooperation in the energy field. Chapter III of the Energy Protocol is devoted to investment promotion and protection, and includes substantive provisions (e.g. fair and equitable treatment (FET), NT, MFN, expropriation, transfer of funds and ISDS provisions).
- **ECOWAS Supplementary Act on Investments** (2008). It includes substantive investment provisions (e.g. FET, NT, MFN, expropriation, transfer of funds and ISDS provisions). The Supplementary Act also stipulates that the Community and its member States shall create regional and national structures for the implementation of the ECOWAS Investment Rules.
- **ECOWAS – United States Trade and Investment Framework Agreement** (TIFA, 2014). It establishes a United States-ECOWAS Council on Trade and Investment with the objectives of expanding trade and investment. It seeks to do so by providing for the protection of intellectual property rights, the environment and workers' rights. It also aims at working towards the removal of impediments to trade and investment flows, seeking the advice of the private sector and civil society, and at considering specific trade or investment matters between the Parties.

Source: UNCTAD IIA Database.

Overall, the IIA network provides general and broad commitments to protect foreign investors/ investments. All of the BITs under review grant foreign investors the right to freely transfer any investment-related funds into and out of the host country, and none of the reviewed BITs include an exception to this clause. All the BITs concluded by Cabo Verde include a fair and equitable treatment (FET) provision and none of the BITs reviewed qualify the FET standard by reference to international law or contain an indicative list of what constitutes a violation of the FET standard.²² Furthermore, whereas all BITs concluded by Cabo Verde include a clause on direct and indirect expropriation, none of them defines indirect expropriation. Finally, none of the eight BITs reviewed carve out general regulatory measures or licences in conformity with the WTO.



Half of the BITs reviewed include a so-called umbrella clause, which can potentially increase coverage of treaty guarantees. Umbrella clauses in BITs set out the host State's commitment to "observe any obligation it may have entered into with regards to investments of investors of the other Contracting Party". In the case of Cabo Verde, the following treaties contain such clauses: Cabo Verde-Germany, Cabo Verde-Netherlands and Cabo Verde-Switzerland.

All BITs provide for investors' access to ISDS covering any dispute relating to an investment. Cabo Verde BITs generally allow for the settlement of disputes under the United Nations Commission on International Trade Law (UNCITRAL) rules or under the ICSID rules. The only exception is the Cabo Verde-China BIT, which states that the tribunal shall determine its own procedure and refers to the ICSID as guidance. This BIT also limits access to international arbitration to disputes involving the amount of compensation for expropriation that could not be settled within six months after resort to amicable settlement. In addition, access to international arbitration is not allowed if the investor had already brought the dispute before the domestic courts of the host State.

None of the reviewed BITs include a general or essential security exception, and most do not include pro-active investment promotion or facilitation provisions. Clauses containing exceptions allow the contracting parties to adopt, maintain or enforce any non-discriminatory measures designed for the protection of human, animal or plant life, health, environment, public order, national security or culture. Regarding investment facilitation and promotion, only the Cabo Verde-Cuba BIT includes a provision relating to investment facilitation, stating that each contracting party shall create conditions favourable to the granting of visas and permits necessary so that the investor of the other contracting party can carry out the activities related to the investment. None of the BITs have a specific provision on investment promotion.

By August 2017, Cabo Verde had been a respondent in only one known treaty-based ISDS case. PT Ventures (Portugal) v. Cabo Verde ICSID Case ARB/15/12 was filed in 2015. The claimant is a minority shareholding in Cabo Verde Telecom S.A., a telecommunications services provider which has 440,000 mobile and 64,000 landline clients in the country. The claim arose out of the alleged unilateral termination of the partnership agreement in December 2014 signed between the claimant and the Government of Cabo Verde in 1996. The case is pending.

ASSESSMENT AND RECOMMENDATIONS

Cabo Verde has been working to consolidate an open regime for FDI, in line with a process of economic liberalization which started at independence and is still ongoing. Although the regime that resulted is attractive to investors, it has some drawbacks. Some key concepts (i.e. "investment", "investor", "in direct expropriation") and procedures (i.e. arbitration) are broadly defined and could create excessive liabilities for the State. The approval of the Investment Law in 2012 was an important landmark towards the creation of a simplified general regime that applies to all investors regardless of size and nationality. However, the bulk of foreign investment is still governed by contracts which set out very specific provisions and guarantees. While investment contracts can be perceived, by the State and the investor, as advantageous since they can allow for tailor-made solutions and provide an opportunity to commit investors to specific development contributions (e.g. building infrastructure, providing training, transferring knowledge), they need to be used with caution. A proliferation of investment contracts can be counter-productive in the long run because it can encourage discrimination among investors, hamper transparency and create an overly complex legal regime, which is administratively cumbersome.

Finally, the review of Cabo Verde's IIAs shows that the country's treaty network consists largely of first generation IIAs, which do not feature the reform-oriented elements reflected in UNCTAD's recent work on this subject. Looking forward, Cabo Verde could modernize its existing treaty network, with a view to bringing it in line with today's sustainable development agenda and reducing exposure to ISDS claims. A reform of the existing network could be guided by UNCTAD's tools, included in the World Investment Report and in the Reform Package for the International Investment Regime (UNCTAD, 2018 and 2017a). These tools were designed in phases for the negotiation of new treaties, the modernization of existing ones and for fostering consistency between national and international investment-related provisions.

Therefore, in order to improve the FDI-specific policy framework, it is recommended that the Government:

I.A.1. Ensures that future amendments to the Law on Investment consolidate all key provisions of the national investment regime in one piece of legislation, including the mandates of investment promotion institutions and the list of sectors that are closed to investment (i.e. a negative list approach).

I.A.2. Harmonizes investment-related definitions across all laws and regulations governing FDI. Attention should be paid to providing clear definitions of "foreign investment", "foreign investor" and "indirect expropriation" in line with international good practice.

I.A.3. Considers amending the legislation to prioritize domestic solutions to investor-State disputes.

I.A.4. Considers phasing out the use of investment contracts and granting tax- and non-tax incentives based on pre-defined criteria that are performance-based, time-limited and subject to cost-benefit review.

I.A.5. Focuses IIA treaty-making on the following key areas of reform, in line with its broader national development strategy:

- Refining and clarifying key provisions (e.g. definition of investment, indirect expropriation, FET).
- Safeguarding the right to regulate for public policy objectives, while maintaining effective investment protection (this includes phrasing key treaty clauses in a predictable and focused way, and including general exceptions and carveouts).²³
- Improving investment dispute settlement mechanisms. Options include qualifying the ISDS mechanism through, for instance, defining the range of disputes that can be subject to ISDS, and circumscribing the spectrum of ISDS, (e.g. excluding financial services and prudential measures).
- Strengthening the investment promotion and facilitation dimension of its IIAs. The Government may wish to consider, for example, including provisions encouraging investment flows and raising investors' awareness of investment opportunities as described in the action lines of the Global Action Menu for Investment Facilitation (UNCTAD, 2016a).
- Promoting responsible investment. Options include, maintaining or raising standards, clauses and provisions on investor responsibilities, such as those on compliance with domestic laws and on corporate social responsibility.

I.A.6. Considers developing a model treaty that embodies the above-mentioned refinements and clarifications in line with modern practice. Such a new model treaty could be used as the basis for Cabo Verde's response to requests for negotiating new IIAs. UNCTAD stands ready to provide technical assistance to develop a model treaty and implement each of the reform options referred to above.

B. COMPANY ESTABLISHMENT

The Commercial Code defines five types of companies allowed to operate in Cabo Verde, including the standard joint stock and limited liability companies. The different types of firms that can be incorporated vary with regards to size, management and reporting requirements. They include commercial partnerships (*sociedade em nome colectivo*), limited liability companies (LLC) (*sociedade por quotas*), joint-stock companies (JSC) (*sociedade anónima*), the limited partnerships or limited partnerships with shares (*sociedade em comandita simples or sociedade em comandita por ações*) and the cooperative (*sociedade cooperativa*) (Code of Commercial Enterprises, Legislative Decree 3/99, of 29 March 1999, art. 3). Of these, LLC and JSC are the most common ones in the country. Since 2013, there is no minimum capital requirement for either type of firm.

Registering a company has become straightforward. In 2008, the concept of Business-in-One-Day was introduced, which aimed to expedite company establishment in selected locations (Decree-Law 9/2008 of 13 March). Accordingly, JSCs and LLCs can be established in person at any office of the Commercial Registry Department within Casa do Cidadão (Citizen's House). The process can also be started online.²⁴ In 2014, additional measures were approved to simplify the procedures for the amendment of commercial companies and introduce a single fee regime for their creation, alteration or closure (Decree-Laws 11/2014 and 12/2014). Only one business establishment procedure can be relatively burdensome for firms – obtaining a municipal licence, which includes an inspection, takes eight days to process and costs CVE 30,000. Since 2009, however, this can be carried out after the enterprise starts its operations, in line with good international practice. At present, the Government is also looking at simplifying the work of notaries by creating a database of pre-approved company names that could be used by new firms. Following the reforms, setting up a business in Cabo Verde is easier and cheaper than in several comparators (table 1.1).

Looking forward, the Government will introduce eGovernment and other reforms to further facilitate business procedures. Cabo Verde has one of the most advanced eGovernment agendas in Africa. For instance, the law on Business-in-One-Day foresees full online company registration. The legislation has been approved and the process is underway, including the development of a software application as well as the definition of procedures, which should be implemented in 2018 by the Núcleo Operacional da Sociedade de Informação (NOSI), an SOE in charge of rolling out digital technologies in the public administration.²⁵ This initiative is part of a broader public administration reform that aims to improve relations between Government, citizens and businesses through higher quality services. The reform includes guidelines for public servants to reduce waiting times and travel; reduce the number of interactions related to the same process; provide services on time; give more and better access to information; and eliminate the

Table 1.1.
Company establishment in Cabo Verde and selected comparators

Indicator	Cabo Verde	Sub-Saharan Africa	OECD high income	Overall best performer
Procedure (number)	8	7.6	4.9	1 (New Zealand)
Time (days)	11	24.0	8.5	0.5 (New Zealand)
Cost (per cent of income per capita)	15.4	49.9	3.1	0 (United Kingdom)

Source: World Bank, 2017.



need for certificates for services between State entities (Resolution 41/2011 on the implementation of the Law 39/VI/2004 on Modernization of Public Administration). Government plans also involve several measures to make public services more efficient, including the upgrading of tax administration at the national and municipal level, promoting meritocratic recruitment as well as innovation and quality certification in public administration.²⁶

Smaller firms, however, could benefit more from recent business facilitation reforms. Although the Business-in-One-Day system is available to all LLCs, the bulk of private firms are MSMEs, often micro firms with only one owner and very limited economic resources. Since 2015, a simplified registration system is available for firms wishing to be included in the special legal regime for micro and small enterprises (see section F). However, these firms need to register through a paper-based system. Eligible firms include companies without organized accountancy, for which a discount in fees is also available (i.e. firms are only required to pay for the company name fees and the obligation to publish in the official gazette is waived). In some municipalities, interviewed stakeholders suggested that registration for firms applying for the simplified system can take up to two weeks. Nevertheless, statistics show that the simplified system has been gaining popularity among small entrepreneurs since it was introduced (table 1.2).

Licensing requirements are costly, especially in less developed islands. Whereas the simplification undertaken during recent years has focused on start-up procedures *stricto sensu* (i.e. the creation of a legal entity), other interactions with government agencies can still be burdensome. These include obtaining permits to set up facilities, and securing sectoral licences and permits. According to interviewed stakeholders, the biggest challenge is to obtain municipal licences, which are obligatory for all businesses. The unequal level of economic development between islands has impacted State resources at the municipal level, and in some municipalities meeting licensing requirements can be substantially more burdensome, especially in terms of waiting time. In the past, CV Investimentos, the precursor to Cabo Verde TradeInvest, used to host UNCTAD’s *eRegulations* platform, which provided useful information on how to set up businesses, and included some guidance on the permitting required for some activities, such as trade and commercial activities. However, the mapping was not extended to other important activities, such as tourism, shipping, fishing, construction, industry, and the portal is no longer active.

Table 1.2.
Number of companies registered under the two business registration regimes

Year	Business-in-One-Day	Simplified tax system (REMPE)
2008	462	
2009	782	
2010	916	
2011	1 197	
2012	949	
2013	1 011	
2014	1 022	
2015	1 089	192
2016	713	2 493
2017	488	3 220
Total	8 629	5 905

Source: Citizen house.



Access to electricity remains costly and time-consuming. In Praia, the procedure for accessing electricity involves several onerous steps: submitting an application to the national electricity company (Empresa de Electricidade e Água – Electra); waiting for an estimate of the installation costs; receiving a site inspection; hiring a contractor to prepare a connection (and have it approved); having the contractor build a transformer post; obtaining an excavation permit from the municipality; receiving an internal wiring inspection by Electra; signing a contract with Electra; receiving an inspection of the transformer post and obtaining the final connection. The total number of procedures requires 88 days and costs over 1000 per cent of income per capita. This places Cabo Verde 145 in a global ranking (World Bank, 2017). It is likely that the procedures required in other islands are no less onerous. Interviews with private stakeholders also revealed that the process for changing property ownership of business facilities can lead to service disruptions. According to government plans, Citizen House is about to develop a partnership with Electra to facilitate payment of invoices. The plan however does not include the first installation nor the debt re-negotiations of individual users.

ASSESSMENT AND RECOMMENDATIONS

The Government has given much attention to improving business registration procedures and introducing innovative eGovernment solutions. The impressive results are acknowledged by the private sector and by development partners. Future efforts should focus on expanding this success to under-served sectors of the country as well as improving other aspects of business operations, such as licensing, permitting and access to electricity. UNCTAD recommends that the Government:

I.B.1. Moves forward with current business facilitation reforms, by:

- Completing the Business-in-One-Day initiative to ensure all phases of business establishment can be completed electronically, including company registration.
- Reducing registration time for firms wishing to be incorporated in the simplified regime (REMPE).

I.B.2. Undertakes a mapping of all business licensing and permitting for all economic activities that take place in all islands as a first step to rationalize procedures.

I.B.3. Carries out a streamlining exercise in coordination with the municipalities to reduce the inefficiencies in post-establishment procedures, including licensing, inspections and access to electricity.

UNCTAD's Business Facilitation Programme could assist the Government by reactivating the eRegulations programme and expanding it to include information on licensing and permitting regulations. It could also provide assistance to the ongoing eGovernment efforts through the introduction of the eRegistrations portal to facilitate business processes and trade.

C. ENVIRONMENT

Protecting the environment is fundamental to the success of Cabo Verde's development strategy, which is based on tourism. The existing regulatory framework for environmental protection was developed at a time when the balance between promoting investment and protecting the environment was skewed towards the former. Unplanned growth in some of the islands has created rising social and environmental costs that are felt across the whole country and calls for a policy re-assessment. A key challenge for the Government is building capacities to better monitor economic activity and its direct and indirect impact on the population and the country's natural resources.

The environmental protection legislation is 30 years old and was not implemented for many years. In 1987, the first law on environmental impact assessment (EIA) was approved, and the Ministry of Agriculture and Environment started its efforts to address the environmental impact of economic activity. The law, which was largely modelled on the Portuguese environmental law, became enforceable only in 2002. At this time, a National Directorate for the Environment (DNA) was established, specific regulations were adopted, and a model EIA was developed. The law has not been revised since 1987, and the secondary legislation was only recently passed to provide guidance for the undertaking of EIAs (Decree-Law 29/2006 of 3 March 2016) and to regulate the administration of fees for their undertaking (Decree-Law 5/2014 of 29 January 2016).

EIAs are mandatory for most projects that will have a potential impact on the environment. The DNA has a remit on the granting of environmental licences and the undertaking and evaluation of EIAs. Decree-Law 29/2006 requires the undertaking of EIAs for all projects in environmentally sensitive areas as well as for a broad list of economic activities.²⁷ Statistics by the DNA show that over two thirds of all EIAs have been undertaken in the islands of Santiago, Sal, Boa Vista and Maio. Most often, they have been requested for tourism projects or for quarrying activities linked to the production of construction materials. In addition to EIAs, licences are required for the undertaking of quarrying (Decree-Law 3/2015).

EIAs require the undertaking of environmental impact studies (EIS), conducted by private firms and evaluated by an *ad hoc* government Commission. The Commission includes representatives of the DNA, the municipalities and the Chamber of tourism. Depending on the project, representatives of the Maritime Port Authority or the National Civil Protection Service can also be included in the evaluation process.²⁸ The Commission reviews and evaluates the EIS findings and presents a decision (i.e. favourable, conditional or unfavourable), after which the project is sent to the Minister for approval. Exemptions from these procedures are allowed upon submission of a prior request to the Ministry of Agriculture and Environment. However, the conditions for exception are not specified in the legislation (Decree-Law 29/2006, art. 5).²⁹

The regulatory framework for EIAs is not risk-based, and there are no mechanisms to certify the quality of the studies. At present, all projects undergo the same EIA, and there is no differentiation by the type of risk involved in each project, which results in very low (or very high) requirements, depending on the nature of the project. Thus, a tourist resort and a waste treatment facility may undergo the same type of assessment. In addition, no detailed manual defining the guidelines for the preparation of the environmental studies is available, which results in high level of discretion both in the preparation and evaluation of EIAs. Finally, the Government does not require a specific social impact assessment to analyse, monitor and manage

the intended and unintended social consequences, both positive and negative, of planned projects as part of the EIAs. These weaknesses have reportedly been a contributing factor to negative social and environmental outcomes, including beach erosion on the island of Sal caused by the construction of some beach resorts, or the mushrooming of illegal settlements around tourist areas. Finally, there is no system in place to certify EIA consultants, which creates accountability and transparency challenges, though the authorities are currently working with the association of professional engineers to address the issue.

Government capacity to evaluate EIAs is limited and there is a backlog of projects. The capacity of the DNA to assess the EIAs is limited, mainly due to human resource shortages. At present, there is a backlog of projects with a waiting time of more than 110 working days. For projects in the tourism sector, the Government has been pressed by developers to provide rapid answers, even though the time needed for proper assessments is dependent on the size and location of the project. Some of the investment contracts signed with large investors, however, set very tight deadlines for the assessment and approval of EIAs, including for projects with potentially significant environmental impact.

In addition, integrated tourism development zones (ZDTIs) can overlap with environmentally protected areas. Given that the ZDTIs do not have a specific land use plan, their management creates a challenge for environmental protection. On the island of Boa Vista, a Decree permitted tourist developments in areas that were part of a natural reserve, which led to a number of environmental problems (see chapter II and Decree-Law 44/2006 amending Decree-Law 3/2003 on the legal regime for protected areas). This experience should help create awareness of the need for a more holistic approach to environmental management.

The involvement of civil society and the public in efforts to protect the environment has been limited. Overall, the system in place has privileged the promotion of investments over the protection of the environment, to the extent that some requirements on EIAs by foreign development banks were stricter than the official local ones. Despite the fact that studies are prepared for municipalities and ministries, civil society does not participate (e.g. through public consultations), even if this is mandated by the law. In some cases, such as the building of a dam, EIAs have been conducted with a narrow technical approach without, for example, incorporating the geological, geographic or hydrological impacts of construction, which could have been contested by other stakeholders if they had been aware of them.

The DNA also has a remit for inspections, but these are rarely undertaken after project approval. The Ministry has very limited resources, and there is insufficient data available on the impact of monitoring and inspections, by activity and sector. In the past, random inspections were made but these have been suspended due to downsizing in the public administration. The Ministry counts a limited number of inspectors (five technicians and one director), who have a mandate to monitor all 10 islands. Under these conditions, the authorities are only able to do inspections at the time of approval, but resources are insufficient to undertake follow-up evaluations. Even in cases when remarks or recommendations were made at the time of the first visit, there is no follow-up action to verify these have been addressed by businesses.

During the last 10 years, the rapid development of the tourism sector has put increasing pressures on the environment. These pressures have been felt most in locations directly experiencing tourism growth (e.g. the islands of Boa Vista, Sal and Maio) but also for other locations that may have experienced negative externalities, such as greater water and energy consumption, poor waste management, air and sea pollution, and a loss of plant and animal species. Thus, the implications of this rapid development extend beyond the work

of business licensing and involve regulations in many other areas, such as land use planning, tourism, public utilities, conservation of natural and animal resources, and waste management, amongst others. Chapter II of this report will look at these challenges in more detail.

ASSESSMENT AND RECOMMENDATIONS

The approval of Decree-Law 29/2006 was a watershed that helped to improve Cabo Verde's environmental licensing, as before that time hardly any proper EIA had been undertaken. However, the system in place remains inadequate to address the environmental and social concerns linked, in particular, to tourism-related growth. In light of the regulatory and institutional gaps mentioned above, the Government has commissioned an expert review of the whole environmental licensing regime, with the aim of improving it. This review will be crucial to ensure a sustainable future for all the islands of the country. In this context, it is recommended that the Government:

I.C.1. Moves forward with amending the legislative framework for environmental permitting. The Government should consider setting up risk-based criteria for the granting of environmental licences, and also for determining in which cases EIAs are mandatory. The level of requirements should take into account the risks posed, and any exemption granted should be rule-based. These changes will also help reduce waiting times and increase predictability for investors regarding EIA implementation.

I.C.2. Integrates a social impact assessment in the overall environmental impact assessment process for projects likely to produce unintended social consequences, which foresees an adequate response to any significant social change associated with the project (e.g. by addressing project-related housing needs). This could be informed by the experience of countries such as Chile, the Philippines or South Africa (Morgan, 2012; UNEP, 2003).

I.C.3. Improves compliance with environmental legislation, including by:

- Re-introducing ex-post inspections after licences are granted;
- Moving forward with the creation of mandatory certification of EIA consultants.
- Increasing human and financial resources devoted to environmental licensing and inspections.

I.C.4. Creates greater awareness of Cabo Verde's sustainable development among firms and civil society, by encouraging corporate social responsibility (CSR) and the participation of civil society and the public in discussions about environmentally sensitive projects.

D. LABOUR AND SKILLS DEVELOPMENT

1. *General labour regulations*

The Labour Code sets out the principles balancing employee protection with labour market needs. Labour relations in Cabo Verde are regulated by the Labour Code (Legislative Decree 5/2007), which, since 2007, has been amended twice (Legislative Decrees 5/2010 and 1/2016). The Code provides the legal framework for all contractual work relations for private, cooperative and mixed companies. As stated in its preamble, the Code is inspired by “constitutional values and principles about the dignity of the human person, equality of opportunity and justice, as well as by the need to meet the requirements of a more demanding international economy, including investors, who expect that work-related legislation does not unduly cripple productivity”.

The country has ratified the International Labour Organization’s (ILO) eight fundamental conventions, as well as six others, but compliance has lagged in some areas. Recent reports on the monitoring of the application of ILO conventions on freedom of association, forced labour, discrimination and child labour have suggested that the Government amends some technical aspects of the Labour Code to ensure adequate compliance with obligations, particularly with regards to the regulation of strikes. To address these issues, the ILO recommended that recourse to civil requisitioning be limited to the provision of essential services, or in the event of an acute national or local crisis. For strike action, it suggested amending legislation to ensure that, when a vote on a strike is held, only the votes cast by workers in attendance are counted (currently, the Code requests the majority of all employees).³⁰

The employment contract is not subject to any formality and allows for various types of work. The Code provides for the following special types of employment contracts: permanent, fixed-term and probationary. The maximum length of a single fixed-term contract is five years, including renewals. Fixed-term contracts can only be signed under certain conditions. The normal period of work may not exceed eight hours a day and 44 hours a week (art. 149 of the Code). Premiums exist for night work (25 per cent), overtime work (35 per cent) and work on holidays (100 per cent). Employees are entitled to paid annual leave of 22 days, with a maximum accumulation of 44 days within a period of two years.

Dismissal due to redundancy is allowed, and procedures are properly specified in the legislation. The Labour Code defines collective redundancies as when two or more workers are affected. Employers must communicate their intention to proceed with collective redundancies to the Directorate General of Labour and to the trade unions that represent workers with a notice period of at least 60 days (art. 221). In case of redundancy, employers must try to place their employees in another post compatible and necessary to the company. They shall provide employees with vocational training necessary for the exercise of new duties and grant them a sufficient period of adaptation in the workplace (art. 236). Whereas older workers have priority rights with regards to redundancies, there are no priority rules for reemployment.

Recent reforms reduced some of the costs linked to dismissal, paid leave and overtime. The most recent amendments to the Labour Code entered into force in October 2016 (Legislative Decree 1/2016). The period for employers to initiate disciplinary proceedings increased from 30 to 35 days. On dismissal for just

cause, the entitlement to compensation of employees was reduced from one month per year of remuneration to no less than 20 days. In the case of dismissal without just cause, indemnity has been reduced from two months of salary per year of service to 40 days of basic remuneration. Finally, overtime work, which used to be remunerated at a premium of 50 per cent of the normal salary, is now remunerated with a 35 per cent increase. The reform also contained some measures to increase the eligible consecutive absences for the employee at the time of marriage, death of a spouse, cohabitant, or relatives.

Since 1993, a tripartite Social Council meets twice a year to review working conditions, including minimum wage levels. The minimum wage for employees in the private sector is regulated by Decree Law 6/2014. Based on the outcomes of consultations with the Social Council, the Government decided to raise the national minimum wage from CVE 11,000 to CVE 13,000 in 2018, with the goal of further increasing it to CVE 15,000 by 2021. Given the specificities of the labour market, the possibility of having minimum wages by activity (e.g. commerce, tourism and domestic work) has been discussed with social partners, but the lack of employers' associations in some sectors has prevented progress in this area.

The Labour Code recognizes freedom of unionization as well as the rights of unions and professional associations, but the level of collective bargaining is low. Trade unions and professional associations are authorized to protect the rights and interests of workers by participating in social dialogue bodies, within the definition of social security policy and in the elaboration of labour-related legislation. However, the number of existing collective agreements is low and, in 2011, the Government set up a plan of action to increase them. It also set up a National Committee for the Promotion of Collective Bargaining. Agreements were achieved only for some activities (e.g. air traffic control, telecommunications and private security) and at the enterprise level (e.g. CV Telecom, Transportes Aéreos Portugueses – TAP, Electra). With the help of the ILO, negotiations for a collective agreement in the hotel sector was initiated, and a draft collective agreement for the banking sector was also considered. However, they were not completed and negotiations were postponed at the time of the reform of the Code. One recommendation of the National Committee was to create a tripartite Commission in the General Directorate of Labour, which has yet to start its activities.

Gender equality at the workplace is enshrined in legislation, but it has lagged in practice. The Constitution provides for the principle of equal remuneration for equal work (art. 62). Also, the Labour Code mandates that all workers have the right to fair remuneration according to the nature, quantity and quality of their work (section 16). There is no gender difference in the regulation on working hours. However, contrary to international good practice, the law does not mandate non-discrimination based on gender in hiring, nor does it encompass the concept of equal value.³¹ Implementation has also suffered from certain gaps. According to the official statistics of INE, there are no major gender discrepancies in general unemployment rates nor in labour market participation rates. However, segregation by occupation remains an issue, with some activities dominated by men.³² Women are over-represented in the informal sector – especially in domestic work – where salaries are reportedly below the minimum wage. To increase awareness about gender issues in the workplace, the Government adopted the National Plan for Gender Equality 2015–2018, under the remit of the Instituto Cabo-verdiano para Igualdade e Equidade de Género. The Plan aims to promote equal opportunities for men and women in terms of access and retention in the labour market with the objective of increasing women's participation and reducing poverty.

Labour inspections suffer from a lack of institutional resources... Labour inspections are regulated by Decree-Law 13/2012, which entrusts the General Labour Inspectorate (IGT) with the responsibility for ordering measures in the event of imminent danger to the life, health or safety of workers. There is a total of 14 labour inspectors in the country, all of whom conduct inspection visits. The inspectorate has offices in Santiago, São Vicente, Santo Antão and São Nicolas (the other islands depend on inspectors from Praia). Although inspectors visit all islands, these are reportedly insufficient to monitor infringements of work legislation. In recent years, the Inspectorate has addressed

some workers' complaints in the commerce and catering sectors and a high number of industrial accidents in the construction sector. The need for inspections is also an issue in the islands where tourism has developed more rapidly, such as Sal and Boa Vista, as workers in large hotel resorts tend to accept poorer working conditions than elsewhere, particularly with regards to work hours and vacation time.³³

...and a lack of reliable statistics on labour regulation infringements. With regards to its institutional capacities, the IGT still lacks an integrated system for the proper management and processing of statistical data. The main source is data on the accident and disease notifications received by the regional labour inspection offices. Another issue concerns the lack of reliable data on accidents. Most data on industrial accidents are provided from insurance companies, but this information is not sufficient to guarantee adequate representation of the working population, as only a small percentage of the workforce is insured.

2. Employing foreigners and accessing skills

Business faces a scarcity of skills, with technical skills in particularly short supply. Until recently, Cabo Verde relied on foreign schools for tertiary education. Although the situation changed after 2006 with the creation of the University of Cabo Verde, the curricula focuses largely on theoretical studies, rather than fostering the development of technical skills and offering specialized training, which are essential for economic diversification in target sectors, including agro-business, the digital economy and the ocean economy. The teaching of entrepreneurial culture has not been prominent either, including with respect to financial literacy. Furthermore, there are very few technical and vocational institutions in Cabo Verde, with the exception of the most renowned ones covering tourism and maritime professions (see chapter II).³⁴ At the same time, there are not enough employment opportunities to meet the supply of university graduates.

The regime for foreign hire differs among categories of skills. Access to work and residence permits by foreign workers, managers and investors is regulated by the Labour Code and Law 80/VIII/2014 (amending Law 66/VIII/2014). A unified system for granting residence and work permits for foreign nationals is in place. There are four categories of permits for foreigners, including investors, employees, independent professionals and highly qualified employees. The criteria to qualify for a permit under each of these categories are summarized in

Table 1.3. Categories of foreign work permits available in Cabo Verde

Investors	Granted to foreign investors who, in person or through commercial companies, pursue an economic activity.
Employees	Granted to foreigners who have a valid contract or promise of employment contract indicating the nature of work to be undertaken, the relationship with the employer, professional category, technical quality or specialty status of the applicant, the place of work, the duration of employment and the monthly salary and other non-monetary benefits.
Independent professionals	Granted only to foreigners who fulfil the following requirements: a) have incorporated a company or concluded a service contract for the exercise of a liberal profession; b) are able to exercise an independent professional activity, where applicable; c) when required, submit a declaration by their respective professional associations that they meet the relevant professional requirements.
Highly qualified employees	Granted to foreigners for the purpose of teaching or research in a higher education institution, which meets one of the following requirements: a) admitted to collaborate by means of a contract of employment, a contract for the provision of services or a fellowship of scientific research; b) have a contract of employment or service compatible with a highly qualified activity.

Source: Law 80/VIII/2014.



table 1.3. In the case of investors, they should have a valid visa or be legally in the national territory to request a work and residence permit (this has to be done within 60 days from the date of first entry). Requests are addressed to the Office for Foreigners of the Foreigners and Borders Directorate (DEF). Investors are granted work and residence permits independently of the invested amount. Foreign workers need to submit a copy of contract, visa and commercial registration certificate from the Labour Directorate. The granting of a work and residence permit shall be communicated by DEF to the departments responsible for tax administration and social security.

A labour market test is foreseen by the law, but not carried out in practice. According to the legislation, an employee permit may be denied for work that can be undertaken by a national of Cabo Verde. For this purpose, the General Directorate of Immigration chairs a special Council that includes representatives of IGT and the DEF (but does not include representatives of the private sector or trade unions). No official methodology has been published that determines how the labour market test is carried out and, according to UNCTAD interviews during the fact-finding mission, the Council has been inactive for a long time and was only recently reactivated. It was also reported that unskilled workers can easily access the labour market because border controls are considered lax and work inspections are weak. It is estimated that many immigrants from neighbouring countries and beyond are in the country without permits. This has allegedly created competition with local workers in the construction and tourism industry.

ASSESSMENT AND RECOMMENDATIONS

The labour legislation and institutions in Cabo Verde aim to protect the rights of workers without harming the productivity of the national economy. However, some gaps remain with regards to complying with ILO Conventions, addressing inequalities in the labour force, including gender disparities, promoting a more fluid social dialogue, and improving safety and industrial accident inspections. Despite a significant skills' gap, there is no clear strategy to facilitate access to skills when these are most needed. The labour market test, already in itself a limited approach to skills attraction, has not been enforced. To address these issues, it is recommended that the Government:

I.D.1. Amends the labour legislation in line with international obligations with regards to civil requisitioning and voting on strike practice by labour unions.

I.D.2. Moves forward with the operationalization of the tripartite commission on collective bargaining to increase the number of sectoral agreements. Priority should be given to promoting the creation of employers' associations in activities where these do not yet exist.

I.D.3. Strengthens efforts to reduce gender disparities. This implies amending the legislation on equal value of remuneration and promoting the formalization of grey work in occupations where gender disparities are the largest, such as domestic work.

I.D.4. Increase the capacities of IGT. The Government may consider opening an office on one of the islands that attract most tourists (i.e. Sal or Boa Vista) as well as increasing the regularity of random inspections.

I.D.5. Improves the collection of data related to work accidents, including by promoting universal work insurance.

I.D.6. Enhances the policy on work permits by adopting a targeted approach to attract skills where they are most needed. This can be done by:



- Strengthening inspections of firms that request work permits for foreigners to ensure that they comply with what they have requested;
- Promoting in-company training schemes for domestic employees in companies that seek access to foreign skills;
- Creating a scarce-skills list approach to replace the quota and labour market testing system. The list, initially based on a skills survey, could determine categories of workers who can be granted employee permits subject to economic needs;
- Incorporating social partners (i.e. labour unions and business associations) in the work of the recently re-activated National Council on Immigration and mandating it to determine and regularly review the list of scarce skills on the basis of the requirements in different sectors of the economy.

E. ACCESSING LAND

All natural or legal persons, regardless of nationality, may acquire ownership rights or obtain special permits to occupy and use land. The access, use and transfer of land and real estate are governed by a series of norms that include the Constitution, the Civil Code and the Legislative Decree 2/2007 (Land Law).³⁵ The existing regime guarantees the right to private property on land. Five forms of access to State and municipal land are recognized. These are long-term lease (aforamento), purchase, rent, usufruct and authorized precarious occupation.

There is no gender discrimination in the legislation on access to land, but *de facto* co-habitation may leave women in a situation of disadvantage. The reason is that, increasingly, Cabo Verdeans get married after forming families. The large number of *de facto* unions is a challenge for property registration, because these properties are usually registered under one name, which traditionally is the male partner. Thus, women are left in a more vulnerable condition as their names do not appear in land titles or other documents.

Some restrictions apply in the access to land. Agricultural land can only be leased (see section A), and land cannot be purchased near shores. Access to land for tourism can also be a challenge. Land parcels within 80 metres of the sea shore must remain in the public domain.³⁶ These lands are not for sale, but they can be granted for concessions to private developers (usually for a period of 10 to 20 years). Access to these parcels is administered by AMP, except for the islands of Boa Vista and Maio where a special entity was created for this purpose – the Tourism Development Corporation (see Law 44/VI/2004, on the management of Maritime Public Domains and Law 75/VII/2010 on Special Zones for Tourism). Interviews with stakeholders during the UNCTAD fact-finding mission suggested that, whereas permitting has been facilitated in the case of Boa Vista, access to land for tourism development remains challenging on the other islands. Project approvals are slow and also basic services such as cleaning, fire and safety, and waste disposal are not available to investors, even though they have been included in concession agreements (see chapter II).

Inadequate land records have hindered transactions and prevented the emergence of a modern mortgage market. Until recently, there was no comprehensive cadastre and national registry of land parcels. Because of this reason, land rights in Cabo Verde are not precise, which has created hurdles to real property transactions. Most families traditionally registered their properties in the municipalities (registro matricial), but these legal documents were often not notarized and recorded officially (registro predial). The lack of comprehensive land records means that vacant lands in the hands of the State may eventually be claimed by private parties, and thus cannot be sold to investors without the risk of litigation. It also has a detrimental impact on tax revenues, as informal property exchanges are not taxed.

Recent reforms have improved title security in some parts of the country. The Government introduced a Registration Code (Código do Registo Predial, CRP), approved by Decree-Law 10/2010, where all land parcels will be registered. Between 2012 and 2017, the Millennium Development Corporation has also executed a project to foster the approval of 35 legal reforms of the land regime. This project, financed by the United States Agency for International Development (USAID), has achieved significant results in terms of clarifying the rights and boundaries of all properties. Also, a new land information management system was introduced on islands with high investment potential (Sal, Boa Vista, Maio and São Vicente). As part of the project, land information was loaded into the Land Management Information and Transaction System (LMITS). LMITS is a computerized map-based information system elaborated with the help of NOSI and deployed in collaboration with the National Institute of Land Management (INGT). It integrates a register of rights, restrictions and responsibilities on land,



a description of the person(s) having them, a geometric description of the parcels as well as their tax value. LMITS allows different entities involved in the creation of cadastre and registration processes to have updated information relevant to their work. This facilitates work on regularization of land rights, registration and/or planning processes (Maximiliano and Martins, 2016).

Despite progress, the process of cadastre and registration reforms remains incomplete, which may contribute to the proliferation of informal settlements. The USAID project ended in 2017 and it is not yet clear if it will be extended to the other islands. Internal migration and housing shortages have led to the informal occupation of State-, municipal- and privately-owned lands, where illegal and precarious dwellings have been built. The growth of so-called barracas – informal human settlements without title and no access to basic infrastructure – has already become a public policy challenge in some municipalities such as Sal-Rei in Boa Vista or Praia in Santiago (see chapter II). To address such concerns, the Government issued Decree-Law 57/2015, which establishes the exceptional regime for the conversion and legalization of informal settlements.³⁷ Addressing this issue requires a holistic approach involving land use planning as well as a series of other policies (e.g. social, economic, public infrastructure), and highlights the urgency of further improving land records at the national level.

ASSESSMENT AND RECOMMENDATIONS

Facilitating access to land depends on effective permitting procedures and access to basic public infrastructure. It also relies on proper cadastre and registration systems that treat all citizens equally. The amount of time and money citizens, businesses and investors can spend buying or leasing land, and/or clarifying land parcel boundaries, are major deterrents to investment. Thus, in the absence of a comprehensive and effective cadastre and registration system in all islands, securing land tenure remains a challenge. Therefore, it is recommended that the Government considers:

I.E.1. Improving coordination between government stakeholders in the process of project approval and development of land parcels administered by the State in areas with high investment potential (e.g. shoreline). These include TradelInvest, AMP, the Ministry of Finance, the Ministry of Agriculture and Environment and the municipalities, amongst others. The goal should be to improve access to land for tourism development projects – especially outside Boa Vista and Maio – and also to ensure that private development is accompanied by proper infrastructure development, services and maintenance.

I.E.2. Building the capacities of INGT to take over responsibility for cadastral operations in the rest of the country, including maintenance functions. The alternative is to set up a management organization (e.g. a public company or a public-private partnership) with a mandate to continue the execution of the cadastre to all the other islands. Funding for such an institution could be secured through a special fund from tax revenues from land and real estate transactions.

I.E.3. Adopting legal reforms to ensure gender equality in land rights, such as mandating that the addition of two names in land registries be undertaken without additional costs.

F. TAXATION

Despite recent efforts to streamline the tax regime, it remains complex and overly reliant on incentives.

Between 2013 and 2015, Cabo Verde completed an overhaul of the tax administration system by restructuring its revenue administration. Several laws were passed, including the Law 26/VIII/2013 on the Code on Fiscal Benefits, the Law 70/VIII/2014 on the REMPE, the Law 78/VIII/2014 on the Code on Personal Income Tax and the Law 82/VIII/2015 on the Code on Corporate Income Tax. Key reforms included the harmonization and streamlining of value added tax (VAT) rates, the rationalization of tax provisions applying to personal and corporate income, and the launch of a large taxpayer office.³⁸ These reforms were undertaken in the context of urgent needs to collect considerable VAT and corporate income tax (CIT) arrears, which amounted to about 5 per cent of GDP (IMF, 2016).³⁹ Despite the reforms, several incentives schemes remain in place, which have great costs in terms of foregone fiscal revenues. Over time, this multi-layered tax system has also affected the ability of tax and customs authorities to administer and oversee the regime, increased inefficiencies and created discrimination between companies.

1. General regime

The general CIT (*imposto sobre o rendimento das pessoas colectivas*), is applied at 25 per cent. In addition to the CIT, a fire brigade surcharge (*taxa de incêndio*) of 2 per cent of taxable income applies in some municipalities.⁴⁰ CIT is levied both on profits obtained within the national territory and abroad. A company is considered resident in Cabo Verde if it is registered in or the headquarters/general management is based in Cabo Verde.⁴¹ Non-resident companies with a permanent establishment (PE) in Cabo Verde are also subject to corporate taxation based on the income that is generated in the country. Income tax losses can be offset against taxable profit and can be carried forward for seven years, capped at 50 per cent of the taxable profit. Carry-back of tax losses is not allowed. For the purposes of calculating the tax base, companies compute income according to the local accounting rules. A standard list of deductible expenses is contained in article 28 of the CIT Code. Also, a 50 per cent rebate applies if the sales proceeds are reinvested in the acquisition, production, or construction of tangible fixed assets, intangible assets, or non-consumable biological assets.

Micro and small-sized companies – the bulk of tax reporting entities – are subject to a single special tax of 4 per cent. This is levied on gross income and is paid quarterly. The rate applies to businesses registered under the REMPE regime. A flat rate replaces the income tax, fire brigade surtax, VAT and social security contributions (Law 70/VIII of 2014).⁴²

Depreciation is possible with respect to all fixed assets, except for land. Table 1.4 summarizes the applicable rates for certain types of assets. Two additional provisions and adjustments are allowed according to article 53 of the Code on Corporate Income Tax. These are the liabilities and expenses arising from court proceedings as well as specific provisions to be made by financial and insurance entities. As of 1 January 2015, impairment losses are allowed as tax deductions in the following cases: 1) overdue debt, subject to limits that vary between 25 and 100 per cent of the debt for delays between 6 and more than 24 months; 2) exceptional devaluation of tangible fixed assets, intangible assets, biological and non-consumable assets and investment property; and 3) losses by entities subject to supervision by the central bank regarding credit risk, country risk and capital losses on securities and other instruments.

Dividend income is taxable as corporate income. Since the introduction of an amendment to the Code on Corporate Income Tax in 2017, dividend payments are taxable and withheld at a rate of 10 per cent (withholding tax – WHT). Interests and royalty payments, in general, are subject to a 20 per cent WHT.⁴³ Rental payments are subject to a WHT of 10 per cent (except between resident companies). For a Cabo Verde-based firm, tax withheld is computed against the final income tax due. Any non-Cabo Verdean resident entity carrying out an economic activity in Cabo Verde is subject to a final WHT at the same rates applicable to each income category foreseen by the CIT Code.⁴⁴ The WHT rate applicable to income paid to micro and small-sized companies is 4 per cent.

There is no special tax regime for group taxation, except for standard transfer pricing provisions. Losses incurred by a company are in principle not transferable to another company, except when previously approved by the tax authorities. With regards to commercial transactions between associated enterprises, the arms' length principle is applied to ensure identical terms and conditions to those that would be accepted and agreed between unrelated firms. Taxpayers that must prepare a transfer pricing documentation file including: a) entities classified as 'Large Taxpayers'; b) entities considered taxed under a privileged tax regime; c) PEs of non-resident entities; and d) other entities as designated by the tax authorities (Ministerial Order 75/2015, art. 14). Since 2015, the Code on Corporate Income Tax also includes explicit rules on thin capitalization and controlled foreign companies. Capital gains are not treated as a specific source of taxation and, instead, are taxed as part of the ordinary income of firms.

Table 1.4.
Main depreciation rates for tangible assets

Assets*	Depreciation rates (per cent)
1. Property	
a. Minor, small buildings	10
b. Buildings	3 to 10
c. Water reservoirs	4 to 5
d. Seals and urban arrangements	5 to 8.33
2. Facilities	6.66 to 10
3. Machinery, equipment and tools	
a. Apparatus and electronic machines	20
b. Air condition	12.5
c. Laboratory and precision equipment	14.28
d. Ventilation equipment	12.5
e. Scales	12.5 to 33.33
f. Workshop equipment	12.5 to 20
g. Machine tools	12.5 to 25
4. Transport materials	
a. Aircraft	20
b. Boats	8.33 to 25
c. Motor vehicles	12.5 to 20
d. Tanks	16.66
5. Other tangible fixed assets	
a. Movies, records, and audio cassettes	25
b. Drawing and typography materials	12.5
c. Furniture	12.5
d. Molds, dies, shapes, and controls	25
e. Computer programmes	33.33

* For intangible assets, depreciation rates are set at 33.33 per cent, and they apply to installation and expansion costs as well as to cost related to research and development.
Source: PWC, 2017 and IBFD, 2017.

Cabo Verde follows the European Union VAT system, which applies to the production as well as the import of goods and services. The VAT standard rate is 15 per cent and it is regulated under Law 21/VI/2003. However, some goods and services have their own specific rates, which results in a high variance (e.g. diesel 120 per cent, fuel 300 per cent, petroleum 30 per cent, telecommunication services 60 per cent, electricity 30 per cent). VAT is charged at all stages of a transaction, but in general companies can claim credit for input tax against output tax. There are two types of exceptions. The first relates to transactions without input credit (e.g. hospital and medical care and closely related activities, education, non-profit-making organizations), and the second relates to transactions with input credit (i.e. zero-rated transactions).⁴⁵

Other taxes include custom duties, real estate tax, stamp duties and an ecological tax on pollution. Customs duty rates range from 0 to 55 per cent (Budget Law 20/IX/2017). Raw materials and capital goods may be imported duty free or at a low rate of duty.⁴⁶ A real estate tax has been set at 1.5 per cent of the value of immovable property and is paid on an annual basis. The tax applies equally to new properties and to the transfer of real estate (paid by the purchaser). There are tax exemptions for emigrants who own saving bank accounts and for projects that have received Touristic Utility status (table 1.5). According to the Stamp Duty Code of 2008 (Código do Imposto de Selo - CIS), stamp duties apply to certain transactions and registration procedures. They are levied at percentage rates or lump-sum rates in CVE on all acts, deeds, documents, securities, papers and similar instruments for transactions which are not subject to VAT.⁴⁷ A tax on ecological pollution is applied on certain polluting goods, such as non-biodegradable packing material or made out of metal, glass or plastic, which is taxed both for locally produced and imported goods. The tax varies between CVE 2 and CVE 100 per category, depending on the quantity or weight of the goods.

The Government is making efforts to streamline tax payments. Recently, the Minister of Finance has launched an eGovernment initiative to reorganize procedures which have a direct impact on taxpayers and allow for comprehensive online payment procedures. VAT payment was automated in December 2017, and future reforms will also allow for automated customs-related taxation. While recent reforms should help expedite tax payments and free human resources, their success will require further simplification of the entire tax regime as well as the rationalization of incentives. For a medium-sized manufacturing company in Cabo Verde paying corporate income taxes, VAT and social contributions requires 30 payments per year and it takes 180 hours. The country is ranked 75 in the paying taxes indicator of the Doing Business, which is ahead of comparators but slightly behind the OECD average (World Bank, 2017). Looking forward, improving monitoring and auditing, as well as building the capacity of staff at the National Directorate of State Revenues of the Ministry of Finance (e.g. on IT skills) will also be necessary.

2. Incentives

Sector specific incentives have been streamlined and their impact remains significant. Before 2013, legislation granted incentives for firms investing in numerous activities, including renewable energy, shipping, air and sea transportation, media, telecommunications and Internet, manufacturing, and information technology and scientific research.⁴⁸ After the approval of the Code on Fiscal Benefits in 2013, special regimes have been streamlined, but they still apply to activities related to tourism, industry, financial services and construction, which are the most significant in Cabo Verde.⁴⁹ Many types of incentives are in place, including in the form of deductions to the calculation of CIT tax base, preferential CIT rates, tax credits as well as tax waivers for real estate tax, customs and stamp duties. In addition, individual contracts may grant investors additional benefits, including on business facilitation, property taxation, customs as well as generous tax holidays. A summary of the most significant tax benefits and incentives is presented in table 1.5.

Table 1.5.
Tax incentives system regimes in Cabo Verde

Sector / Activity	Eligibility requirements	Benefits
<i>Tax credits on CIT</i>	<ul style="list-style-type: none"> ○ follow the organized accounting framework; ○ acquisition of new fixed assets, patents and licences of technology for undertaking industrial activities. ○ tax credit may not exceed 50 per cent of the value of tax contribution in each financial year. 	<ul style="list-style-type: none"> ○ CIT tax credit of 50 per cent for investments in the areas of health, the environment, the creative industry, the tourism industry, industrial activity, air transport and maritime transport services and port and airport services, the production of renewable energies, production and assembly of renewable energy equipment, energy research and scientific research, as well as the development of information technologies and communication. ○ CIT credit of 30 per cent for all other activities. ○ unused tax credits may be carried forward for 15 years.
<i>Real estate tax exemptions</i>	<ul style="list-style-type: none"> ○ acquisition of real estate used exclusively for the installation of an investment project. ○ approval by the competent municipal body. 	<ul style="list-style-type: none"> ○ exemption from real estate tax.
	<ul style="list-style-type: none"> ○ acquisition of a second home financed with foreign capital* ○ approval by the competent municipal body. 	<ul style="list-style-type: none"> ○ Exemption from real estate transfer tax; ○ 10-year real estate tax credit of 50 per cent
<i>Stamp duty exemption</i>	<ul style="list-style-type: none"> ○ financial transactions related to obtaining credit for investment projects. 	<ul style="list-style-type: none"> ○ exemption from stamp duty.
<i>Customs duty exemption</i>	<ul style="list-style-type: none"> ○ construction materials exclude blocks, cement, paints, varnishes, as well as some types of incandescent lamps, stoves and electric plates, and storage and refrigerating facilities. ○ excludes equipment and vehicles with more than 5 years old. ○ for projects under Tourism Utility status, goods imported duty free cannot be used for personal use for more than 30 calendar days in a given year. ○ sale of duty free import goods in domestic market during the first five years after imported requires authorization of customs authority and is subject to payment of VAT and other duties. 	<ul style="list-style-type: none"> ○ exemption from customs duties on the import of construction material, machinery, sanitary electronic and, utensils, furniture, technical I scientific and laboratory products, media and broadcasting, and other raw materials used in the production of goods related to investment projects. ○ for companies under Tourism Utility status: furniture, equipment and appliances intended for the installation, expansion or remodelling of ventures during the installation phase (or refurbishing if it corresponds to at least 15 per cent of initial investment) and during the first year of operation. ○ vehicle equipment for the transport of workers during the installation phase (or refurbishing if it corresponds to at least 15 per cent of initial investment) provided that the imported good is connected to the object company's main social objective.
<i>Investment contracts</i>	<ul style="list-style-type: none"> ○ investment worth more than CVE 550 million. ○ relevant for the development of the national economy. ○ creates at least 10 jobs. ○ approval by the Council of Ministers. 	<ul style="list-style-type: none"> ○ benefits determined in individual contracts may include exemptions for corporate income tax, stamp duty, real estate tax and customs duties for periods up to 15 years.

Sector / Activity	Eligibility requirements	Benefits
<i>Regime to promote the internationalization of Cabo Verde firms**</i>	<ul style="list-style-type: none"> ○ firms need to meet technical and financial capacity and must obtain prior approval. ○ project implies allocation of over CVE 5 million to access to new external markets, the consolidation of the presence in current markets; or investment in sectors considered strategic for the internationalization of the national economy. ○ excludes projects in tourism; insurance; real estate; and civil engineering constructions. 	<ul style="list-style-type: none"> ○ a reduction in CIT rate by up to 50 per cent, applicable during the term of the investment contract. ○ exemption of qualified expatriate employees from the single income tax. ○ exemption from the property tax on real estate acquired for the establishment or expansion of the activity of the investor. ○ exemptions from VAT and customs duties as provided for in the general applicable legislation. ○ exemption from the stamp duty on the incorporation of companies, on the increase in the share capital of existing companies, and on financing transactions. ○ exemption from notary and registration fees on the incorporation and registration of companies. ○ job creation incentives.
<i>Incentives regime for financial institutions***</i>	<ul style="list-style-type: none"> ○ investors undertaking activities related to financial investments, securities markets, investment funds and venture capital. 	<ul style="list-style-type: none"> ○ income tax exemption of up to 75 per cent for income derived from certificates of deposit and long-term bank deposits. ○ for investment funds (securities) income sourced in Cabo Verde is exempt from CIT (except capital gains); foreign income is subject to a 10 per cent CIT flat rate (except capital gains); and capital gains are subject to a 10 per cent CIT rate. ○ for real estate funds: 10 per cent flat CIT rate (after expenses); capital gains taxed at effective rate of 7.5 per cent. ○ for venture capital funds, income from funds are exempt from CIT. ○ for holding companies, WHT on the payment of income made by affiliate is exempt (if held for 12 months with a share capital of 10 per cent or above).
<i>Tourism Utility status</i>	<ul style="list-style-type: none"> ○ investors in tourism, tourism promotion activities and real estate tourism projects that undertake installation of new projects or refurbishment projects with a value of at least 25 per cent of the initial investment. The status lasts during the period of construction and the first year of operations. 	<ul style="list-style-type: none"> ○ credit against CIT for up to 50 per cent of the eligible investment. ○ exemption from real estate tax on the acquisition of real estate used for the construction and installation of tourism projects (if granted by the municipality). ○ exemption from customs duties on the importation of materials and equipment exemptions from stamp duty on financing.
<i>Hiring of young employees</i>	<ul style="list-style-type: none"> ○ have organised accounting ○ for hiring of workers not older than 35 years for a first job contracts with a duration of one year or more for workers registered in the social security system ○ provided no reduction or elimination of jobs has occurred 	<ul style="list-style-type: none"> ○ exemption of contributions due by the employer to social security

Sector / Activity	Eligibility requirements	Benefits
<i>Training</i>	<ul style="list-style-type: none"> ○ have organised accounting ○ incurs expenses for the training of workers; ○ incurs expenses for the recruitment of young people of more than 35 years of probation, and for any persons for vocational training or retraining in companies (with a minimum duration of six months and a maximum duration of one year); ○ incurs expenses for the allocation of scholarships of merit to young students who are not more than 20 years. 	<ul style="list-style-type: none"> ○ expenses are considered at 150 per cent for the calculation of the tax base for the CIT.
<i>Tax deduction for agriculture and fishing</i>	<ul style="list-style-type: none"> ○ taxpayers operate exclusively in either sector. ○ taxpayer was taxed under the standard accounting method 	<ul style="list-style-type: none"> ○ deduction of 50 per cent of the income in one given year for the calculation of CIT tax due

* Regulated by Law 30/IX/2018. The qualifying threshold for the investment in the second home varies according to the level of GDP per capita of the island (minimum of €80,000 for municipalities with GDP per capita below the national average, and €120,000 for the others).

** Both tax and financial incentives have been regulated through Legislative Decree 2/2011 and are applicable to investment projects undertaken by Cabo Verdean companies until 31 December 2020, excluding the following activities: tourism; insurance; real estate; and civil engineering constructions. For the purpose of developing certain regions of the country, the incentives may be increased in the regions of Brava, São Nicolau, Fogo, Santo Antão and Santiago, except Praia.

*** Within the scope of Law 43/III/88 of 27 December 1988, revoked by Law 61/VIII/2014, foreign-owned financial institutions could benefit from customs duties exemption on the importation of materials and equipment that are exclusively destined to setting up the company. Firms established before the regime was revoked could be exempt from single tax on income (until 31 December 2017), and subject to a CIT rate of 2.5 per cent from 1 January 2018 onwards. They also enjoy of a stamp duty exemption on transactions with non-residents.

Source: Corporate Income Tax Code, Code on Fiscal Benefits, Special Statute for the Holders of a Secondary Residence Permit, IBFD, 2017.

The Government also plans to establish SEZs. A specific SEZ regime (CIN) was created by Legislative Decree 1/2011 (amended by Decree-Law 38/2013 and Decree-Law 57/2017). A Commission was established with the remit to outline a strategy for the deployment and operationalization of the zones (Council of Ministers Resolution 54/2015). To be eligible for the regime, a company must first obtain authorization depending on the economic activities to be performed: industrial activities, commercial activities or the provision of financial services. For commercial and industrial activities, it is expected that the companies be placed in geographically delimited areas (i.e. one industrial free zone and one commercial free zone); whereas in the case of the services sector, the CIN status is not delimited by geographical scope.⁵⁰ The Code on Fiscal Benefits provides significant tax benefits for CIN companies. These include reduced CIT rates of 5 per cent, 3.5 per cent or 2.5 per cent for companies that create 5, 20 or 50 jobs, respectively; exemption from customs duties on the importation of certain goods, equipment and materials used within the scope of the activity licensed under CIN; and VAT and customs duties exemptions, as provided in the VAT regulations and customs law. However, pending the creation of an administrative entity for the CIN, the incentives are still not operational (see Decree-Law 57/2017).⁵¹

The proliferation of incentives has increased complexity and discrimination among companies, at the cost of reduced efficiency and fairness. Such a complex incentives regime has become increasingly difficult to administer for the authorities and it has generated discrimination among firms, particularly between large and small ones, and between tourism and other sectors. For instance, some large investors in the tourism sector (i.e. hotels in the all-inclusive segment) benefit from both VAT and customs privileges that are linked to investor-specific contract clauses, which has led to significant revenue loss and discrimination between companies and to administrative challenges for customs authorities (see section H).

Although the Government has not undertaken a cost-benefit analysis for each individual tax regime, it is estimated that exemptions linked to investment contracts or other regimes are substantial.

According to stakeholders interviewed during UNCTAD's fact-finding mission, incentives account for a revenue loss corresponding to about 25 per cent of total revenues. The lack of fiscal stability is also an issue, as changes in Government are often followed by amendments to the fiscal regime. This situation not only lowers predictability for investors, but significantly increases the administration costs for the authorities, which need to cope with multiple tax and customs exceptions. The most recent amendment to the legislation on CIN indicates that the Government is aware of these issues and plans to review all related tax and economic legislation, namely the Code of Tax Benefits and the Investment Law and introduce an Integrated Incentive System with the purpose of boosting the export sector of the economy (Decree-Law 57/2017).

ASSESSMENT AND RECOMMENDATIONS

Over recent years, Cabo Verde has used generous tax incentives to promote investment, particularly in the tourism sector. While the solid performance of foreign investment flows indicates the potential success of incentives, they also came with significant costs: the proliferation of tax exemptions linked to different incentives schemes contributed to revenue losses that added to growing budget deficits (see context). While recent reforms show a willingness to streamline the tax regime, there are no signs that the Government plans to reduce the use of investment contracts, and some new incentives schemes may even increase the complexity of the tax regime. Looking forward, it is recommended that the Government:

I.F.1. Undertakes a cost-benefit analysis of existing incentives with the goal of assessing their impact and defining a strategy for streamlining them. Such an undertaking could help address the country's combined needs of attracting investment, ensuring lower dependence on foreign aid as well as achieving sustainable development objectives. Regular monitoring and assessment of the effects of incentives against their objectives should be established. In the long term, the Government should retain tax incentives that reward re-investment and capital expenditure (such as reinvestment allowances, investment tax credits or accelerated depreciation) rather than those that are based on profits, such as tax holidays, which can act as a vehicle for tax minimization. Incentives should be performance-based and time-bound.

I.F.2. Improves tax competitiveness. In parallel with the rationalization of the incentives scheme, the Government should consider a competitive CIT rate for all companies, while retaining only a few, selected incentives aimed at supporting measurable and sustainable development objectives, such as generating employment and economic activity in less developed islands (see chapter II).

I.F.3. Reduces the burden of taxation at the borders. The administration of customs duties is complicated by the numerous rates and exemptions linked to indirect taxation, but also the numerous investment contracts which grant specific customs privileges for single investors. In the short term, training of border officials on tax issues should be increased to improve customs facilitation and reduce waiting times. In the longer term, tax reforms should consider the advantages of streamlining rates of indirect taxation, such as VAT.

I.F.4. Eliminates tax and customs-related clauses in contracts. As mentioned in section A of this chapter, the proliferation of investment contracts creates unnecessary costs. Until individual investment contracts are phased out, as per recommendation I.A.4, the Government should consider harmonizing the content of new contracts and refraining from including tax and customs related clauses that increase the costs of tax administration.

G. COMPETITION REGIME

The competition legislation is in line with international good practice. Decree-Law 53/2003 outlines the core principles of the competition policy. For instance, the norm forbids agreements in restraint of competition, abuse of a dominant market position or monopoly position.⁵² Rules related to economic concentration are also defined. With regards to abuse of a dominant position, the criteria to calculate market dominance is set for one or more companies as follows: for one company, if it holds shares in the market of a particular good or service that is equal to or greater than 30 per cent of that market; for two or three companies acting in concertation if they hold a share that is greater than 50 per cent of that market; for four or five companies acting in concertation if they hold a share that is greater than 65 per cent of that market (art. 3). The legislation specifies the criteria to calculate the total market share and volume of operations, and it also details different modalities of concentration (i.e. mergers, acquisition and constitution of an autonomous company). Different criteria to define economic concentration apply to the financial sector, which is measured in terms of total volume of operations.

However, the institutional framework is underdeveloped, which makes the legislation ineffectual. The establishment of an independent competition authority has been delayed for over 10 years due to a lack of qualified human resources and budgetary constraints. Thus, monitoring criteria and implementing mechanisms are not in place to enforce the law. According to the legislation, the General Directorate of Industry, Commerce and Energy within the Ministry of Industry, Commerce and Energy is responsible for the elaboration and enforcement of competition policy (Decree Law 53/2003, art. 12, and Decree Law 20/2018). Decree Law 53/2003 does define some of the powers the competition authority will hold once established, as follows: to start procedures, conduct investigation (including raids), request information, adjudicate claims, impose fines and other sanctions, order and adopt protective and interim measures, and suspend activities, among others.

In the absence of a competition authority, other sectoral regulatory bodies have a remit on competition-related directives. Law 20/VI/2003 defines the legal regime of regulatory authorities in the economic and financial sectors. It also establishes that regulatory agencies on public services must coordinate with the competition authority on matters related to competition. These services include transportation, communications, ports, water, energy, financial sector, food, chemical-pharmaceutical and other sectors or activities of general economic interest. In the absence of a competition authority, sectoral rules can differ depending on the capacities and spheres of influence of each sector regulator.⁵³ Thus, the degree of competition in the market has also differed. For instance, the National Authority of Communications (ANAC), which has responsibilities for the promotion of competition practices in the telecommunications sector and markets, has reportedly been successful in promoting competitive prices for the sector. In contrast, the Authority of Economic Regulation (ARE), which regulates prices for water, electricity as well as public maritime transport and urban passenger transportation has had mixed results. Although public services obligations have guaranteed overall affordable prices, these have come at the expense of high State intervention in the form of subsidies to SOEs and poor service delivery.⁵⁴

Structural conditions contribute to market concentration. Given the limited economies of scale and the geographical fragmentation between the islands, the tendency towards market concentration is high, especially for the provision of public services (e.g. inter-island maritime and air transportation). However, competition

regulation is also an issue with regards to activities that are usually characterized by healthier market competition in other countries, such as tourism-related services like tour operators. In these cases, restrictive market practices may result from the lack of proper regulation. Although there are no official statistics, there is evidence that big tour operators can have a dominant influence in some of the islands (e.g. Sal and Boa Vista) so as to crowd out competition and contribute to the vertical integration of several market segments (e.g. ground transportation, excursions, guides, catering, see chapter II).

ASSESSMENT AND RECOMMENDATIONS

In recent years, Cabo Verde has managed to align its competition legislation with international good practice. However, institutional capacities remain underdeveloped, making the legislation ineffectual. Indeed, the lack of a competition authority is a serious impediment to the development of efficient markets, especially in the tourism sector. It is thus recommended that the Government:

I.G.1. Moves forward with reforms to make the competition authority operational. In line with the requirements of Decree-Law 53/2003, the institution should be granted adequate financial resources and personnel to implement its mandate.

I.G.2. Specifies the mechanisms for coordination between the competition authority, the ministries and the regulatory agencies.

I.G.3. Engages further in international and regional cooperation initiatives on competition, such as the Lusophone Competition Network of CPLP.

UNCTAD provides assistance on competition policies and institution building to its member States and could support the efforts of the Government of Cabo Verde in this area.

H. TRADING INTERNATIONALLY

Since the 1990s, Cabo Verde has adopted significant reforms to liberalize its trade regime. After acceding the WTO in 2008, Cabo Verde bound all tariff lines at rates ranging from zero to 55 per cent. The Government introduced a new Customs Code in 2010, which features a simple average final bound rate of 15.9 per cent and limited variance among sectors – 19.3 per cent in agriculture and 15.4 per cent on industrial products.⁵⁵ All duties were bound at ad valorem rates. Furthermore, a series of custom duty exemptions are applied as incentives for specific sectors in the economy (section F). The country has also actively pursued trade liberalisation at the regional level. Trade with European countries has increased after Cabo Verde signed a Special Partnership Agreement, which granted it preferential access to the European Union and Economic Free Trade Association markets (see context). The country is also a member of ECOWAS, though total trade with all African countries remains low, accounting for about three per cent of total imports and less than one per cent of exports.

Customs procedures have been streamlined through the introduction and upgrade of UNCTAD's automated system for customs data (ASYCUDA). This computerized customs management system, which has been in place since 1985, was upgraded in 2016 to its latest version – ASYCUDAWorld. This enables the customs administration and traders to handle most of their transactions online, from customs declarations to transit documents. Moreover, specific locally developed features have been integrated into ASYCUDAWorld, including interfaces to administer exemptions, licences and single payments.⁵⁶ The import and export documentary compliance time has been reduced to 24 hours, which is more than three times faster than the average for countries in sub-Saharan Africa (World Bank, 2017).

However, complying with customs tariffs remains burdensome for investors and also poses administrative challenges. According to business stakeholders, containers are often retained in ports for longer time than necessary and the calculation of customs fees is contested by investors. This situation can be attributed to the complexity of the tax regime of the country. The numerous customs exemptions included in different special regimes, compounded by the numerous investment contracts with specific clauses on tax exemptions, has made it difficult for the authorities to administer border procedures efficiently and creates unnecessary administrative hurdles that need to be solved (see section F).

Another challenge to export competitiveness is inadequate transport infrastructure. The current trade strategy efforts are aimed at fostering private sector growth in a limited number of manufacturing businesses and services with high export potential. However, a lack of sufficient air, water and land transport infrastructure has reduced the potential for national economic integration and export growth. A further consequence of poor connectivity has been an over-reliance on Europe for many of the countries' imports, and at a high cost (see chapter II).

ASSESSMENT AND RECOMMENDATIONS

Cabo Verde has moved forward with significant trade facilitation reforms through eGovernment initiatives, but the complexity of the incentives regime increases waiting times at the borders. It is recommended that the Government

I.H.1. Improves inter-agency coordination at the borders to reduce waiting times for containers, particularly with regards to the determination of taxation for shipments benefiting from contract-related exemptions.

I.H.2. Harmonizes progressively customs-related incentives to increase the efficiency of customs administration.



I. INTELLECTUAL PROPERTY

Legislation on intellectual property rights is in line with international trends. The main laws and regulations for the protection of intellectual property (IP) rights are Decree-Law 1/2009 (amending the Law on Copyright 101/90), the Industrial Property Code (Decree-Law 4/2007) and the Resolution 25/2010 (on the Statutes of the Intellectual Property Institute of Cabo Verde (IPICV)).⁵⁷ IP includes inventions, utility models, factory, trade and services marks, industrial designs, names and emblems of establishment, logotypes, appellations of origin and geographical indications, and awards, among others. Registered trademarks and other distinguishing signs are of exclusive use by the respective owner. The legal framework has been revised in accordance with provisions of the World Intellectual Property Organization (WIPO) agreements and WTO Trade-Related Aspects of IP Rights (TRIPS) Agreement.⁵⁸ The law provides for the protection of intellectual property and establishes limits to protection, such as the social function of industrial property of guaranteeing fair competition (art. 4 of the Industrial Property Code).⁵⁹ Updated drafts of the Law on Copyrights and the Industrial Property Code, to align them with requirements of international treaties to which Cabo Verde is not yet a Party (e.g. the Beijing Treaty on Audiovisual Performances, 2012), are being discussed.

The Institute of Quality Management and Intellectual Property (IGQPI) has a remit for policy implementation and monitoring of all IP-related rules and regulations. In 2014, Implementing Decree 35/2014 approved the merger of the IPICV with the Institute of Quality Management, thus creating the current structure of IGQPI. The institution counts 15 staff, and has a mandate to register patents and copyrights, industrial design and trademarks, combat infringements, foster innovation and mechanisms of technology transfer, and create awareness on IP issues, among other roles. Other significant stakeholders include Pró Empresa, which provides some support to young entrepreneurs through government finance for start-ups and other measures to support innovation (see chapter II), and the Cabo Verdean Society of Authors – a non-governmental entity which can require the competent authorities to take appropriate measures to address copyright infringements.

Applications for IP rights must be filed at the Directorate of Intellectual Property of the IGQPI. Patents are granted by IGQPI to the inventor or his successors for a period of 20 years.⁶⁰ The patent process – including application requirements, deadlines, examination, grounds for refusal, effects and rights conferred by the patent – is defined in the Industrial Property Code. In cases of intellectual property infringement, license holders may request protective measures, such as the seizure of products that violate their rights; the confiscation of the instruments used for the illicit acts; as well as measures from judicial, administrative or police authorities to prevent the infringements (art. 265). In addition, civil and criminal actions are applicable. The Code also sets Rules regarding compulsory licensing (art. 53).

Despite a good legal framework, the IP market remains underdeveloped. Since the establishment of the IGQPI, very few Cabo Verdeans have been registering and protecting their intellectual property. For instance, as of December 2017, only three inventions were filed for patent, and 500 works were registered in the copyright register. Given the novelty of university education and limited research capacities, it is understandable that patent activity may take time to develop. Several challenges remain for creators including restricted access to financial resources to spend on IP protection, limited knowledge of IP rules and procedures as well as the benefits of IP protection. However, the vibrant cultural production of the country (e.g. music and performing arts in São Vicente, arts and crafts in Santiago, Fogo and Santo Antão), offers potential for a much broader portfolio of copyrighted works (UNCTAD, 2015b). Trademark registration is occurring: according to IGQPI statistics, the

institute receives on average two to three requests for registration per week, out of which 90 per cent are foreign brands. Usually, foreigners are looking for protection given their expectations of future business opportunities (e.g. automobile, cosmetics, shoes, beverages amongst others).



ASSESSMENT AND RECOMMENDATIONS

In recent years, Cabo Verde has managed to align its IP regime in accordance with the provisions of the WIPO treaties and the WTO TRIPS agreement. However, the registration of knowledge creation and certification activities remain low and are not likely to prosper without more active assistance and awareness campaigns. In this context, it is recommended that the Government:

I.1.1. Undertakes more active policies for financing research and development (R&D), increasing linkages between universities and the private sector, and promoting foreign investment and joint ventures in technological fields and R&D to foster innovation (see chapter II).

I.1.2. Undertakes awareness campaigns among cultural actors (i.e. musicians, craftsmen) about the benefits of registering their intellectual property and provides financial or other support for people willing to register their intellectual property.

I.1.3. Prioritizes work with craftsmen and artists for the certification and collective marks of traditional Cape Verdean cultural expression, considering that cultural expression and works of art that are not original may best be protected through certification and collective marks (see chapter II).



FDI in tourism has shaped the recent history of Cabo Verde. Tourism has emerged as an important channel for sustainable development, contributing to employment generation, and poverty alleviation, particularly in Africa (UNCTAD, 2017b; World Tourism Organization, 2004). Cabo Verde has experienced a tourism boom over the last 15 years, and the direct, indirect and induced impact has been significant. Tourism also played an instrumental role in the country's graduation to middle-income status (see context). The "all-inclusive" tourism sector will likely continue to fuel economic growth in the country, but limitations to this model exist, including dependency on few sources of tourists and investors; reduced contribution to the development of domestic productive capacities; social pressures and economic instability resulting from large internal migration. In addition, the proliferation of hotels and tourists can have a dramatic impact on water and energy consumption, and waste disposal, especially on small, resource-constrained islands. Cabo Verde is now seeking to diversify FDI in the tourism sector and secure greater development impact. Spreading Cabo Verde's tourism offer more equally across all its islands could contribute to more balanced economic growth, wider social development and reduced environmental pressures. There is potential for niche tourism offers in the cultural, adventure, historical and other leisure-related segments of the industry, which are largely un-exploited. Even within the "sun-sea-sand" segment, a stronger focus could be given to other economic activities with the potential for linkages with local firms. In support of the Government's objectives, this chapter presents a set of recommendations to maximize the sustainable development impact of FDI in tourism.

Chapter

2



Tourism FDI as a
lever for sustainable
development

A. THE CURRENT AND POTENTIAL ROLE OF THE TOURISM SECTOR IN CABO VERDE

1. *Key trends and the role of FDI*

Tourism in Cabo Verde has been booming since the early 2000s. In the early 2000s, the international tour operators and hotel businesses discovered Cabo Verde's potential as a year-round tourism charter destination for the all-inclusive sun-sea-sand model, which has enabled unprecedented economic growth and transformed the image of Cabo Verde as an international beach destination (see context). Since 2000, the number of international tourists has increased at a rate of 10 per cent per year, to reach nearly 645,000 arrivals in 2016 (exceeding the number of residents by over 100,000). Furthermore, accommodation capacity has risen from roughly 4,500 beds in 2000 to over 18,000 by the end of 2016 with an average occupancy rate of 55 per cent nationwide (reaching 82 per cent in Boa Vista). The Government's objective is to reach one million tourists by 2021.

Tourism has been concentrated in two islands, with the bulk of tourists coming from Europe. The islands of Sal and Boa Vista together account for 77 per cent of tourist arrivals and 91 per cent of overnight stays. The United Kingdom is the main source of tourists, followed by Germany, Portugal, France, and Belgium/Netherlands. Tourism flows from African countries are very low, and led by South Africa, which accounts for 0.1 per cent of tourist arrivals in 2016 (annex 2). The country therefore has the potential to expand its tourism offer to other, underexploited markets.

The sector is dominated by multinationals and the all-inclusive model. Most tourism-related investment has been made by major international tour operators, hotel companies and resort developers in the form of greenfield projects (see context). A 2017 study on the tourism value chain in Cabo Verde confirmed that tourism operations in Sal and Boa Vista are concentrated in a small number of large, all-inclusive luxury resorts, representing about 91 per cent of the tourism market in the two islands (Monteiro and Ferro, 2017). One specific feature of tourism FDI is the frequent separation of ownership and control, where a foreign investor without expertise in the sector can purchase land and build facilities for another foreign firm to manage the franchising or management contracts (i.e. non-equity modes of investment). In Cabo Verde, this type of arrangement is common (e.g. for brands like the Resort Group PLC and Meliá Hotels International).

Fully-integrated European tour operators and travel agents are the main sources of foreign investment. The largest and most influential operators are based in Germany and the United Kingdom (TUI, Thomas Cook). Tour operators are the wholesalers of the all-inclusive product. Of the 11 all-inclusive resorts, four are owned by RIU Resorts (Spain) and three by The Resort Group PLC (United Kingdom) (Monteiro and Ferro, 2017). TUI Group has operated in Cabo Verde since the early 2000s through a joint venture with RIU. It is the largest tourism operator in the country, with a hotel portfolio of five hotels. Another one is expected to open on the island of Sal in 2019.

Cruise tourism in São Vicente, Santiago and Santo Antão is also significant. Porto Grande (São Vicente Island), Port of Praia City (Santiago) and Porto Novo (Santo Antão) are the receiving ports for cruise tourism

in Cabo Verde, which welcome major European and American cruise liners from, for example, Fred Olsen Cruises, Costa Cruises, Aida Cruises, MSC Cruises and Oceania Cruises. The main source countries for cruise passengers are the North American market and, with greater geographical proximity to Cabo Verde, the English, Irish and German markets as well as other Northern European countries (Ministério do Turismo, 2014).

Though much smaller in size, projects by small individual investors, including from the Cabo Verdean diaspora, are more geographically diversified and play an important development role. Small-scale investors from the neighbouring Canary Islands (Spain) are particularly active in small and rural hotels, tourism services and real estate. The impact of individual foreign investors has also been significant in terms of introducing new and innovative concepts to restaurants and cafés (e.g. in Santiago, Sal or Boa Vista) that enhances the quality of the tourism experience in these islands. Cabo Verde also has a resourceful diaspora living in France, the Netherlands, Portugal and the United States of America. The diaspora is investing in smaller tourist projects (pousadas and residenciais) in São Vicente, Santo Antão, Fogo and Brava. They are also known to have invested in summer houses on the islands where their families originate.

2. Impact of the all-inclusive model

The all-inclusive model has been a key driver of economic development in Cabo Verde. Overall, the all-inclusive model is deemed to have improved the economic performance of the national economy. It has made significant contributions in terms of increasing tax and duty revenues, strengthening the budget of State and municipal authorities as well as bolstering foreign exchange reserves. Furthermore, the model has had a strong impact in terms of employment creation, improving educational outcomes, as well as enhancing managerial learning opportunities through in-house training programmes in large resorts. Finally, the model also imported sophisticated marketing programmes, computerized reservation facilities, and established trade links, which proved to be powerful competitive advantages and helped accelerate growth.

The direct and indirect effects of tourism on GDP and employment are significant. As mentioned in the Context, tourism is estimated to account for over 17 per cent of GDP in Cabo Verde, through economic activity generated by hotels, restaurants, leisure activities, travel agents, airlines and other passenger transportation services. Furthermore, tourism also contributes to GDP indirectly throughout the supply chain, which if added to direct impacts results in a total contribution of the sector to GDP of 44.5 per cent. It is estimated that this will increase to over 55 per cent in the next 10 years (WTTC, 2017). The impact on job creation has also been significant, given the labour-intensive nature of the industry. According to the INE, Cabo Verde hotels employed more than 7,700 people in 2016, an increase of 20.5 per cent compared to 2015. The total contribution of tourism to employment, including the wider effects from investment, the supply chain and induced income impacts, was 91,000 jobs in 2016 (about 39 per cent of total employment). By 2027, the sector is forecast to support 151,000 jobs (WTTC, 2017).

The vertically-integrated model, however, also poses challenges for domestic firms in the tourism value chain... All-inclusive hotels are often run by vertically-integrated firms through ownership and/or alliances with hotels, airlines and reservation systems. The ability of large tour operators to direct a constant flow of tourists to Cabo Verde places them in a powerful position in price negotiations with local hoteliers and other national service providers outside their integrated value chain. It allows tour operators to control various links in the value chain by exercising their management control over planes, a network of travel agencies, cruise lines and/or hotels. Operators therefore have a strong bargaining position vis-à-vis the rest of the value chain, which makes the business environment more difficult for local companies operating in the sector. However, this bargaining

power is not only the outcome of specific purchasing policies on the part of operators, but also reflects the insufficient technical and logistical capacity of domestic firms and suppliers to meet the needs of international firms (as discussed in sections B.4 and B.5 below).

...and the concentration of tourism activity has generated new development challenges for Cabo Verde. The development of tourist facilities skewed towards resorts concentrated in Sal and Boa Vista has increased economic inequalities between and within islands, and has raised concerns over environmental, social and economic sustainability. Key issues include:

- *Economic sustainability:* most major tourist resorts import most of their inputs, thereby failing to generate basic supplier linkages with the domestic economy; they also contribute little to the development of public infrastructure, while enjoying large tax breaks.
- *Environmental sustainability:* mass tourism puts huge pressures on water and electricity resources, as well as threatens fragile ecosystems through tourist numbers, water pollution, waste production and other effects. Sand erosion at the many Cabo Verdean beaches has emerged as a key environmental issue resulting from human activity. Cruise tourism has also had implications for waste handling (UNDP, 2014). At the same time, the big resorts were also leaders in implementing environmentally sustainable practices inside their premises. With regards to water and energy conservation, big resorts can exploit economies of scale to consume resources efficiently.
- *Social sustainability:* the internal migration to Sal, Boa Vista and Maio from the country's other seven islands, combined with the rapid pace of private investment in the sector, was not accompanied by public infrastructure investment (e.g. in sanitation, housing, health, education, security). This has resulted in significant social imbalances and the proliferation of informal settlements.

3. Additional forms of tourism can create higher value added and promote sustainable development

Product diversification beyond the all-inclusive model could increase value added and improve the development impact of tourism. Other forms of tourism could integrate the existing offer and support economic diversification, as well as produce higher value added with more linkages to the local economy. These forms include the development of cultural, adventure and agricultural/eco-tourism as well as other leisure-related activities (e.g. nautical and water sports activities, excursions), which so far remain largely underexploited in Cabo Verde.

Cultural tourism is known to have a high development impact, but its potential remains untapped.

Cultural tourists are known to spend substantially more than tourists on all-inclusive holidays. Their involvement in cultural experiences also helps foster linkages with, for example, local artisans. Cabo Verde offers numerous opportunities for cultural tourism, such as in the urban centres of São Vicente, Santiago and Fogo. Festivals and performances, as well as the richness of local creative industries and historical heritage sites are an important feature of cultural tourism that could be attractive for residents and foreigners alike, including the diaspora (box 2.1). However, municipalities have little experience of how to capitalize on the potential of cultural tourism products, which, combined with the financial requirements for developing modern infrastructure, has inhibited their visibility. For cultural tourism to have more of an impact, Government strategies and policies are needed that could create integrated tourism products, facilities and services, which should also be coordinated and marketed with tour operators and accommodation providers.

Box 2.1.

Cultural tourism: reclaiming Cabo Verde's historical heritage sites

Cidade Velha was added to UNESCO's World Heritage List in 2009, marking Cabo Verde's first entry to the international community's inventory of sites of outstanding universal value. However, the site is not yet ready to fully exploit its touristic potential. Public transport is not available, and there are few visitors who consider adding a visit to Cidade Velha during their stay in Praia, even though the town is only 15 km away from the capital city. Furthermore, historical buildings in the town are in an advanced stage of dilapidation, and the signing of historical sites and trails is inadequate. Some foreign investment has occurred in catering facilities, but the number of restaurants remains limited, and there is no offer of cultural activities (e.g. concerts or festivals) that could help increase Cidade Velha's visibility.

The Government is aware of these challenges and has worked with international partners, including the Government of Spain, to undertake restoration works. In 2017, the Ministry of Economy had considered a project to upgrade the city's infrastructure, with an estimated cost of about CVE 30 million, but budget constraints have prevented its launching and the initiation of the works is not yet scheduled. The situation is no different in other islands where there is potential for cultural tourism, including in Fogo. The municipality of Sao Filipe contains numerous buildings of high historical value but which are in serious need of repair and pose a safety threat to tourists.

Source: UNESCO and interviews during the fact-finding mission for this review.

Travellers seeking nature and recreational/adventure experiences are another opportunity. These tourists, primarily from European countries, usually have a higher purchasing power than leisure tourists and are often motivated to support local artisans and agricultural producers. The islands of Fogo and Santo Antão, for example, have remained less commercialized and offer opportunities for adventure tourists. At present this tourism segment is generally small, but foreign investors have played a crucial role in commercialising it (see the case of Zebra travel, box 2.6). Foreign investors could play a greater role in this segment, if the proper infrastructure were in place. However, connectivity via air, sea and ground would have to be improved to facilitate more independent travel to and around the islands. In addition, branding and quality guarantees for rural tourism, supported by the Directorate of Tourism and Transports, could strengthen the positioning of this segment.

A more diversified offer would also extend the benefits of tourism to other islands. The potential for developing tourism in all islands and contributing to more balanced economic and social growth is high. Due to their different potential, new products such as cultural, community-based, nature-based and health tourism could be developed, beyond the established all-inclusive chains and the sun-sea-sand model. For instance, it is already known that Santiago and São Vicente could have an important role to play when diversifying the tourism product, as these two islands could leverage their international air access, larger population centres, agricultural and service sectors and a vibrant cultural environment. However, the potential of the islands of Santo Antão, São Vicente and São Nicolau is less known but also significant due to the uniqueness of the islands' cultural, historical and ecological assets (table 2.1).

Table 2.1.
The tourism potential of Cabo Verde's Islands

Island	Assets	Potential tourism products
Santiago	<ul style="list-style-type: none"> ○ Praia: Capital city and political, administrative and economic centre of the country ○ Cidade Velha: the first capital of Cabo Verde and the birthplace of Cabo Verdean culture with the traditional manifestations, such as the Batuque and Tabanka ○ Cove of Tarrafal: diving and exploration of the marine fauna and flora, traces of shipwrecks; natural parks of Serra Malagueta and Pico de Antónia 	<ul style="list-style-type: none"> ○ Business travellers ○ Cultural tourism ○ Sun-sea-sand tourism ○ Activities related to nature-based tourism
São Vicente	<ul style="list-style-type: none"> ○ Natural park of Monte Verde's panoramic views ○ Popular festivals, such as Carnival and the Baía das Gatas Music Festival 	<ul style="list-style-type: none"> ○ Cultural tourism with emphasis on archaeology and built heritage ○ Eco-tourism: hiking, wildlife observation, ornithology and rural tourism ○ Active tourism: water sports, diving, horseback riding and sport fishing ○ Business tourism and events with fairs, congresses, incentives and events
Fogo	<ul style="list-style-type: none"> ○ Volcano Pico do Fogo with the Chã das Caldeiras crater ○ Wine vineyards (e.g. Chã and Sodade) ○ Coffee production ○ Monte Velho forest with its biodiversity ○ Natural parks of Bordeira / Chã das Caldeiras / Pico Novo ○ City of São Filipe with historical centre and constructions of the colonial type ○ Seafont with black sand beaches (e.g. Bila Baixo beach in São Filipe) 	<ul style="list-style-type: none"> ○ Potential for nature-based tourism and gastronomic tourism ○ Opportunities for diving, fishing and medical tourism ○ Diaspora tourism
Santo Antão	<ul style="list-style-type: none"> ○ Attractions with scenic beauty of valleys, mountains and protected areas 	<ul style="list-style-type: none"> ○ Eco-tourism: hiking, wildlife observation, ornithology ○ Cultural tourism with ethnic tourism and built heritage ○ Active tourism: canyoning, diving, horseback riding, and sport fishing
São Nicolau	<ul style="list-style-type: none"> ○ Valleys and Monte Gordo natural park ○ Habitat of rare botanical species ○ Black and sand beaches in region of Tarrafal ○ The old village of Ribeira Brava with colonial architecture and historic buildings ○ Vila do Tarrafal where the island's port is located 	<ul style="list-style-type: none"> ○ Product features complementing the tourist offer include hiking / trekking, diving, ○ Historical-cultural tourism ○ Health tourism
Maio	<ul style="list-style-type: none"> ○ Flat orography with few mountainous elevations ○ Extensive beaches of white sand and crystal-clear water ○ Salinas 	<ul style="list-style-type: none"> ○ Water sports and beach tourism, sport fishing, diving ○ Health tourism
Brava	<ul style="list-style-type: none"> ○ Architectural elegance of its typical buildings in Nova Sintra ○ Culture and musical traditions ○ Connection with the diaspora of the United States of America 	<ul style="list-style-type: none"> ○ Nature, cultural and diving tourism ○ Diaspora tourism
Santa Luzia	<ul style="list-style-type: none"> ○ Base for small fishermen from neighbouring communities of Calhau and São Pedro (São Vicente) and Sinagoga (Santo Antão) ○ Habitat of rare and endemic species, mainly seabirds ○ Island is a protected natural reserve 	<ul style="list-style-type: none"> ○ Bird and marine animal watching

Source: Adapted from Government of Cabo Verde, 2010.



Proactive policies and programmes are required to support a more diversified tourism offer. Targeted policy interventions are required to overcome the challenges facing Cabo Verde's tourism market and attract investors to niche tourism sectors, like cultural and adventure tourism. Government efforts need to address investment policy and promotion, entrepreneurship and linkages development, as well as tourism sustainability initiatives. The following section presents a five-pronged approach addressing each of these areas and proposing concrete policy recommendations. Given the scope and impact on different agencies and levels of Government of the recommendations contained in this chapter as well as the previous one, the authorities should consider establishing a multi-stakeholder observatory to follow up on their implementation and impact.

B. POLICIES, TOOLS AND INITIATIVES TO MAXIMIZE THE SUSTAINABLE DEVELOPMENT IMPACT OF FDI IN TOURISM

The Government recognizes the development potential of a more diversified tourism model... The National Strategy for Sustainable Development (PEDS) 2018–2021 highlights diversification of the tourism sector as a pillar of sustainable growth. One of the four objectives of the PEDS is to “transform Cabo Verde into a transit platform in the Medium Atlantic”. The Government aims to achieve this through the development of hubs in the areas of maritime and air transport, diaspora investment, tourism, digital innovation, finance, commercial and industrial services. According to the PEDS, the tourism component will focus on the consolidation and improvement of sun-sea-sand tourism, and the diversification of national destinations and products in all islands focusing on their cultural, historical and ecological assets.

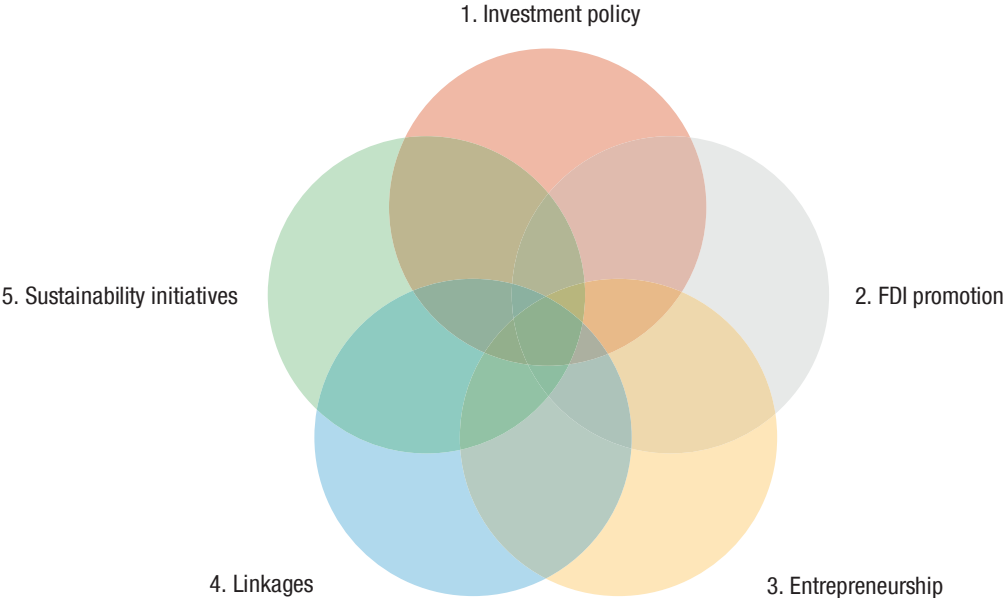
...as well as the role of private investment and FDI in tourism diversification. The PEDS has identified four main challenges to the tourism sector: competitiveness, sustainability, market concentration and impact on the wealth and welfare of Cabo Verdeans. Private investment is also seen as a substitute, in the medium term, to the expected decrease in ODA (see context) and could play a further role by smoothing balance of payments constraints. It could also contribute to turning Cabo Verde into a leading model for sustainable tourism, based on the diversified offer provided by the geography of its islands, its history, culture and nature. Given the country’s needs in terms of capital, technology and qualified human resources, FDI, in particular, is expected to play an important role in achieving the Government’s vision. By 2021, the Government expects FDI flows to contribute to about 12 per cent of total GDP (up from 8 per cent in 2016). In this regard, FDI policies will focus on strengthening confidence in the country, reducing red tape and promoting a sustainable economy (PEDS, p. 72).

A new national sectoral strategy for tourism is being discussed. The PEDS has been the subject of public discussion and consultations, and the sectoral strategies of different ministries and agencies will need to be aligned with it. With regards to tourism, the latest National Strategic Plan for Tourism Development refers back to 2010–2013 and covered the following main areas: (1) access to and among the islands; (2) general infrastructure for health, water and sanitation; (3) tourism infrastructure development, classification and promotion; (4) institutional structure, centralization and coordination; (5) sustainability and conservation of cultural and environmental resources; and (6) monitoring and evaluation. This strategy was biased towards the promotion of sun-sea-sand tourism and did not pay sufficient attention to the linkages with other sectors of the economy. A new long-term strategy for the sector’s development, more aligned with the PEDS, is currently being developed with the support of the World Bank.⁶¹

The Government will need to complement its tourism strategy with initiatives to derive greater benefits from FDI. The remaining sections of this report aim to complement the Government’s strategic goals for tourism by proposing some policy measures, tools and initiatives to better tailor FDI attraction to the country’s needs. The report also proposes ways to enhance the sustainable development impact of FDI, in terms of job creation,

entrepreneurial development, and economic diversification, both by sector and by geography. In this regard, it will address each of the aspects described in figure 2.1.

Figure 2.1.
Enhancing the benefits from FDI in tourism – a five-pronged approach



Source: UNCTAD

1. Investment policy

In the absence of sector-specific legislation, the general investment regime applies to the tourism sector, with specific provisions in certain areas. For instance, the investment and tax legislation provide for special treatment and exceptional incentives to certain large-scale investments (see chapter I, sections A and F). In addition, Legislative Decree 2/93, Decree-Law 1/2005, Law 75/III/2010 and Decree-Law 36/2005 regulate the creation and operations of integrated tourism development zones (ZDTI), and assign the Tourism Development Corporation of Boa Vista and Maio the responsibility to develop special tourism zones within these two islands (see below). Law 42/2014 regulates tourism activities taking place in natural environments, including in protected areas. Finally, Law 34/2014 on rural tourism deals with tourism facilities and services in agricultural and fishing areas.

Several aspects of the general investment regime have specific relevance for tourism investment and its impact on sustainable development. In this regard, the regulations on access to land, tax, competition, environment and labour are particularly important in determining the attractiveness of Cabo Verde to tourism investors, and the impact their investment project can trigger. For instance, with regards to the competition regime, there are concerns among stakeholders in the tourism industry that big tour operators can have so much market influence in some of the islands (e.g. Sal and Boa Vista) that they crowd out competition and contribute to the vertical integration of several market segments (e.g. ground transportation, excursions, guides or catering). Likewise, given the weight of tourism in the overall economic geography of Cabo Verde, governance issues, weaknesses in the land or environmental and social permitting regime as well as in the labour inspection regime can affect the sustainability of the sector, but also the broader sustainable development of the country

(e.g. the problems of beach erosion or absence of adequate housing and related infrastructure highlighted in chapter I). Finally, it will be essential to address issues related to safety and security of both citizens and tourists in high-tourism intensity areas, as they risk affecting the credibility of the entire tourism offering.

Tax policy can be a powerful tool geared towards supporting the diversification of tourism. Chapter I of this report calls for streamlining the tax regime and reviewing incentives to ensure that only those incentives that satisfy the following criteria are retained: 1) support sustainable development objectives; 2) reward re-investment and capital expenditure; and 3) undergo cost-benefit analysis. Tailored incentives could be successfully utilized to support the Government's tourism diversification efforts. For instance, rather than offering indiscriminate tax holidays and sector-wide incentives as is currently the case, the authorities could encourage specific outcomes, e.g. by applying a higher investment allowance on fixed assets to hotels and facilities being transformed into boutique hotels as well as business hotels and conference centres and supporting promoters that choose tourism offerings beyond the all-inclusive. At the same time, tax incentives could encourage investment in areas of the country with unfulfilled tourism potential. In the Dominican Republic, for instance, some tourism incentives are structured to achieve specific geographic and infrastructure development goals (box 2.2).

Planning and zoning should be strengthened and aligned with the country's tourism development objectives. When the first large tourism projects were developed, in the island of Sal, the Government lacked a land zoning plan to guide it. In order to achieve a more structured and disciplined development in the islands of Boa Vista and Maio, the Government created in 2005 the Tourism Development Corporation as a public entity which manages the land planning, licencing and transactions of all real estate located in ZDTIs that were created in Boa Vista and Maio (see also chapter I).⁶² The goal was to avoid challenges linked to a lack of land use planning, that had characterised tourism development in Sal, and facilitate foreign investment. However, the work of the Corporation was not exempt from problems. In 2009, land use plans were approved for five of the six zones managed by the Corporation (three on each island). Planning was done in such a way that plots were too big, which encouraged the installation of large resorts near the shores.⁶³ In addition, social and environmental concerns were neglected due to underinvestment in public housing, water and sanitation, and energy, and also because of inadequacies in the environmental and social impact assessment legislation (see chapter I). According to UNCTAD's interviews, while some ZDTIs also exist on other islands, land planning and zoning have not been completed. If the Government wants to diversify its tourism development model to attract investment beyond the all-inclusive type, it will be crucial for land planning and zoning to reflect these objectives, e.g. by limiting plot size or imposing limits on the maximum number of rooms to promote smaller capacity hotels. Encouragingly, in April 2018, Decree Law 18/2018 established the Office for the Management of Special Touristic Zones, with the mandate to elaborate a strategy for urban and infrastructure planning as well as investment in tourism areas. The Office was not yet operational at the time of completing this report.

Addressing infrastructure challenges will be key to fostering regional economic diversification and inclusive tourism. The availability and quality of airports and inter-island marine transport are essential for the success of a strategy to diversify tourism growth. In recent years, Cabo Verde has invested heavily in large infrastructure projects, focusing on a network of airports, ports and roads. These investments have enabled the main international carriers at the islands of Sal and Boa Vista to operate international charter and commercial flights, which have grown in parallel to market demand for tourism. However, these investments fell short of achieving adequate national inter-island connectivity. They also resulted in a skewed infrastructure development that promotes over-dependence on the existing all-inclusive tourism model. As discussed further in sections 3 and 4 below, improving inter-island connectivity is a pre-condition for diversifying the tourism development model, and also for the development of supplier linkages and the promotion of local entrepreneurship and economic diversification.

Box 2.2.

Tourism incentives in the Dominican Republic

In the Dominican Republic, Law 158 on the Promotion of Tourist Development for New or Low Development Locations in Provinces and Areas with Great Tourist Potential, and for the Creation of the Tourist Promotion Official Fund, enacted in October 2001, provides incentives for investment in a wide range of tourist businesses, including hotels and resorts and complementary facilities such as conference centres, amusement parks, associated leisure and entertainment complexes, as well as infrastructure such as cruise ship ports and water supply and sanitation services. The incentives (which apply for 10 years and cannot be changed) are corporate income tax exemption, relief from import duties and tax on the transfer of industrialized goods and services on equipment and materials used in the construction and initial outfitting of facilities, relief from tax on the capital of companies and on real estate holdings and transfers. Moreover, investors can deduct the investment cost from their other taxable income at the rate of 20 per cent per year for five years.

The incentives aim to encourage investment in areas of the country with unfulfilled tourism potential. In some areas, the full range of incentives applies. In more developed tourism areas, such as Puerto Plata, the incentives only apply for complementary facilities (i.e. excluding hotels and resorts). In two areas, only the relief on indirect taxes on constructing and equipping hotels applies. The incentives can extend to concessions entered into with the State, for example, for the construction of public infrastructure.

Source: UNCTAD, 2009.

Some progress on improving air connectivity has been achieved in the context of the ongoing restructuring of national carrier, TACV. Growing deficits by the national airline carrier prompted the company to stop inter-island flight operations. The Government then fast-tracked the granting of licences for the operation of domestic flights to Binter airlines, a subsidiary of a Spanish conglomerate from the Canary Islands. The Government is also working on the restructuring of TACV and on the conclusion of a management contract with a private company, before considering the privatization of the company.⁶⁴ One key challenge ahead, in this regard, is the inclusion of public service obligations, which need to be considered in licensing contracts to address connectivity gaps.

Concessions are being considered to support the attraction of private investment for infrastructure. As referred to in chapter I, the UASE unit was recently created within the Ministry of Finance, by merging the privatization and PPP units. The unit is gearing up to start better utilizing concessions and PPPs for the management of existing infrastructure and the development of new projects. A modern PPP law was recently adopted (Decree-Law 63/2015 of November 2015), and a Policy Framework and Procedures Manual for the Implementation of PPPs followed in 2016. Finally, a project pipeline including 23 State-owned companies that could be put up for privatization, concession or restructuring was published in the Official Gazette in August 2017. It includes utility providers, but also maritime and air transport companies and other public enterprises across various sectors. Interviews with relevant stakeholders indicate that the authorities are looking primarily for strategic private sector partners to inject know-how and investment, rather than considering full privatization. In line with good practice internationally, the UASE is working on developing the required technical support and expertise, and received capacity-building assistance from the AfDB, the World Bank and the IMF. It is also working on a strategy to develop capacities and awareness on the local private sector side, so that they can participate in the PPP process and tendering.

Partnerships with the private sector can also be leveraged to improve smaller scale tourism infrastructure to promote new market segments... Beyond large infrastructure needs, partnerships between the Government and the private sector can also help in the upgrading and refurbishing of tourism-related

infrastructure and supporting the diversification of the tourism model. These include investments needed to improve tourism signage and maintenance of points of interest as well as tourism information services in almost all the islands. It can also include conference centres, amusement parks, associated leisure and entertainment complexes, marinas, medical clinics and equipment, solar panels, water desalination plants, re-furbishing of historical sites and tourist attractions, building of water sports facilities, safety devices for adventure tourism, among others. Some of these investments are relatively small projects which may be attractive to foreign and domestic investors. One successful example, which shows the high-return for small investments in a partnership approach is that of the Odje Azul project in Buracona on the island of Sal (box 2.3). A more proactive approach to the promotion of these investments will be crucial to diversify the tourism industry and develop niche segments in all islands.

Box 2.3.

The Odje Azul – when small projects have big impact

The Odje Azul Project is a successful initiative started in 2011 by a local investor in a coastal area of the island of Sal in the protected landscape area of Buracona-Ragona. It has since become a major stop for tour visits, and the site is now included in island trails advertised by hotels. It is also an example of how small investment in basic tourism infrastructure could go a long way in creating sustainable outcomes.

With a total investment of CVE 30 million (about \$330,000), the infrastructure developed includes a viewing point, public toilets, showers, changing rooms, signage, green areas, picnic area, access ramps to the natural pools, wood footpaths, lifeguards, a souvenir shop and a restaurant.

The project is also a successful example of a multi-stakeholder partnership between the Government and private sector for the promotion of sustainable tourism. The infrastructure improved access for tourists while preserving the natural beauty of the area. Furthermore, the use of wind power (90 per cent of the total electricity supply) helps address concerns about pollution. As part of its social responsibility package, the company supports a primary school in Palmeira. The next phase of the project entails the construction of a sewage treatment plant in partnership with Águas de Ponta Preta, the water, energy and waste management company in the region of Ponta Preta.

Further expansion is planned, including the building of a tourist information centre on the history and culture of Sal, a “Blue Angle” area with photo and video exhibitions of the Odje Azul and a green area called “Garden of the Islands,” featuring native plants from all islands. There will also be a cultural area displaying live music, national dishes and drinks.

Source: UNCTAD interviews and asemana.publ.cv/?Buracona-de-cara-nova (accessed 12 February 2018).

...but enhanced stakeholders’ dialogue and engagement is needed. The General Directorate of Tourism and Transport (DGTT), within the Ministry of Tourism and Transport, is the central tourism authority in Cabo Verde. Because of the multifaceted nature of the industry, DGTT undertakes its work in coordination with a series of other State institutions as well as the municipalities and non-governmental entities (box 2.4). With regards to private actors, the principal stakeholders include international and national operators/agents, sector associations and large companies providing accommodation and catering, transportation, leisure and recreational services. More work will be needed from the Government side to mainstream and institutionalize such mechanisms at the national level and in other islands (see section 5 below).



Box 2.4.

Tourism regulation, development and promotion institutions in Cabo Verde

The roles and functions of various stakeholders in the promotion and regulation of tourism in Cabo Verde are as follows:

- **DGTT** is responsible for tourism planning and projects, policy development, the elaboration of laws, regulations, licensing and certification required by the law. It is tasked to maintain a database of information about the tourist sector; create tourism development plans; develop tourism products that protect cultural and natural resources; collaborate with other organisations that promote tourism domestically and internationally; coordinate zones of tourist development; and maintain tourism statistics. In January 2018, the DGTT was transferred from the Ministry of Economy and Employment to the new Ministry of Tourism and Transport.
- **Office for the Management of Special Touristic Zones.** Established in April 2018 with the mandate to elaborate a strategy for urban and infrastructure planning as well as investment in tourism areas, the Office is not yet operational.
- **Tradelinvest** is an autonomous State agency that aims to promote favourable investment conditions and stimulate the promote exports (see below).
- **Tourism Development Corporation of Boa Vista and Maio** plans and manages the integrated development of ZDTIs on the two islands. It is a public company set up by central government and two municipalities, Boa Vista and Maio.
- **Pró Empresa** aims to promote, facilitate and monitor the national private investment of MSMEs in all sectors of the national economy (see section 3).
- **IGQPI** is responsible for managing, coordinating and developing national standards, including for tourism and fisheries. The institution has a mandate on registering patents and copyrights, industrial design and trademarks, foster innovation, and mechanisms of technology transfer amongst others (see section 3).
- **Chamber of Tourism** is a private business association formed in 2011 after the merger of two industry associations: the National Association of Tourism Operators (UNOTUR) and the Cabo Verdean Association of Tourism Real Estate Promoters (PROMITUR). It defends the interests of the industry in close cooperation with the central and local governments and represents large and small national companies in the sector (i.e. hotels, tour operators, restaurants, car rental agencies, sport and entertainment companies, real estate companies).
- **Municipalities:** On a local level, municipalities have a remit covering many aspects of tourism policy, particularly with regards to real estate and land use planning and sensitive aspects of environmental performance (e.g. waste management, water and sanitation).
- **EHTCV:** The school is based in Praia and was built with the goal to increase the number of qualified tourism workers. A Steering Committee formed by representatives of the government and the tourism sector supervises its work. EHTCV collaborates with the Chamber of Tourism and specific agreements have been arranged with hotels, restaurants or travel agencies for internships of young graduates and large numbers of qualified staff have been provided to the hotels (e.g. hotel Meliá in Sal). In 2018, EHTCV will open another branch in Sal.
- **Travel Foundation in Sal and Boa Vista** is a sustainable tourism charity, based in the United Kingdom and overseen by a local Cabo Verdean coordinator in Sal since 2013. Another programme is focused on resource efficiency and service providers: the charity is working with hotels to help them reduce energy, water and waste reduction. In Sal, the Foundation has set up a Destination Council.

Source: UNCTAD based on interviews during fact-finding mission; UNDP, 2014.



The growing importance of tourism has helped raise awareness of the need for technical and vocational education in Cabo Verde. Qualified human resources is central to Government strategies to ensure social inclusion, reduce income inequalities and social asymmetries, and is one of the four objectives of Cabo Verde's PEDS. Given the skills requirements associated with the growing tourism industry, one key development has been the establishment in 2011 of a new national vocational and training centre, the Cabo Verde Hotel and Tourism School (Escola de Hotelaria e Turismo de Cabo Verde, EHTCV) in Santiago.⁶⁵ The school has helped build human capital that has been praised by the hotel industry as meeting the quality of service delivery expected by international visitors. However, the precarious situation of many families who cannot afford school fees and living costs in Praia are a challenge to ensuring sustained enrolment at EHTCV. In addition, the training provided should also support diversification into specific market niches beyond hospitality, which are not saturated and could potentially pay higher wages, including tour guiding, ICT, cuisine, as well as environment, eco-tourism and sustainability.

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The policy approach towards investment in tourism has largely mirrored the overall investment policy approach characterized by passive facilitation, rather than proactive targeting of specific development outcomes, as discussed in chapter I of this report. The examples of land zoning, tax policy or stakeholder engagement provided in this section are cases in point. Attracting the type of investment that will diversify the existing tourism development model and contribute more significantly to sustainable development will require a more holistic approach involving adequate policies, tailored support initiatives, better infrastructure as well as more proactive investment promotion. Looking forward, the participation and coordination of all stakeholders in tourism should be the basis of sustainable development planning in Cabo Verde. With this goal in mind, it is recommended that the Government:

II.B.1. Prioritizes the strengthening of key laws and institutions of the general investment regime, to ensure that investment policies promote tourism diversification and sustainable development. This involves addressing the issues identified in chapter I of this report and, in particular, the regulations on access to land, tax, security, competition, environment and labour.

II.B.2. Reforms the regime of incentives for the tourism sector to promote economic and regional diversification. This includes:

- Applying higher investment allowance rates on fixed assets to hotels being transformed into boutique hotels, business hotels, conference centres or other target activities.
- Encouraging investment in areas of the country with unfulfilled tourism potential by providing differential incentives in those areas, while reducing them in well-developed tourism areas.
- Considering the extension of tax relief to concessions entered into with the State for the construction of public infrastructure relevant to tourism.

II.B.3. Aligns land planning and zoning to the sustainable tourism development objectives. This involves extending the land planning and zoning effort to all the islands of the archipelago and adopting regulations on the size of the parcels as well as their use so as to promote the type of tourism development targeted by the authorities.

II.B.4. Leverages partnerships with the private sector to improve smaller scale tourism infrastructure. While the current efforts to move forward with concessions and PPPs for large-scale projects are welcome, the authorities should also consider leveraging smaller-scale private investment to foster the development of infrastructure required to promote specific tourism offerings in the various islands. In this regard, jointly with the



local authorities and all tourism stakeholders, a smaller-scale project pipeline should be compiled for each of the islands, which would lead to the formulation of concrete investment opportunities to be marketed through traditional channels as well as by leveraging Cabo Verde's diaspora in various countries.

II.B.5. Broaden tourism education to accompany diversification. Work with education stakeholders (i.e. professional schools, the Institute of Employment and Vocational Training) to bolster the curricula for TVET programmes and offer training for professions that meet existing market needs, but also offer the range of skills required to support the tourism diversification effort.

2. FDI promotion

Investment promotion agencies can play an instrumental role in leveraging FDI for the development of sustainable tourism. Their knowledge of the national market and investment opportunities can direct investors to priority niche markets identified by development plans (box 2.5). They can also play an active role in extracting the benefits from investment, by promoting local sourcing as well as business linkages opportunities. The main challenge for investment promotion agencies is to design investment facilitation and targeting activities coherent with their country's development strategies and to become fit for purpose in terms of tools, resources and expertise.

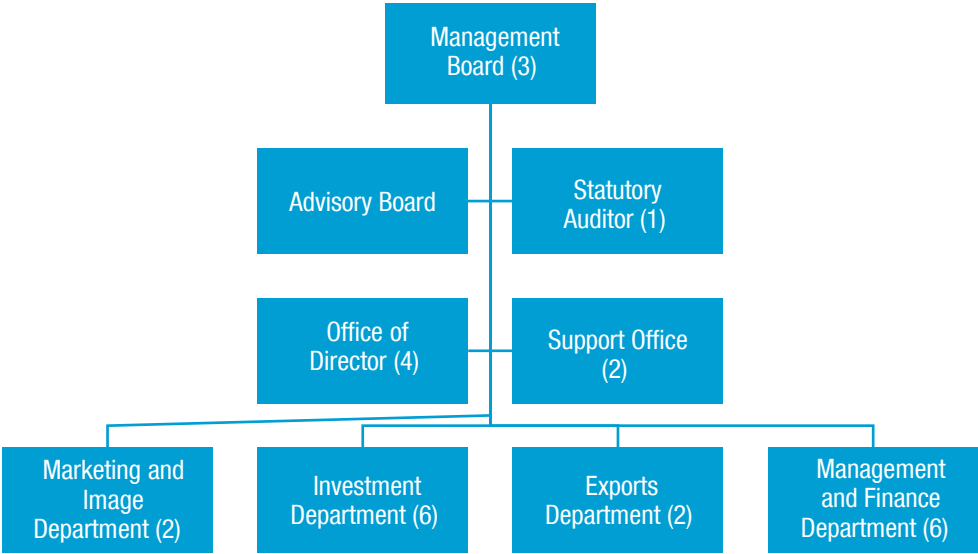
In Cabo Verde, a new investment promotion agency was put in place in 2016. The first Government focal point for foreign investment in Cabo Verde, established in 1990, was the Centro de Promoção Turística, do Investimento e das Exportações (PROMEX), whose mandate focussed on the promotion of tourism-related activities (both tourism promotion and tourism investment attraction) and on export promotion. The entity was renamed in 2004 after the Government merged the Enterprise Development Support Institute and PROMEX in what became Cabo Verde Investimentos (CI). The role of CI was to facilitate investment across the economy by guiding and assisting potential investors in preparing investment applications for submission to Government authorities. Its investment promotion approach was mostly reactive and the agency relied substantially on its capacity to administer special economic zones – namely, one EPZ in São Vicente and the ZDTIs in other islands. With the passing of Decree-Law 41/2016, the investment promotion agency has been re-named Cabo Verde TradeInvest (hereafter TradeInvest). Formerly under the umbrella of the Ministry of Economy and Employment TradeInvest reports directly to the Ministry of Finance as of 2018.

Its mandate follows good international practice and includes pro-active investment promotion. The goal of the recent transformation of the agency was to provide it with a narrower and more focussed promotional mandate, both for export and investment promotion. TradeInvest is constituted as a public entity with a remit on the promotion, dissemination, coordination, facilitation and monitoring of investment opportunities. The agency also has a remit on export promotion of goods and services produced in Cabo Verde, but not on tourism promotion, other than attracting investment into the sector. Also in line with international good practice, TradeInvest does not administer any regulatory functions and it is neither involved in the allocation of investment incentives nor in the approval of investment contracts, which are the responsibilities of the Council of Ministers.

TradeInvest is working towards increasing its effectiveness within the limited resources allocated to it. The new Government formed in 2016 changed the management of the agency. The board now comprises three managers from the private sector, who have been tasked with relaunching the agency and increasing its effectiveness. According to the organizational structure approved and in force since April 2017, TradeInvest counts 26 staff divided among several administrative functions, across four functional teams performing

promotion tasks (figure 2.2). The management and finance department has six employees. Considering the size of the economy, this structure should provide sufficient human capacities for undertaking effective investment promotion, although their current distribution appears skewed towards management and supporting services, and the recent addition of an export promotion mandate may be a drain on the agency’s limited resources.⁶⁶ Indeed, TradelInvest’s budget for 2018 stands at about \$1.1 million – of which about 75 per cent is allotted to wages. In order to maximize its effectiveness, TradelInvest has engaged the assistance of external experts who are carrying out an in-depth review of its mandate and activities. One of the deliverables will be the formulation of a strategic investment promotion plan for 2018–2021.

Figure 2.2.
Cabo Verde TradelInvest – organizational structure



Note: The figure in parenthesis represents the number of staff in each department or unit.

TradelInvest is also mandated to engage in a series of new functions. The draft Action Plan for 2018–2019 of the agency includes an ambitious list of objectives and steps to be undertaken with the goal of improving promotion activities. The plan is divided across eight goals for investment promotion, six goals for export promotion and two for improving administrative efficiency. Each goal is assigned a series of actions with respective indicators of achievement. The objectives for investment promotion include the mapping of investors; database management; promotion and investment attraction activities through conferences and workshops; developing branding and image building; improvements to facilitation and monitoring of investment projects; enhancing the online platform; and undertaking aftercare and policy advocacy services. Whereas the draft Action Plan seems comprehensive for the long-term development of TradelInvest, it runs the risk that resources may be spread too thin if all actions are undertaken over only two years. Some prioritising amongst planned actions is needed to ensure success.

Investment facilitation efforts are advanced...TradelInvest offers an electronic platform that serves as a one-stop shop. The platform aims to increase efficiency and effectiveness of the investment process, improving understanding and communication between the agency, its customers, public and other private stakeholders as well as developers of domestic and foreign investment projects. The one-stop shop offers, on a single platform, all the necessary services once scattered across various institutions. It is accessible for investment projects



totalling CVE 50 million or more. The goal is to promote efficiency and de-bureaucratization of the investment process, ensuring that it is completed within a maximum period of 75 days. The business facilitation activities of TradeInvest have received praise from foreign investors interviewed by UNCTAD in preparation for this report.

...and other investment promotion functions are under development. Other than business facilitation and some limited investment promotion activities through participation in fairs and other events, the key functions of Cabo Verde's investment promotion agency are still under development. Experience worldwide has shown that general investment promotion campaigns are significantly less effective than specialized and pro-active investor targeting techniques focussed on presenting concrete sectoral, or even niche, investment opportunities to selected investors. Pro-active investor targeting has also proved effective in fostering the development of sustainable tourism (box 2.5). Likewise, the relevance of investor aftercare functions in investment promotion has increased over time, due to its capacity to generate re-investment. TradeInvest has internalized the need to adopt modern techniques and is working on developing these functions. As part of its Strategic Plan, the agency plans to map investment opportunities on all the islands in some sectors, including tourism, ICT and agri-business.

Box 2.5.

Pro-active FDI promotion as a tool for tourism diversification: the case of Chile

Chile recognizes the importance of fostering national and foreign investment in sustainable tourism as an engine of growth. The National Plan of Sustainable Tourism Development includes a component on "Diversification of Experiences" to foster the development of tourism based on the country's cultural and natural heritage. A strategy to attract investment – the Invest Tourism Initiative – was launched in 2016 by Invest Chile, the IPA, with the involvement of several government entities, including the Ministry of State Properties, the Ministry of Economy, Development and Tourism, the Undersecretary of Tourism as well as the National Tourism Service. Together they form the "Invest Tourism Team". The aim of the initiative is to diversify the supply of nature-based tourism services through projects, of different sizes and types, with sustainable development impact.

The key elements of the strategy include opportunity mapping, branding as well as promotion. As a first step, the Invest Tourism Team mapped opportunities for sustainable tourism investment in 27 destinations across the country. The team selected properties with a high potential for development, considering characteristics of the destination and property, as well as local communities' needs. The initiative is expected to channel a total investment of \$32 million into sustainable tourism. The opportunities identified went for a public call of interest, launched in September 2016. Through this first call, Invest Tourism received 31 proposals covering 11 opportunities. A second call of interest was launched in 2017 to attract investment to protected areas. In addition to the core group of Invest Tourism, the Ministry of Environment, the National Forestry Corporation as well as the management units of protected areas also participate in the selection of projects.

As for branding, Chile launched a new exercise in 2016. It aims to adopt a single country identity, Brand Chile, in areas such as culture, sports, exports, investment, tourism and international relations. For example, Travel Chile promotes tourism and Invest Chile promotes investment, with both relying on a clear identity that emphasizes the country's attributes.

Finally, Invest Chile elaborated a strategy to attract investors in strategic priority sectors, and has identified target investors in Australia, Brazil, Canada, China, Europe and the United States. The strategy includes participating and organizing high-profile events, conducting targeted promotional activities on digital platforms, and promoting Chile in foreign media. More specifically, tourism investment was promoted at events organized in targeted countries in partnership with local business associations (during the Chile Week in China, the Chile Week in the United States and at the International Investment Forum in Chile).

Source: Invest Chile, 2017 and Government websites (subturismo.gob.cl/inversiones/, invierteturismo.cl/invierte-turismo/, marcachile.cl/English and investchile.gob.cl/es/noticias/)



It will be important to align the new plans for investment promotion with objectives to diversify the tourism development model and increase its impact on sustainable development. The main challenge for IPAs is to design investment facilitation activities coherent with development strategies. To develop a successful strategy to attract investment in tourism, UNCTAD outlines a number of steps that include: mapping out of the current offer on the islands for inward investment projects in the tourism sector; identifying international mobile tourism projects and matching them with local opportunities; ranking these investment opportunities based on a range of selection criteria like the value of the project, sustainability, and the competitive position in the marketplace; developing a marketing strategy in close cooperation with the Ministry of Tourism and Transport, DGTT and other relevant State institutions; targeting firms for specific investment projects; and tracking results and modifying the strategy if necessary (UNCTAD, 2010a). Branding, market intelligence, investor targeting and aftercare require specific knowledge of market trends and business behaviour, and it is important that they be undertaken by dedicated professionals with substantive private sector expertise. The following summarizes key challenges and potential actions to be undertaken for each of these new functions:

- **Image building.** The strategic plan for TradeInvest includes image building, which aims to re-calibrate the international brand of Cabo Verde and highlight the opportunities for business and investment in the country. Image building activities should include promotional tools to convince prospective investors that Cabo Verde is a good place to invest. The former CI was mandated to carry out, in addition to investment attraction efforts for the tourism industry, activities to market the country as a tourist destination. Overall, its branding and marketing efforts were not satisfactory, due in part to the allocation of limited resources, but also by the fact that attracting tourists requires a different approach to promoting investment. For this reason, the marketing of destinations is typically carried out by national tourism marketing organizations or tourism boards on behalf of the government. The removal of the tourism marketing function from the mandate of TradeInvest is therefore a welcome development. In the absence of a tourism board, the DGTT (box 2.4) has the remit for tourism policy and promotion. Due to lack of adequate capacities or resources, however, the DGTT has thus far mainly relied on tour operators and travel agencies to market its opportunities, which has helped to shape and position it internationally as an all-inclusive tourism destination. A reorientation of this image is required to attract the interest of both investors and tourists in other segments of the industry.
- **Research and market intelligence.** Improving the knowledge base at TradeInvest on research and market intelligence implies analyzing global trends in the tourism industry and learning about its sub-sectors or segments that are more likely to produce intended development outcomes (industry structure, key players, and international trends). This research and intelligence are key to informing investor targeting strategies. The current action plan foresees some of these activities, but it is not specific as to which segments within each sub-sector to screen. Thus, a first step may involve undertaking a global screening of potential investors in the target segments of the tourism industry, with a focus not only on Europe, but also on Africa, the Middle East and Asia as well as the United States of America, and on countries where the Cabo Verdean diaspora is more active. Such an approach would allow for a greater diversity of businesses and a wider and more heterogeneous investor database.
- **Proactive investor targeting.** This function will be key to move away from the all-inclusive tourism model. So far, investment promotion in Cabo Verde has been reactive, with information and support being provided to potential investors who first make a contact. The result has been a passive reliance on the work of international tour operators who discovered the country's potential and negotiated investment contracts to set the conditions for their operations. Targeting investors in a proactive manner could foster diversification of the tourism industry and thus reduce the dependency on the all-inclusive segment. As mentioned in section B.1, given the characteristics of some of the targeted market segments (agricultural tourism, adventure,

sports tourism) investment may be needed to develop new tourism ventures and also to improve the required infrastructure (i.e. improving roads, building water sport facilities, upgrading safety infrastructure in the mountains). Thus, coordination with other sectoral ministries is central to determine in which areas private investment could play a significant role either through public concessions or small PPPs.

- **Aftercare services.** Once investors are established, it is important that TradelInvest supports the investor to navigate through the complexity of local business regulations and overcome potential obstacles for reinvestment. Until recently, however, the focus on business facilitation neglected the development of aftercare services. Although investors consulted for this review have acknowledged that the Government reacts to business concerns (e.g. by assisting with infrastructure and operational challenges that require communication among different agencies and ministries), it often takes place through personal contacts by individual investors in key government entities rather than established institutional mechanisms. Creating such mechanisms would go a long way to incentivise reinvestments, and is particularly important to facilitate smaller companies, which are the natural targets of the new tourism strategy. This could be done by strengthening partnerships between TradelInvest and the management teams of foreign firms already operating in Cabo Verde with the goal of addressing their ongoing daily operational challenges (“troubleshooting”). TradelInvest is aware of the need to concentrate efforts on this service and its action plan for 2018–2019 will focus on retention, expansion, embedding and diversification of existing investments (Cabo Verde TradelInvest, 2017).

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Cabo Verde is set to join other developed and developing countries in adopting modern investment promotion techniques, and TradelInvest is gearing up to perform the new tasks. The payoff in terms of attracting the type of investment that can best contribute to the sustainable development objectives of the country can be significant. A more pro-active approach by TradelInvest would also be important to signal the change in the overall approach to investment policy and attraction that is called for in this report. Developing the skills and techniques to carry out the new functions will be critical. It is also important that TradelInvest does not work in isolation but as part of a broader Cabo Verde approach in which the key tourism sector stakeholders are aligned around a common vision for the country, which translates in a shared message to the rest of the world. In this regard, the authorities should consider:

II.B.6. Developing a destination brand focussed on the sustainability of Cabo Verde as a tourism destination. Although operators helped position the country in the international markets for all-inclusive tourism, they have also skewed tourism demand towards an enclave sector with limited opportunities for linkage development (see section 4 below). It will be important to ensure that a new destination brand is formulated and that it:

- Stems from the objectives of the tourism development strategy currently being elaborated;
- Is developed in coordination with all tourism promotion stakeholders. This includes the DGTT, TradelInvest, the Tourism Development Corporation of Boa Vista and Maio and the ZDTIs.
- Aims at positioning Cabo Verde as a lead destination for sustainable tourism and attracting increased interest across different segments of the industry; and
- Forms the basis for the image-building activities of TradelInvest (see recommendation II.B.8).

II.B.7. Setting up a professional Tourism Board – supported by DGTT and the Chamber of Tourism – with a mandate to conduct and implement some of the business operations for the promotion of the portfolio of available tourism products as well as performing informational activities. A strong destination brand managed

by a professional tourism board could help raise awareness for tourists of a more diversified offer of products in Cabo Verde, which will be supportive for investment attraction efforts into tourism.

II.B.8. Supporting TradeInvest to implement the new investment promotion functions set out in the Strategic Plan. In particular, based on UNCTAD's research on successful FDI promotion in tourism (UNCTAD, 2010a), the Government should consider prioritising the following aspects:

- Image building and branding: TradeInvest should implement the investment-related component of the image-building exercise (recommendation II.B.2.6 above on country's brand), and develop a shared message stressing the fact that Cabo Verde is a destination for sustainable tourism investment activities. Measures could include attending investment trade fairs (e.g. the Africa Hotel Investment Forum) and participating and/or organising promotional events in target countries. This includes the diaspora markets as well as nearby African countries, whose role is likely to increase if alternative tourism models are explored (see section B.3).
- Research and market intelligence: proceed with the planned identification of subsector-specific advantages (e.g. cultural tourism, adventure tourism) on each of the islands and undertake gap analysis of infrastructure investments that are needed to enhance their tourism potential. Concrete investment project opportunity briefings and profiles should be produced as an outcome of the research process and inform the investor targeting exercise.
- Investor targeting: efforts should aim, in a first phase, to generate lists of potential companies to be targeted in each target subsector (leads) and customised to the resources available in each of the islands (see section A). Leads should then be approached following a communication strategy including consistent messages across various platforms (including internet, telephone and personal visits). The country's diplomatic offices abroad can prove effective partners in this effort. Indeed, most of Cabo Verde's overseas embassies and consulates are in potential host countries, such as Brazil, France, Germany, the Netherlands, and the United States. There is therefore good potential to utilize diplomats in the targeting effort.
- Aftercare services: move forward with the implementation of the action plan to foster better services for retaining and expanding existing FDI. Adequate project tracking mechanisms should be adopted to ensure that up to date data on existing investors is available, and that all aftercare initiatives and exchanges with investors are recorded and accessible within TradeInvest.
- Staffing: the current staffing balance within TradeInvest is skewed towards management and support services. Carrying out the functions discussed above in an effective manner will require reviewing the current staffing balance and adding adequately trained staff for investor targeting and aftercare services, which are important, but also labour-intensive functions.

UNCTAD stands ready to provide technical assistance and much needed capacity-building to the staff of TradeInvest (as well as the country's diplomats) on investment promotion and facilitation issues.

3. Entrepreneurship

Investments in the tourism sector could contribute more, both directly and indirectly, to the growth of indigenous ownership and local entrepreneurship. MSMEs could become involved in a variety of activities such as energy supply, the development of craft markets, guiding services, restaurants and cafes, waste management, water use, management of attractions and the development of new ones (Camillo, 2015). Also, the marine economy in Cabo Verde offers entrepreneurship opportunities across a range of activities, including aquaculture,

ocean energy and biotechnology. The development of small domestic enterprises in each of these activities could also foster sustainable development. For instance, entrepreneurs could provide green and environmentally-friendly products and services (e.g. waste management), introduce greener production techniques (e.g. wind parks in Santiago), boost demand for green products and services (e.g. eco-tourism in Fogo), and create decent jobs. Tourism investment also has the potential to enhance spillover effects for the local community, as shown in the good practice examples of the hotels Odjo d'Água in Sal and Zebra in Fogo (box 2.6).

Untapped opportunities exist to more actively engage the investment potential of the diaspora.

Remittances have historically played an important role in supporting consumption and national savings (AfDB, 2012). However, remittances may progressively become directed to investment opportunities rather than to smoothing consumption (IMF, 2008). For example, in São Vicente about fifty per cent of small accommodation establishments, pousadas and residenciais, were funded by Cabo Verdeans from the diaspora (Mitchell, 2008). With targeted initiatives, they could become incentivized to undertake tourism-related direct investments. Returning diaspora could also bring in skills, knowledge and additional investment opportunities. Diaspora business owners could furthermore contribute to bolstering entrepreneurial skills and build on their trade networks in other countries. A first step in this regard is being explored by the UNDP and the Ministry of Finance, which plan to launch “Diaspora” as a potential new source of long-term, stable and relatively less expensive external finance (UNDP, 2017). This initiative could be usefully complemented by a programme to foster diaspora FDI, following the experience of other countries, such as Mauritius, which has set up a Diaspora Scheme, including tax and other incentives for high-skill citizens returning home.

Box 2.6.

Examples of tourism initiatives that foster local entrepreneurship in Cabo Verde

Strengthening interactions between tourism and other productive sectors can create jobs, foster structural transformation at the local level, increase demand for local products and generate sustainable benefits. Some examples exist in Cabo Verde.

The Odjo d'Água Hotel on the island of Sal is an example of how to build strong linkages with the local economy. The hotel promotes a responsible relationship between tourists and the local community by offering a genuine Cabo Verdean experience to its guests. Its restaurant provides fresh fish and fruits that are all locally sourced, and products not available in Sal are purchased from other islands. For example, the coffee and goat cheese are from Fogo, the grogue (a local alcoholic beverage made from sugarcane) from Santo Antão and mineral water from Santiago. The hotel also employs local artisans in construction-related work and supports national musicians.

Zebra Travel is a small family-run business that offers customized tourism packages. Owned by a Danish investor and located in São Filipe (Fogo), Zebra Travel started its operations in Cabo Verde in 2007 and currently manages two hotels. It is committed to promoting sustainable tourism through the preservation of Fogo's landscapes, local sourcing of most food products, including through growing them ecologically in the company's farm and greenhouse using aquaponic techniques. The construction of an ecovillage is envisaged and will include summer residences, gym, tennis court and country club, all powered by solar energy.

Sources: UNCTAD, 2017b, and interviews during the fact-finding mission.

However, several obstacles to SME development and the establishment of successful linkages between tourism projects and the local economy persist. In 2010, MSMEs accounted for 97 per cent of all companies in Cabo Verde, out of which micro enterprises represented 84 per cent of the total. MSMEs are also responsible for 48 per cent of total employment (Sociedade de Desenvolvimento Empresarial – SDE, 2010). This is broadly in line with the average contribution of MSMEs to employment in emerging economies (45 per cent), but much lower



than the average for the Organization for Economic Cooperation and Development's (OECD) economies (70 per cent) (OECD, 2017). Some challenges contribute to the fragility of the MSME sector in Cabo Verde. These include, in particular: a) high input costs (notably electricity, water and transport) related to the geography of the country; b) challenges in the regulatory environment, such as those discussed in chapter I of this report (e.g. unfair competition, access to land, bureaucratic hurdles etc.); c) skills and technology gaps, including both financial literacy and entrepreneurial skills, lack of product and process certification (section 4 below); and d) limited access to finance. A comprehensive approach will be needed to alleviate these hurdles so that MSMEs can play a more active role in the economy, including in the tourism sector.

Among the infrastructure-related obstacles, transport represents a key bottleneck. All private stakeholders interviewed during the fact-finding mission stressed that existing routes for inter-island and international air cargo transport are insufficient and expensive. More frequent connections are required with higher freight capacity at competitive prices to ensure effective supply by the industrial and agricultural producers located on other islands. The inter-island maritime cargo transportation suffers from irregular schedules, lack of refrigerated containers and high costs. It is thus not an option for most domestic businesses – largely MSMEs – willing to cater to the hotel industry (or export internationally). Furthermore, growing business concerns with quality standards imply that sea shipments are no longer an alternative to air transport, as the longer transit times prevent timely deliveries.

The lack of entrepreneurship education and training opportunities is another barrier. Innovation and entrepreneurship in tourism are dependent on human capital that can create knowledge as well as absorb and use new technologies, especially among young people. Entrepreneurship development also requires behavioural changes that can enable business opportunities. These can be learned both through formal and informal education. At present, the education and training system of Cabo Verde is not able to provide the market with the range of skills needed to capitalize on the various business opportunities that the tourism sector can offer. The challenge is not limited to professional skills, but also to higher education. Within the graduate business programmes at the University of Cabo Verde, there are not enough professors with a private sector background. With regards to financial education, interviews with stakeholders showed that many MSMEs are too prone to problems of cash flow and non-performing loans because they do not necessarily invest in productive activities. Thus, improving entrepreneurship education remains a priority.

Entrepreneurs also face challenges with upscaling small firms... Particularly in the tourism sector, the size of operations of the larger hotels poses a challenge for small entrepreneurs, the large majority of which are micro-enterprises, as the scale and quality of inputs demanded by the international operators are factors that reduce their chances to participate in the sector's value chain. As further discussed in section 4 below, the main reasons cited by hotel managers for the low share of purchases from local suppliers include concerns about quality, price and/or timeliness of delivery.

...and limited and expensive access to credit is one of the causes. Access to finance for MSMEs is problematic. Local entrepreneurs have difficulties accessing business investment opportunities in tourism-related activities, as financing remains a major constraint to them. Interest rates by local banks vary between 12 and 14 per cent, and collateral requirements are very high. According to interviewed stakeholders, banks often request two conditions to grant credit: i) collateral guarantees of up to 120 per cent of the value of the loan; and ii) a minimum of 25 per cent of equity. Furthermore, the stock exchange is under-developed, and start-ups have little business experience. Thus, banks find it hard to evaluate their business plans. Microcredit is also available (for loans up to CVE 5 million) but their interest rate is higher (on average 24 per cent but could go up to 36 per cent).

Risk capital funds are under-developed. In Cabo Verde, as in other countries, legislation on venture capital financing prevents financing institutions from controlling the companies they are invested in (i.e. their ownership cannot be more than 49 per cent of the invested firms' share capital). The outcome of this legal framework may be detrimental to company upscaling, when new entrepreneurs lack the expertise to make their business sustainable in conditions of limited credit. Government support programmes can make up for this finance gap, by providing financial and accounting literacy training to entrepreneurs, and encouraging responsible borrowing and lending. Government measures providing incentives to attract business angels, and to introduce performance-based loans for sustainable innovation and green growth could be considered.

A new agency was recently created to promote private sector development and innovation. In 2009, the Government set up an agency in charge of promoting entrepreneurship (ADEI) focussing mainly on the needs of MSMEs. In 2017, the agency was re-named Pró Empresa, and its mandate was enlarged to include actions to promote, facilitate and monitor national private investments of MSMEs, offer one-stop-shop services (for investments up to CVE 50 million), and also foster the national system of innovation. In line with good international practice, Pró Empresa's mandate encompasses not only enterprise, but also entrepreneurship promotion. However, the changes in mandate have also implied that technical capacity-building activities (such as incubation), which were previously undertaken free of charge by ADEI, have, at least for the time being, been outsourced to the private sector. Pró Empresa has two main programmes for entrepreneurs in place, one that focuses on start-ups (already operational) and another one on microfinance (being developed and discussed below).

The creation of a multi-stakeholder entity, the Entrepreneurship Academy, under the leadership of Pró Empresa, can play a key role in developing an entrepreneurial culture in society. The promotion of entrepreneurial skills, as specified in the Pró Empresa strategic plan, should not focus exclusively on enabling skills (hard skills), including basic start-up knowledge, business planning, financial literacy and managerial skills (Pró Empresa, 2017). Equally important are attitudes (soft skills), such as persistence, networking and self-confidence. Effective entrepreneurship education policies and programmes focus on enhancing soft entrepreneurial competencies and skills. They are transferable and beneficial in many work contexts and can create a more entrepreneurial mindset among different segments of the population. In this respect, Pró Empresa could benefit from international good practices and existing programmes, including UNCTAD's EMPRETEC programme (box 2.7).

Programmes for start-ups have improved access to finance and business incubation, but eligibility requirements are narrow. A credit programme for start-ups is operational in all islands (with the exception of Boa Vista) to stimulate entrepreneurship for youth between 18-35 years old. In addition to the age requirement, business owners need to hold a university or vocational education degree and own at least 60 per cent of share capital of the firm. The programme has a credit line of CVE 725 million, and the loans are channelled through commercial banks. The loans can vary between CVE 500,000 and CVE 5 million, of which the Government guarantees 50 per cent of the value at any time through a mutual guarantee fund.⁶⁷ Incubation is mandatory for approved projects to reduce inherent risks and requires between six and 24 months. As part of the programme, the Association of Young Entrepreneurs of Cabo Verde (AJEC) and the Association of Professional and Business Women of Cabo Verde (AMEPCV) provide assistance in management training, business and marketing. They also assist with project evaluation. The costs of incubation are paid in part by the Government (i.e. up to one year of incubation costs).

A broader microfinance programme is envisioned. A programme, known as Fomento o micro empreendedorismo, was about to be initiated at the time of the fact-finding mission for this review. It is a programme with similar application procedures than the young entrepreneurs' start-up programme, but without age-related eligibility requirements. The maximum amount of a loan is CVE 1.5 million and the entrepreneur



should be the owner of at least five per cent of equity capital of the company (in some cases an incubator could contribute the equity finance). The interest rate charged is maximum 12 per cent, and the loans are channelled through commercial banks and microcredit institutions. The Government provides a subsidy, which effectively lowers the interest rate to 7.5 per cent. The incubation period is between three and six months, with 50 per cent of the costs subsidised by the Government. The first call for applications will be launched in 2018.

Box 2.7.

EMPRETEC – inspiring entrepreneurship around the world

The EMPRETEC initiative, operated by UNCTAD, is an integrated capacity-building programme implemented through national centres and operational in 40 countries. Established in 1988, EMPRETEC has successfully trained over 442,000 people, including potential entrepreneurs with promising business ideas, start-up companies with good bankable project proposals as well as existing SMEs that have a track record of good business performance. Its trainees include aspiring entrepreneurs, women, young people and employees of large public or private firms.

EMPRETEC's core activity is its Entrepreneurship Training Workshop, which is designed to strengthen the entrepreneurial competencies of participants and to apply them in their planned or existing businesses. Training workshops offer different levels of instruction, with courses of up to 10 days with interactive coaching based on business challenges experienced by the participants. Workshop fees vary from country to country, depending on local conditions and the availability of donor funding. Training sessions are delivered by a pool of 600 certified local trainers and 60 international master trainers. In each country, the EMPRETEC programme is established following a request from government. The implementation of the programme requires the following steps:

Selection of a national partner;

- Selection of an EMPRETEC director/coordinator;
- Delivery of training, using the international master trainers network, to advise on programme sustainability and train local trainers;
- Establishment of an executive board drawn from the private and public sectors to provide strategic direction and ensure coordination among stakeholders.

Source: UNCTAD, 2017c and EMPRETEC annual reports, available at empretec.unctad.org/?page_id=77.

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Obstacles to the up-scaling of small firms range from infrastructure and regulatory aspects to skills and technology gaps as well as access to finance limitations. The nature and scale of these issues are such that no individual agency can hope to tackle them all successfully. Indeed, in all countries, entrepreneurship and enterprise development require a more holistic and systemic approach. The efforts of Pró Empresa, clearly outlined in its strategic plan, should be integrated in a “whole of government” approach, with strong commitment at the ministerial level and coordination across ministries. Under the leadership of Pró Empresa, the entrepreneurial eco-system should be strengthened in partnership with the private sector and other civil society stakeholders, including academia, non-governmental organizations and community organizations. Business associations, such as AJEC and AMEPCV, should also play an important role in this approach and should be actively supported, as they make it possible for entrepreneurs to speak and act collectively. UNCTAD's Entrepreneurship Policy Framework and Implementation Guidance provides a useful methodological tool towards adopting a systemic entrepreneurship promotion approach (UNCTAD, 2012a). Following the Framework, the Government is encouraged to:



II.B.9. Enhance the effectiveness and promote a well-functioning entrepreneurial ecosystem by formulating a national entrepreneurship strategy. Current entrepreneurship support policies are largely limited to subsidized finance initiatives, which are considered insufficient by existing entrepreneurs. A more holistic approach to entrepreneurship development is needed, which would tackle the following aspects:

- The optimization to the regulatory framework, including the issues discussed in chapter I.
- The promotion of entrepreneurship education and skills development;
- The facilitation of technology exchange and innovation;
- Improvements in access to finance; and
- The promotion of awareness and networking.

The national entrepreneurship strategy should be aligned with the PEDS and the national strategy for sustainable tourism. Looking forward, the Government and Pró Empresa will need to identify business potential in value chains linked to the tourism sector where local firms could contribute (see next section), so that they become the subject of more targeted entrepreneurship programmes (e.g. security services, transport, laundry, recreational sports , internal transport). Finally, Pró Empresa could also become more involved in raising awareness about opportunities arising from environmentally-friendly and culturally-oriented tourism activities, especially among youth, and focus its programmes specifically on encouraging green and creative entrepreneurship.

II.B.10. Consider enhancing entrepreneurship education by adopting support initiatives, such as the EMPRETEC programme. The impact of the EMPRETEC programme in a small country such as Cabo Verde could be transformational, given the needs and the wide reach of the programme. Indeed, the programme can target specific groups, such as youth, women, return migrants/diaspora entrepreneurs and local stakeholders in remote and rural areas in an inclusive manner.

II.B.11. Promote a more active engagement of the diaspora to boost investment in productive sectors. In addition to being a source of remittances, the diaspora could be instrumental in increasing FDI inflows and fostering entrepreneurship in the country. Concrete actions include:

- Adopting a Cabo Verde Diaspora Scheme, targeted at citizens living and working abroad that have the necessary skills, talent and experience (as determined by set criteria and conditions defined and assessed by TradelInvest), and are willing to return home to contribute to the economy or set up entrepreneurial activities. Incentives under the scheme could include time-bound income tax exemption, customs duty exemption on imported household and personal effects, and permanent resident status extended to spouse, children or dependents.
- Establishing a network to connect diaspora and local entrepreneurs. Diaspora experts and business leaders would share experiences and information, provide mentoring and establish business and social networking to foster private sector linkages with international firms. Targeting of specific countries and sectors could generate tangible results in the short term. TradelInvest has envisaged some of these actions in its policy strategy and their implementation is encouraged.
- Increasing availability of funds for entrepreneurs by adopting the Diaspora Bond Initiative under consideration.

4. Linkages

A broad range of untapped potential business linkages exist in Cabo Verde. The tourism sector has high potential for the development of business linkages. In Cabo Verde, as discussed below, opportunities for linkages exist in agriculture, fisheries, culturally related projects, construction and maintenance of buildings, vehicles and equipment, landscape maintenance, or laundry and cleaning services (UNCTAD fact-finding mission). Despite this high potential, to date, FDI and non-equity modes of MNE activity in tourism have not generated much interaction with the productive sectors of the economy, which is not surprising given the all-inclusive, vertically integrated nature of tourism in the country (see section A). Although WTTC data estimates that tourism generates demand for food products of around \$60 million per year in Sal and Boa Vista islands alone, most goods and services consumed by tourists are imported, with only marginal value added from the local economy (Monteiro and Ferro, 2017).

Agricultural production lends itself to tourism-related linkages. Cabo Verde is endowed with a large variety of fruits which offer opportunities for selling fresh produce to the local market and to the tourism markets. At present, most production occurs in the “green” islands of Santo Antão, Santiago and Fogo. However, Cabo Verde does not produce on a commercial basis or scale. The country imports most of its food supply and hotels purchase imported products from wholesalers in Santiago and São Vicente (see context). One area where active policy could support linkages is through branding. Consumption of local food and souvenir sale is recognized as an essential part of tourism. Thus, the branding “Made in Cabo Verde” could be applied to promote the authenticity of local products and support local supply.

Organic farming is another area where sustainable tourism could become a demand-pull factor. Because some tourists are increasingly aware of the need for low impact food produce and sourcing, which does not harm the environment, there is potential to further develop this niche segment. Organic food production is a growing trend, which Cabo Verde could tap into with the support of the IGQPI to promote quality improvements and help farmers comply with organic standards and certification audits for products and processing facilities (see below). Although the experience in Cabo Verde with organic farming is in the infant stages, the country has much potential considering its unpolluted territory.⁶⁸ Recently, various initiatives have provided capacity-building training to local producers, which should result in increased production. For instance, a project by Caritas Cape Verde has trained selected farmers on the responsible use of natural resources, respect for the environment, resilience techniques, irrigation systems, organic farming, recycling, green fertilizing and composting of bio-fertilizers.⁶⁹ A linkages programme could focus on connecting sustainable food producers who use responsible farming practices with hotel chains and restaurants that offer organic food on their menus.

Fisheries production could also be enhanced to supply hotels and catering operators. Fisheries play an important role in the economy in terms of employment and exports, with tuna providing the largest share of the catch. Other locally-sourced fish and seafood include wahoo, mullet shark, lobsters and cephalopods.⁷⁰ The Government is aware of the sectors’ importance for exports and has adopted a Blue Growth Charter aiming to support sustainable growth in the marine and maritime sectors by targeting key sectors, such as fishing and seafood value chains.⁷¹ Although Cabo Verde’s fish processing capabilities are still to be fully exploited, significant tuna production for both domestic consumption and export are sourced from factories in São Vicente. In addition, some private entrepreneurs are investing in prawn and tilapia production – used to attract tuna. However, the larger resorts in Boa Vista and Sal often import their fish due to quality concerns. More planning and technical assistance for local fishermen is required to enhance the supply of local fish produce. Assistance to producers is needed regarding contract compliance, insurance against non-delivery and back-up supply arrangements.



Cold storage facilities would also need to be upgraded. Hotels and restaurants could become involved in linkage programmes with local fishermen to assist them overcoming these constraints by improving storage facilities and transportation networks, and providing training to meet the quality standards expected of international travellers.

Some food and drink processing activities also have high potential for tourism-related linkages. Processed food, such as coffee, wine, grogue, cereals and marmalade also have potential for linkages development. This potential has been confirmed by the successful integration of some local firms in the tourism and other global value chains (box 2.8). For instance, Cabo Verde has some significant coffee growing and wine producing capacities, but the brand of coffee or wine from Cabo Verde is not yet visible in international markets. Upgrading coffee processing and wine production and selling to operators/tourists could help strengthen their competitiveness. Coffee and wine could also help build the image of Cabo Verde when sold as souvenirs to tourists or as a brand ready for export.

Box 2.8.

Successful experiences linking food processing with tourism value chains in Cabo Verde

A few successful firms in food processing and wine production have managed to overcome barriers and turned into successful suppliers in the tourism industry. These firms confirm the high potential for linkages development programmes. They include:

Emicela, owned by a Spanish group from the Canary Islands, and established in Cabo Verde for over 15 years. It specializes in coffee and nuts and is active in the supply and distribution of a wide range of products to hotels and restaurants. The company has branches in Sal, Boa Vista and Santiago. It also set up a juice factory at its facility in Sal Rei on Boa Vista.

Fogo Coffee Spirit, a joint venture with Trabocca B.V. (The Netherlands), is a coffee company in Fogo that made significant improvements to modernise business practices, including technical knowledge, financing, certification and equipment. The firm produces high-quality green specialty coffee, which is available at the local markets in Cabo Verde. The firm is also a supplier of the Starbucks Special Reserve Programme. Its investments include the installation of a Pinalense eco-pulper and dry mill and the building of African drying beds. The firm has also provided training to farmers on pruning and quality control.

The wine firms, Chã and Sôdade, produce about 150,000 bottles of wine in the Chã region in the island of Fogo. Chã is the only area in Cabo Verde that grows significant quantities of grapes. It produces export-quality wines – known as Vinho de Chã, which is shipped to Europe and the United States. Production is expected to increase as viticulture and winemaking conditions improve. The firms buy grapes from the local farmers and turn it into white, red and rosé wine (with the label “Chã”); the majority of which is sold domestically and to tourists.

Source: UNCTAD interviews and company websites.

Creative industries could add value to tourism experiences and foster economic diversification. The creative industries provide a variety of linkages opportunities with the tourism sector.⁷² These include cultural tours, marketing of local crafts in hotels, promotion of artists and cultural performances and exhibits in shows, concerts, festivals, fairs, and galleries. Cabo Verde also has an intense agenda of events and festivals (e.g. Carnival of Mindelo, the Baía das Gatas Festival and New Year Event), which happen throughout the year in different islands. Thus, the large number of tourists attracted by the resorts represent a strategic opportunity for the consumption of these goods and services. At present, however, handicrafts are imported, depriving local artists of a potential source of income. Hotels are also used to bringing foreign musicians to performances. A linkages development project could help promote the local culture through musical performances in the different hotels and highlight the Cabo Verdean culinary art through specials promoted in the hotels and restaurants. Advertising such events through tour operators would be an effective way to leverage the synergy between



the creative industries and the tourism industry. Demand for these activities can also often foster women's entrepreneurship. UNCTAD's business linkages project in Costa Rica, for instance, assisted women offering gastronomic services and producing handicrafts for cruise tourists (UNCTAD, 2014a).

Large resorts in the hotel industry import goods for a variety of reasons, including availability, consistency, and quality of products. Large resorts often prefer to rely on their own internal or international partners rather than on local enterprises. Whereas some resorts import goods to respond to tourists' preference for similar products to those found in their own countries, in other cases hotels would be willing to source locally but end up resorting to relatively more expensive imports to ensure quality and/or a reliable supply. Certification is often a requirement by hotel managers as it acts as a benchmark for the quality and minimum standards expected in hotel supplies. However, small local producers in fisheries, agriculture or food processing activities often lack official quality recognition through certification systems.

Some Government initiatives are in place to improve quality through standardization policy, but product certification remains limited. The IGQPI has a remit for standardization, metrology and conformity assessment (see chapter I). It acts as a secretariat for the National Quality Council, a multi-stakeholder entity that advises the Government on these issues (Decree-Law 8/2010). In 2015, IGQPI published a list of the first standards for 10 products of Cabo Verde.⁷³ Although certification is not directly undertaken by the institute, IGQPI provides support and services to coordinate the accreditation under norms of the International Organization for Standardization (ISO). Whereas there has been progress in advancing certification for some products (e.g. goat cheese, vegetables), the practice is not common among producers and it is considered expensive. There are very few success stories of the use of international certification to access global value chains in areas that could have a high impact in terms of employment and value creation (e.g. food processing, manufacturing). When it happened, it was usually the result of costly negotiations following independent initiatives by private producers.

Harvest seasonality combined with poor inter-island connectivity affects the capacity of tourist resorts to source from the agricultural islands (i.e. Santo Antão, Fogo and Santiago). Hotel local procurement strategies depend on fluctuations in occupancy rates throughout the year. As the peak tourism season arrives, the hotels and resorts will have greater demand for food inputs. This may or may not coincide with the harvest schedules for different crops, which can vary for different times of the year between islands. The pressures food producers face to comply with the timing of these fluctuations given differing growing seasons by product is compounded by the lack of reliable transport which prevents ease of access to potential markets (see sections A and B).

Purchasing procedures used by international companies set too high a threshold for local producers. Due to the large economies of scale in the operations of the all-inclusive resorts, including the practice of bulk-buying, local businesses face several barriers entering the tourism value chain. Their small scale of operations is a structural constraint that hinders business linkages opportunities. For instance, in agriculture, local producers and distributors seem unable to set up a reliable supply chain due to the small size of the farms, in addition to other logistical, technological and marketing obstacles. Furthermore, institutional hindrances affecting local firms prevent them from scaling up production, as discussed in section B.3, above. These include weak farm cooperatives, insufficient levels of business sophistication, and limited government support in key areas such as quality certification.

The need for technology upgrading is also a barrier. In the agriculture sector, the need for sea water desalination technologies for irrigation, fertilization of the soil and the lack of experience of agricultural production on a large-scale pose challenges for farmers. Some farmers have adopted innovative solutions to overcome these issues by

operating their business through hydroponic systems that utilize nutrient-laden water rather than soil for plant nourishment and their experience could inform broader government support initiatives (box 2.9). In fisheries, technological obstacles include the rudimentary level of fishing and farming techniques, the lack of fishing equipment and machinery (e.g. engines and cooling facilities (except for São Vicente)) as well as, centres for certification and technical education for fishermen.

Box 2.9.

Experiences with hydroponics in Sal and Boa Vista

In Cabo Verde, new technologies have allowed some individual entrepreneurs in the dry islands of Boa Vista and Sal to become suppliers of tourism value chains, which, in a context of poor inter-island transport connectivity, gives them a competitive edge over producers in the “green islands”, where most agricultural production occurs.

Hydroponics is a subset of hydroculture, the method of growing plants without soil, using mineral nutrient solutions in a water solvent. Such systems do not require pesticides and use less water and space than traditional agricultural systems. Some individual producers have used hydroculture to grow vegetables (e.g. lettuce, cucumber) and they managed to supply the local markets and some hotels in Sal and Boa Vista, which shows some potential for linkage development even in the dry islands. However, hydroponic technology and nutrients require investments that are not always available on the local market and access to the distribution system is not always easy to manage. Water is also scarce and expensive in the dry islands, due to infrastructure bottlenecks.

Source: UNCTAD, based on interviews during the fact-finding mission.

The potential for business linkages could be enhanced if the Government adopted a structured linkages development initiative. Linkages programmes can be useful tools to promote private sector development and economic diversification. Several good practice business linkages initiatives exist, including in countries facing similar challenges as Cabo Verde, which can inspire the adoption of such an initiative for the country (box 2.10). In Cabo Verde, there are various business and trade associations, but none focused on linking the tourism sector with domestic suppliers in other sectors of the economy. The organisations do provide information and limited promotion, especially in commerce, manufacturing, and agriculture but there is no match-making programme linking the hospitality industry with potential local producers. For instance, the main Tourism Chamber mainly deals with advocacy and lobbying but hardly with cross-sectorial business linkages. Likewise, the DGTT deals mainly with tourism planning and development issues and TradeInvest with investment and export promotion, but none has incorporated linkages development programmes.

Box 2.10.

Promoting business linkages in tourism: Jamaica, Mozambique and the United Republic of Tanzania

In **Jamaica**, the Jamaica Promotions Corporation (JAMPRO) has been collaborating with the Jamaica Hotel and Tourism Association to generate business for local suppliers to the tourism industry by introducing a targeted business linkages component at the Jamaica Product Exchange (JAPEX) trade fair. The JAMPRO-designed business matchmaking event connects hoteliers with local producers of a range of goods and services including agricultural fresh produce, processed foods, meat products, honey, furniture, fixtures and equipment, bedding, gifts and crafts, and fashion and apparel. JAMPRO offered networking opportunities and deployed a business matchmaking portal to profile goods and service providers at JAPEX show.

In **Mozambique**, the Centro de Promoção de Investimento (CPI) and UNCTAD launched a business linkages programme with Enterprise Mozambique as the main operational partner to work with local SMEs. A pilot project was launched with CDM Breweries (a subsidiary of SAB Miller, South Africa) as the anchor firm. Until then, CDM imported all the barley for its local production of beer. Under the project, CDM committed to source part of its barley locally and closely worked with 150 farmers. As a result, farmers diversified their sources of income and started operating on a commercial footing. The Mozambican government was involved in the project through the CPI, which coordinated activities with the Ministry of Agriculture and local authorities, with the purpose of gradually handing over of the project to local communities. UNCTAD trained farmers through the “Farming as a Business” and EMPRETEC methodologies. CDM provided financial support for technical testing and covered part of the costs of the pilot project.

In the **United Republic of Tanzania**, a business linkages programme was implemented with UNCTAD’s assistance to upgrade the supply capacity of small farmers and improve their access to tourism value chains for agro-products. As part of the work, linkages between farmers, processors and the tourism industry have been promoted and strategies developed to improve the entrepreneurial and leadership skills of small local farmers, their access to market information and the effectiveness of existing purchasing systems. Common challenges faced by processors were addressed in joint events, including the importance of formalising regular communication channels with chefs, hotels and supermarkets. Central to the project, was the role of the Tanzanian Chef’s Association, which ran some events throughout the year to help raise awareness about the advantages of sourcing local products as well as to identify challenges that need to be overcome for more producers and processors to access their markets.

Sources: UNCTAD, JAMPRO’s website (jamaicatradeandinvest.org accessed 15 February 2018) and United Nations Inter-Agency Programme on Trade and Productive Capacity, 2017 and 2016.

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Despite potential across some sectors and activities, the Cabo Verdean private sector has had limited access to the supply chain opportunities opened by the presence of the large tourism investments in the country. As discussed throughout this chapter, this is in part due to the type of tourism development model prevailing on the island, as well as various structural and policy issues affecting local private sector development. In addition to the policy measures aimed at supporting the diversification of tourism investment and the strengthening of domestic productive capacities, the Government should consider the benefits of adopting a pro-active programme to support the development of supplier linkages between existing tourism investors and the local private sector. Facilitating business linkages between local suppliers and foreign investors can bring about many positive outcomes in terms of enhanced skills, knowledge and productivity. In particular, it is recommended that Cabo Verde:

II.B.12. Set up a linkages programme to facilitate quality upgrading of local suppliers and their match-making with MNEs operating in the tourism sector. The programme would aim to support backward linkages into the local economy and facilitate the participation and integration of local suppliers into the tourism value chain. Given the role of TradeInvest in promoting FDI, it is well positioned to link these foreign investments with the local economy and activate the benefits from FDI. The establishment of a business linkages programme and/or the setting up of a special unit inside TradeInvest as part of its after-care services is recommended. Working together with Pró Empresa and the DGTT, TradeInvest would operationalise the programme by focusing on the few sectors targeted as part of its investment-targeting campaigns. The following activities would form the key components of the programme:

- Market study: prepare a demand-supply analysis by conducting a survey among the all-inclusive resorts to analyse their needs and match them with the existing local food and beverage produce;
- Gap analysis: undertake a screening of entrepreneurship opportunities for some of the activities where there is a high potential demand and assess the gaps in the required quality or delivery standards;

- Company selection: select the products and companies that will participate in the pilot projects and prepare detailed manuals on the standards, requirements and supply specifications relevant for each product to access the supply chain of the buyer company.
- Upgrading: in cooperation with the buyer, strengthen the productive capacity of targeted local suppliers through training and matchmaking exercises that focus on the specific capabilities and needs of individual buyers and suppliers and work closely with them to reach supply agreements.
- Complementary support: Consider policy measures and other support initiatives relevant to strengthening existing linkages by means of technology upgrading, certification support, logistics and financial assistance.

UNCTAD's Business Linkages Programme could support one of the pilot cases and carry out training and capacity-building activities for the staff assigned to business linkages promotion. In the past, this programme helped many developing countries improve the performance, productivity and efficiency of local suppliers through training, mentoring, information exchange, quality improvements, innovation and technology transfer (UNCTAD, 2010b). In addition, by piloting a programme with the agriculture, fisheries or creative industries sector, UNCTAD could assist the Government and other stakeholders in building the enabling policy environment and supporting networks of business development and other service providers.

5. Sustainability initiatives

Sustainability initiatives can complement efforts to extract the benefits from tourism investment. Due to increased screening by shareholders as well as customers, and in light of the business case for good corporate citizenship, MNEs are more conscious of the potential direct and indirect (i.e. through the network of suppliers in their value chains) consequences of their operations. Over the past three decades, sustainable development initiatives, including sustainable business standards, or CSR, have expanded both in number and type.⁷⁴ In Cabo Verde, the bias towards the large all-inclusive development model and its impact (see section A.2) has made the importance of sustainability initiatives more salient. This section presents the initiatives adopted by the private and public sectors in Cabo Verde as well as civil society and calls for the authorities to engage more actively in their promotion.

Some initiatives to foster sustainable tourism already exist, sponsored by individual hotel resorts and industry associations. A few of the large resort chains have centrally managed CSR initiatives. The Meliá Group's CSR strategy is aligned with the Guiding Principles of the UN Global Compact, which it joined in 2008. The company's three priority areas of action are in the fields of human rights and childhood; employability; and climate change and local development. In its different locations, the Group is engaged in preserving the environment and landscapes, monitoring the impact of its business and promoting awareness about sustainability among its stakeholders. In Cabo Verde, two hotels in this group (i.e. the Tortuga Beach Resort and the Dunas Beach Resort and Spa) received the Gold Travelife certificate of sustainability in tourism. Another group (RIU Hotels and Resorts) has a CSR Action Plan that focuses on three main areas: environment, society and human resources. The Group is a signatory of the Private Sector Commitment to the UNWTO Global Code of Ethics for Tourism. In Cabo Verde, some examples of its activities include support to a conservation project on endangered species and awareness-raising workshops to staff concerning the fight against sexual exploitation of children in the tourism industry.⁷⁵

Some managers have also undertaken their own hotel policies to promote social and environmental sustainability. For instance, in Boa Vista, the Iberostar hotel provides housing for some of its employees. It has a

partnership agreement for internships with the EHTCV in Praia and provides vocational training for staff. Furthermore, the hotel undertook investments to insulate the walls and the windows of the resort, as well as other measures and guidance for guests to minimize energy consumption and a waste management programme to promote recycling.

NGOs have also initiated some successful initiatives to mainstream good environmental practices among hotels and municipalities. For instance, the Cabo Verdean environmental conservation organization Project Biodiversity and BIOS CV, has contributed with the support of RIU Hotels and Resorts to growing the number of loggerhead sea turtle nests.⁷⁶ In Sal, as mentioned in section 1 above, a Destination Council, with membership of different stakeholders such as hotel chains, the municipality, chamber of tourism and other central and local stakeholders was set up in 2013. It aims to promote sustainable tourism practices and awareness raising, including initiatives for beach cleaning, conservation and promotion of Cabo Verdean culture (UNDP, 2014). The Destination Council is supported by a sustainable tourism charity, the Travel Foundation, and overseen by a local coordinator. The Destination Council will be looking at applying best practice on environment and conservation regarding supply chain linkages, excursions and events. TUI - a major operator in Sal – has provided support on strategic projects that address the sustainability issues facing the industry, leading to the development of programmes on crafts, excursions and beaches.

Development partners and NGOs are working to improve Cabo Verde's environmental performance through international certification. Making destination policies and management practices in Cabo Verde more sustainable is a first step towards addressing some of the negative externalities of the existing “all-inclusive” tourism development model. Some municipalities have already embarked on this type of initiative, with the help of international partners (i.e. UNDP and the Global Environment Facility). For instance, in the municipality of Sal, the Blue Flag initiative of the Danish Foundation for Environmental Education (FEE) is being considered for certification of beaches (FEE, 2016). Once the programme starts, municipalities, marina owners and boat tour operators will be eligible to apply for eco-labelling certification. Further mainstreaming of international recognition for eco-friendly practices could be encouraged by applying for recognition with the Global Sustainable Tourism Council (GSTC) and its destination programme, which is a leading United-States based organization that establishes and manages global sustainability standards among public and private stakeholders.

The Government's main channel to promote sustainability initiatives through tourism is the adoption of a sectoral fund. Cabo Verde first established a fund to foster tourism development in 1994, but this is no longer active. Currently, a Tourism Fund (previously named Social Sustainability Fund for Tourism as per Decree-Law 61/2016, before Decree Law 18/2018 changed its name) supports projects designed to promote and develop inclusive sustainable tourism. The Fund is financed mainly by a tax on overnight stays at hotel and similar establishments at a rate of CVE 220 per person (up to a maximum of 10 nights). This mechanism has ensured that some of the revenues generated by the tourism sector are channelled to improving the living conditions of local communities. For 2017, the Funds' revenues were estimated at about CVE 890 million (Government of Cabo Verde, 2016).

Municipal authorities have benefited from the funds' infrastructure investments, but their influence on spending decisions is limited. A Commission formed by the Ministry of Tourism and Transport, the Ministry of Finance, the President of the National Association of Cabo Verdean municipalities, and the President of the Chamber of Tourism prepares spending guidelines for the Fund, which are then approved by the Council of Ministers on a yearly basis. The guidelines determine the priorities of the Fund, which is run by an independent administrative board that provides grants to specific projects submitted by municipalities and relevant ministries.⁷⁷ According to its statutes, half of the Fund's budget is allocated to each municipality in proportion to the fiscal revenues obtained in each location. Of the other half, 45 per cent of the funds are allocated to public infrastructure and skills

development projects, including in municipalities where there may be no tourism activity. The remaining five per cent is directed to spending on marketing and image-building abroad. Although municipalities are benefiting from the bulk of the funds' projects (e.g. projects have been undertaken in sanitation, refurbishment of the shoreline, and improvements in to informal housing settlements), each individual municipality has no voice on determining which specific project the funds will be spent, which is decided by the Board.

Box 2.11.

Stakeholders' engagement in tourism – selected international experiences

Several countries have established dialogue platforms for tourism sector development that bring together a range of stakeholders, including different ministries, private sector representatives, and civil society. Below are some relevant examples at the national and local level.

In **Viet Nam**, a Tourism Advisory Board (TAB) was first discussed in the wake of the 2008 global financial crisis, when international arrivals to Viet Nam slumped dramatically. This prompted key industry stakeholders to come together to propose to the Government that they work with the private sector more closely. The inauguration of the TAB in 2012, under the European Union-funded Environmentally and Socially Responsible Tourism Capacity Building Programme to Viet Nam, is an initiative to promote communication, information and the sharing of knowledge between tourism businesses and government administration agencies. By adopting a public-private partnership approach, industry leaders and Government officials are now able to leverage the resources of all stakeholders, enhancing Viet Nam's competitive advantage and promoting sustainable best practices in the industry. Through the TAB and its working groups, several initiatives have been adopted. Initially, these focused on tourism policy issues such as the adoption of a visa waiver programme, but later, they expanded to encompass the international marketing of the tourism sector. The group now has a formal marketing agreement with the Government. TAB is therefore now an active player in the country's sustainable tourism promotion effort.

In the **United Republic of Tanzania**, until recently, the communication between private sector associations and the Government on tourism policy and issues happened on an ad hoc, informal basis. Finally, a MoU was signed and a Public-Private Partnership Forum for Tourism was established in 2010. The Forum, which meets twice per year, is composed of senior decision-makers and comprises the Ministry in charge of tourism, the Tourist Board, and representatives of the national parks, national tourism college and ten private sector and civil society associations. Other Ministries, including the Ministry of Environment, can be called on as appropriate. Rather than simply providing a platform for complaints, as in the past, the Forum considers policies and their implementation and ensures that the actions agreed upon are followed through.

In **Spain**, since the 1992 Olympic Games, the city of Barcelona has become an international tourist destination and tourism has since been a key factor in the subsequent transformation of the city. The rise of tourist activity has also given rise to a public debate on the sustainability of the city's development. To address those concerns, the municipality of Barcelona created a City and Tourism Council, an advisory body drawn from the tourist sector itself, which acts as a debating forum where public bodies, associations and political representatives can share their thoughts and put forward proposals for the sustainable development of Barcelona's tourist sector. The City and Tourism Council is chaired by the Mayor and includes representatives from the general public and local residents, the tourist business sector, commerce, the restaurant and catering sector, sports and culture associations, trade unions, environmental associations, social groups and every district, as well as experts, technical managers and representatives from each municipal political group. The resolutions adopted at the Council are not binding but serve as a basis for decisions taken at the municipality level. The Council is organising themed work groups to tackle the various issues relating to tourist management that the members of the City and Tourism Council have agreed to discuss. The results of each work group will be collected in a report presented at an event open to the public.

Sources: ILO (2017), European Commission and World Tourism Organization (2013), as well as the websites of the European Commission (ec.europa.eu/europeaid/case-studies/vietnams-tourism-industry-making-sustainability-pay_en) and of the municipality of Barcelona (ajuntament.barcelona.cat/turisme/en).



The National Tourism Council could help improve mainstreaming of sustainability initiatives. The impact of the various initiatives described above could be enhanced if mechanisms to ensure stakeholders' engagement in tourism were adopted. Elsewhere, tourism councils have helped increase participation of public and private sector actors in the design, monitoring and evaluation of tourism policies (box 2.11). In Cabo Verde, attempts to promote this type of institution were taken in the past (Decree-Law 15/2003), but the National Tourism Council (Conselho Nacional de Turismo - CNT) set up at the time, would meet on an ad-hoc basis, at the request of the Council of Ministers, and was never fully operationalized.⁷⁸ Furthermore, the composition of the Council was limited, as its stakeholders did not include key civil society groups, such as environmental, women, farmers and artisanal fishermen associations.⁷⁹ In April 2018, Decree-Law 18/2018, reintroduced a CNT in Cabo Verde. However, in the absence of secondary legislation, its composition or functions are yet to be defined. If properly implemented, the CNT could provide stakeholders with a platform to discuss and assess tourism policies, promote sustainable tourism and assist in ensuring synergy among the different initiatives discussed above as well as future ones. The new institution could also discuss tourism policy options embedded in the national development strategy.

ASSESSMENT AND RECOMMENDATIONS

Considering that the sun-sea-sand tourism model will continue to steer future growth in Cabo Verde in the short run, it is important that existing sustainability initiatives by companies, Government and non-governmental stakeholders be strengthened and that policies in this sector contribute to maximize synergies in the promotion of responsible investment. With this goal as a priority, it is recommended that the Government takes a more active role in fostering such initiatives and providing a platform for the engagement of all stakeholders in the industry. In particular, it is recommended that the Government:

II.B.13. Operationalize the National Tourism Council, so that it can act as a permanent stakeholders' engagement mechanism to strengthen public-private sector dialogue and encourage the private sector as well as other stakeholders to exchange with the Government on the promotion of sustainable tourism. Allow the membership of the Council to include "direct" tourism sector stakeholders, and also representatives of civil society groups such as environmental, women, farmers and artisanal fishermen associations to design more inclusive policies and programmes.

II.B.14. Promote the creation of dialogue mechanisms within each of the islands. It is equally important that, at the local level, where many actions that affect the sector and its impact on communities are taken, suitable dialogue and engagement models are adopted. The Destination Council in Sal could be used as a model to be replicated elsewhere.

II.B.15. Foster the involvement of the municipalities and local communities, for instance by increasing their decision-making capacity with regards to the selection of projects to be implemented by the Tourism Fund.

II.B.16. Encourage voluntary sustainability reporting initiatives by the large hotel chains. The goal is to improve measurement and reporting by private investors on their social and environmental performance. UNCTAD's guidance on sustainability rule making via its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) could be useful to agree on the content of such reporting (UNCTAD, 2014b and 2014c).

II.B.17. Support efforts to promote international certification of sustainable practices. Tourism stakeholders should work in partnership with the IIGQPI's directorates responsible for managing, coordinating and developing national standards, with the goal of supporting sustainability initiatives such as the Blue Flag and promoting more ambitious initiatives, such as GSTC certification.



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NOTES

1. In total, 15 companies were fully or partially privatized, including the fuel retailer ENACOL and the State telecommunications company Cabo Verde Telecom, see Murison, 2003.
2. During 2000–2007, net ODA, FDI and personal remittances to Cabo Verde exceeded \$2.5 billion (UNCTAD calculations based on World Development Indicators (WDI), World Bank).
3. Within the European Union, Portugal and Spain are the main economic partners. During 2002–2015, they accounted for 35 per cent (\$438 million) of the equity and real estate investment in Cabo Verde and 61 per cent (\$1.3 billion) of the bilateral ODA flows. They are also the destinations of more than half of Cabo Verde's merchandise exports. Moreover, Portugal generates 30 per cent of migrants' remittances (see countryeconomy.com/demography/migration/remittance/cabo-verde).
4. One euro is equivalent to 110 escudos (CVE).
5. On average, grants accounted for 67 per cent of gross disbursements in 2000-2007 compared to the average 48 per cent over 2008–2016 (OECD Creditor Reporting System, stats.oecd.org/index.aspx?DatasetCode=TABLE2A, accessed 18 January 2018).
6. The data on FDI flows by economic activity provided by the Bank of Cabo Verde include equity investment, real estate and other participation in capital, but exclude emigrants' investment and intra-company loans. These data do not cover the total FDI flows, therefore the calculation of FDI shares (in per cent) is less accurate than it would have been otherwise expected.
7. See pokernews.com/news/2016/02/macau-legend-250-million-casino-construction-cape-verde-24080.htm
8. Tourism direct contribution to GDP is generated by industries directly dealing with tourists, such as travel agents, airlines and other passenger transports, food and beverages suppliers, leisure and recreation services. It is calculated according to the UN Tourism Satellite Account methodology: RMF 2008. Tourism direct contribution to employment is an estimated number of direct jobs within tourism industry.
9. While the fishing sector's contribution to GDP is less than 2 per cent, fishery products represent 50 per cent of goods exports.
10. Both companies, located in Mindelo in São Vicente island, are majority Spanish owned. The Atunlo facilities have cold storage capacities of 3,500 tons and production capacity of 100 tons per day. The complex employs 300 people. The destination of the production is the international market, with 30 per cent shipped to Spain, see atlantico.net/articulo/economia/atunlo-capital-vigues-inaugura-planta-cabo-verde/20151030114838498952.html. Frescomar is currently the main manufacturing unit in Cabo Verde with Europe, Asia and the United States as the main markets for its products, see anacao.cv/2016/12/24/26592/.
11. Repealing and replacing Law 89/IV/93 and Decree 1/94.
12. According to information provided by the State-owned Enterprises Monitoring Unit of the Ministry of Finance.
13. The Government sold its shares of the fuel company, Empresa Nacional de Combustíveis (ENACOL), and the local bank, Banco Comercial do Atlântico (BCA). Current plans include the privatization of the national airline, Transportes Aéreos de Cabo Verde (TACV), and State monopolies of the port authority (ENAPOR) and the leading retail pharmaceutical company, Empresa Nacional de Produtos Farmacêuticos (EMPROFAC). See more details in the United States Department of State, 2017.
14. Namely according to art. 5, the establishment of private companies in the following activities: safety, health, trade in weapons and ammunition, the exploitation of non-renewable resources, the operation of ports, the operation of airports, distribution of water, sanitation and waste management, postal services.
15. Investments that pre-date the sanctioning of the Law of 2012 may also be regulated by a different regime.
16. The country, as indicated in the context, has pursued a fixed exchange rate policy by pegging the CVE to the euro (the rate is CVE 110 per euro).
17. The following alternatives exist: a) national legislation on arbitration; (b) rules of the Washington Convention of 15 March 1965 on the Settlement of Investment Disputes between States and Nationals and Other States (International Centre for Settlement of Investment Disputes between States and Nationals of other States (ICSID) Convention); d) arbitration rules of the International Chamber of Commerce. Resort to arbitration shall not preclude recourse to the competent courts of Cabo Verde
18. The following alternatives are offered for arbitration: a) Framework Law on national arbitration; b) Rules of the Washington Convention of March 15, 1965 on the Settlement of Investment Disputes between States and Nationals of other States, as well as ICSID; c) Rules set out in the ICSID Additional Facility Rules, approved on September 27, 1978 by the International Centre for Settlement of Investment Disputes' Board of Directors, if the foreign entity does not fulfil the nationality requirements provided for in the article 25 of the Convention; d) The International Chamber of Commerce's (Paris) Rules of Arbitration.
19. TIPs include free trade agreements (FTAs), EPAs or other regional economic agreements with investment provisions. Texts of some of Cabo Verde's IIAs is available at UNCTAD's IIA Navigator: investmentpolicyhub.unctad.org/IIA/CountryBits/36#iialInnerMenu.
20. By means of the treaty's survival clause, treaty protection continues for another 10 years until 2023.
21. The BIT with the Netherlands however, clarifies that "nationals" include moral persons controlled, directly or indirectly by nationals of the other Contracting Party regardless of the place of incorporation.
22. Almost half of the reviewed BITs combine FET standard with the NT and MFN obligations (Cabo Verde-Angola, Cabo Verde-China and Cabo Verde Switzerland).

23. This can also include restricting avenues for “treaty shopping” by prospective investors originating from States with which Cabo Verde does not have an investment treaty. An overview of such techniques has been presented in the chapter IV of the World Investment Report (UNCTAD, 2016c).
24. Citizen’s Houses have been established on the islands of Santiago, São Vicente and Sal. On three other islands, there is a mobile unit. In addition, Citizen’s House counters exist in other establishments, such as the Chambers of Commerce of Sotavento and Barlavento.
25. NOSI’s IGRP Web, an eGovernment platform designed to allow for quick configuration of business processes was recently recognized among the top innovations in Africa. See nosi.cv/index.php/pt/noticias/item/416-igrp-web-entre-os-top-50-inovacoes-em-africa
26. For a discussion of specific initiatives, see *Iniciativa 80-14*, “Special Edition: Workshop on Public Administration” May-June 2017.
27. The list covers 46 categories, which include most public infrastructure (e.g. dams, electricity), crude oil refineries, chemical installations, industrial facilities, shipyards, steel mills, manufacture and pharmaceuticals, among others (Decree-Law 29/2006, Annex 1).
28. The EIS is expected to include a thorough evaluation of the project’s impacts on the environment (e.g. at the site, surroundings and region) and forecast scenarios in the short, medium and long term. It should also integrate into the project mitigating, minimizing or compensating measures, and present an environmental monitoring plan as part of the study (see Government of Cabo Verde, 2015).
29. In those cases, a smaller commission may be created that reduces the waiting time to less than two months. Usually exemptions are granted for complementary projects of major tourism initiatives, such as restaurants, guided tours or excursions.
30. See Direct Request (CEACR), adopted 2016, published 106th ILC session (2017), available at: ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:13100:0::N0:13100:P13100_COMMENT_ID:3300941:NO (accessed 10 January 2018).
31. An observation by ILO experts recommended that legislative expression be given to the principle of equal remuneration for men and women for work of equal value. Such provisions should not only cover situations where men and women are performing the same or similar work but also situations where they carry out work that is of an entirely different nature but is nevertheless of equal value, see ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:13100:0::NO::P13100_COMMENT_ID:3299744 (accessed 16 October 2017).
32. For example, construction (92.4 per cent), agriculture (66 per cent), transport (87.1 per cent) and ICT (67.6 per cent), see INE, 2015.
33. Although wages in Sal and Boa Vista are sometimes twice as high than in the rest of the country, living expenses are higher. There is also a housing deficit that has resulted in a proliferation of informal settlements (see chapter II).
34. Some good examples exist, however, for maritime economies undertaken by the Empreamar CV programme through a partnership with a university in Spain, see unicv.edu.cv/arquivo-noticias/4943-programa-empreamar-cv-forma-empreendedores-no-sector-maritimo (accessed 15 January 2018).
35. Other laws and by-laws also have an impact on the regulation of access to land and real estate, such as the Law on Expropriation of Properties for Public Reasons (Legislative Decree 3/2007 of 19 July) and the Special Regime for the Regularization of Private Individuals who Occupy State Land in Private Domain (Law 25/VII/2008).
36. Other areas include soil and subsoil of inland waters, mineral deposits and deposits, beaches, territorial areas reserved for military defense, amongst others (art. 10 Legislative Decree 2/2007).
37. Solutions contemplated include measures for urban conversion and legalization. The legislation already entered into force and will have validity until December 31, 2022 (see Ramos et al., 2016).
38. Some of the reforms were financed by the “Tax and Customs Reform” project, co-financed by the Government, the AfDB and the Investment Climate Facility of Africa. In addition to legal reforms, the project supported the Government and the Ministry of Finance in the modernization, computerization and simplification of the tax administration through the introduction of the electronic declaration. See governo.cv/index.php/rss/6173-mfp-preside-encerramento-do-projecto-da-reforma-tributaria-em-cabo-verde (accessed 15 January 2018).
39. Unless otherwise quoted, the sources for this section are based on IBFD (2017) and the PWC tax summary of Cabo Verde, see taxsummaries.pwc.com/ID/Cape-Verde-Individual-Significant-development.
40. This surcharge is levied in the municipalities of Praia (island of Santiago) and Mindelo (island of São Vicente).
41. A non-resident company is deemed to have a PE if it has any fixed installation or permanent representation located in Cabo Verde or carries out its activity in Cabo Verde through employees or any other personnel hired for that purpose for a period of at least 183 days in a given year.
42. According to the REMPE regime, the following categories are considered: 1) a micro-sized company is an entity employing five or less persons with an annual turnover that does not exceed CVE 5 million; 2) a small-sized company is an entity employing between six and ten persons with an annual turnover between CVE 5 million and CVE 10 million.
43. Interest includes interest on bonds, deposit accounts, ordinary loans and other credit arrangements. Bond interest payments are subject to a reduced withholding rate of 10 per cent, except bonds (but not public debt) listed on the stock exchange, which are subject to CIT at a rate of 5 per cent.
44. However, some WHT rates differ for non-resident companies: rental payments are withheld at 20 per cent, and services fees paid to non-resident companies are subject to a 20 per cent final WHT (but there is no WHT on the remittance of branch profits).
45. It can apply both to imports (e.g. goods for the fuelling and provisioning of sea-going vessels and aircraft), and to exports (e.g. supply, modification, repair, maintenance, chartering, and hiring of aircraft used by airlines).
46. Sector specific customs duty benefits apply to several activities, including the following: agriculture, livestock and fishing; industry; civil aeronautics; maritime transport; media and communications; sports and musical production; health, among others. Benefits and conditions of eligibility vary by sector.

47. Variable rates apply as follows: loans (0.5 per cent), bank interest and fees or commissions (3.5 per cent), guarantees (0.5 per cent), insurance (3.5 per cent), promissory notes and securities (0.5 per cent), emoluments and registration acts (15 per cent). Issuing contracts is taxed at a flat rate of CVE1000.
48. Investments made in the above-mentioned sectors may still benefit from the following incentives if undertaken before 2013: a credit against CIT up to 50 per cent; exemption from customs duties on the importation of capital goods, raw materials and supplies related to the investment project and; exemptions from the property tax and stamp duty on the acquisition of real estate and other assets relating to the investment project or its financing.
49. Currently, the regulation of incentives is described under sections 1.7.1. to 1.7.12 of the Law 26/VIII/2013 (amended in 2016 and 2017), which include the Tax Benefits Code, and set forth principles, rules and conditions for granting tax benefits.
50. See rfadvogados.com/xms/files/KNOW_HOW/Newsletters/2016/7_-_Julho/O_Centro_Internacional_de_Negocios_de_Cabo_Verde_-_VII-.pdf (accessed 17 October 2017).
51. Activities may be carried out with CIN-licensed companies or with non-resident companies without a PE in Cabo Verde. The income tax rate is 2.5 per cent in the case of creation of two jobs, for companies licensed to operate within the CIN. The following activities are excluded from exemptions in the CIN regime: tourism, banking and insurance, real estate, or construction.
52. Prohibited practices relate to agreements, decisions and concerted practices, such as cartels and cartel behavior; territorial restrictions to consumer and supplier base; price discrimination; refusals to deal, and tie-in sales (art 2.1). Exceptions also exist for competitive restrictive practices under some circumstances (e.g. contribute to MSME development, distribution of benefits amongst consumers) (art 5).
53. Sector regulators are State agencies that have administrative, financial and patrimonial autonomy.
54. Since 2014, the Civil Aviation Agency became the focal point for competition policy in air transport (see Decree-Law No. 1/2016), The Agency has also participated in international capacity-building initiatives on competition. See: www.asemana.publ.cv/?AAC-altera-Estatuto-para-incorporar-Autoridade-da-Concorrenca, accessed 18 October 2017).
55. The highest average tariffs affect broad product categories such as clothing (34.1 per cent), beverages, spirits, and tobacco (31.3 per cent), and fish and fishery products (22.9 per cent). These specific activities are the main industries of the country. The higher tariffs on these industries reflect the protection given to these activities, see WTO, 2015a.
56. See asycuda.org/wfiles/CAPVERT-Article-GB.pdf (accessed 18 January 2018).
57. Several other normative documents on the regulation of media and broadcasting activities, cultural and creative industries; industrial property; trademarks; and medicine and pharmaceutical products also have implications on the intellectual property regime.
58. Berne Convention for the Protection of Literary and Artistic Works (July 7, 1997); Convention Establishing the World Intellectual Property Organization (July 7, 1997); Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (July 3, 1997).
59. However, the WTO Council for TRIPS has not completed the review of Cabo Verde's IP-related legislation (WTO, 2015b).
60. Fees are defined by Decree-Law no 7/2003 of April 7, 2003.
61. In 2016, the World Bank announced a \$5 million credit to support the Competitiveness for Tourism Development project in Cabo Verde. The objective is to enable the country to derive benefits from economic opportunities provided by the growing tourism sector, including capacity to promote investment. The project includes the design of a long-term tourism development strategy and a medium-term action plan. See worldbank.org/en/news/press-release/2016/05/10/world-bank-supports-cabo-verde-tourism-sector-as-the-engine-of-growth.
62. Its share capital is distributed as follows: 51 per cent owned by the State, 35 per cent by the municipality of Boa Vista and 14 per cent by the municipality of Maio. The zone administers a total 7200 hectares for a period of 45 years. As of December 2017, 10 per cent had already been developed (based on interviews during the fact-finding mission).
63. A pilot project to subdivide the large plots in smaller units is currently being undertaken jointly by the Tourism Development Corporation and the municipalities on the island of Maio.
64. The Government of Cabo Verde has entered into a management agreement with Loftleidir Icelandic, a subsidiary of Icelandair Group, on the restructuring of TACV, see ch-aviation.com/portal/news/58567-loftleidir-icelandic-outlines-plans-for-tacv-cape-verde (accessed on 17 February).
65. According to information provided during interviews for the fact-finding, the school has the capacity to receive 300 trainees per year on basic training in hotel, tourism and catering, and 450 trainees per year on continuing training in management, marketing and food and health safety. The construction of its premises were supported by the Luxemburg Development Cooperation with the aim of increasing the productivity of the sector's enterprises and creating qualified jobs.
66. Regardless of budget considerations, the Government should be aware that there are advantages and disadvantages of having joint investment and export promotion. For different perspectives see UNCTAD, 2013.
67. The total interest rate for loans is a maximum 8 per cent, of which 4 per cent is subsidized by the Government. Pró Empresa has received 623 applications, out of which 183 were eligible. Amongst these, 33 already had a bankable business plan and another 50 were offered training at AJEC.
68. FOISal (group Trasacco) is planning to invest about €140 million in a project for the production of organic tomatoes, valued at about 150 thousand tons per year. The company signed an agreement with the Government of Cabo Verde to transfer a parcel of land in Sal for the installation of a production unit. It is expected to create around 3,600 jobs, see camarabrazilecowas.com/en/foisal-produz-em-cabo-verde-tomate-organico-para-exportacao.
69. See caritas-africa.org/new/?page_id=69
70. See fao.org/fishery/facp/CPV/en

71. The exploitation of the potential of the ocean requires a sensitive approach by parties concerned. Under the Fisheries Partnership Agreement between the European Union and Cabo Verde and its financial contribution to the fisheries sector, sustainable fisheries management is promoted. It includes capacity building for control and supervision, and for helping local fishing communities to improve governance with sustainable exploration, supply and development in the sector. See fao.org/3/a-ax956e.pdf (accessed 18 February 2018) and eeas.europa.eu/delegations/sri-lanka/19890/cape-verde-and-eu_en.
72. Creative industries cover a wide range of economic activities which include audio-visuals, literature, music, visual arts, performing arts, fashion, design, architecture, advertising, handicrafts, gastronomy, festivals, and games, amongst others. In Cabo Verde, the creative economy is being recognized as a strategic priority sector for growth and poverty reduction (UNCTAD, 2015b). Cabo Verde also has examples of international achievement on music production, including through integration into the tourism industry as the example of singer Cesaria Évora has showed (Agra, 2013).
73. The standards, which were prepared by the Technical Commission for the Standardization of Agricultural Products, concern certain fruit and vegetables, including tomatoes, potatoes, carrots, onions, bananas and papayas (WTO, 2015a).
74. Some of these practices have become standardized. For instance, a basic categorization according to the ISO 26000 standard "Guidance on Social Responsibility" includes the following: i) intergovernmental organization (IO) standards linked to principles recognized in international declarations and agreements; ii) multi-stakeholder initiative standards; iii) industry association codes; and iv) individual company codes (UNCTAD et al, 2011).
75. See meliahotelsinternational.com/sites/default/files/informes-financieros/mhi_annual_report_16_en_screen.pdf; and also tuigroup.com/en-en/media/press-releases/2017/2017-08-09-riu-for-the-fifth-year-riu-hotels-fight-against-sexual-exploitation-of-children (accessed 18 February 2018).
76. See tuigroup.com/en-en/media/press-releases/2018/2018-01-29-riu-cape-verde-record-nesting-sea-turtles
77. These projects may present actions targeting the improvement and development of urban and environmental planning, social and cultural activities for tourism in municipalities, projects in energy, interisland transport, health, security, capacity building of human resources and education in tourism and the marketing of the Cabo Verde brand and image building abroad.
78. No legislation describing its mandate and objectives has yet been prepared (UNDP, 2014).
79. Stakeholders included representatives from DGT, DNA, the General Directorate of Land Planning, AMP, Director of International Cooperation, CV TradeInvest, National Association of Municipalities, Association of tourism and travel agents, hotel owners, TACV, Cabo Verdean Association of Shipowners, chambers of commerce and labour unions (Government of Cabo Verde, 2010).

ANNEX 1. SUMMARY OF RECOMMENDATIONS

What to do?	Why?	How?
1. Improve the FDI-specific regime	<p>The approval of the Investment Law of 2012 consolidated Cabo Verde's openness to FDI. Yet, key concepts and procedures are still broadly defined. Besides, the bulk of foreign investments is governed by individual investment contracts. This can create discrimination among investors and excessive complexity for the public administration. Finally, the international investment agreements (IIAs) could be modernized to better integrate sustainable development elements and the national development objectives.</p>	<p>I.A.1 Consolidate all key provisions of the national investment regime in one piece of legislation.</p>
		<p>I.A.2 Harmonize investment-related definitions across all laws and regulations governing FDI. Provide clear definitions of "foreign investment", "foreign investor" and "indirect expropriation" in line with international good practice.</p>
		<p>I.A.3 Consider amending the legislation to prioritize domestic solutions to investor-State disputes.</p>
		<p>I.A.4 Phase out the use of investment contracts and grant incentives based on pre-defined criteria.</p>
		<p>I.A.5 Reform IIAs in line with the national development strategy, including by refining and clarifying key provisions and safeguarding the right to regulate for public policy objectives but maintain effective investment protection.</p>
		<p>I.A.6 Develop a model treaty aligned with modern practice and Cabo Verde's objectives to be used as the basis for negotiating new IIAs.</p>
2. Consolidate business establishment reforms	<p>Business registration procedures have been improved and innovative eGovernment solutions introduced. Cabo Verde should expand services to under-served regions and improve licensing, permitting and access to electricity.</p>	<p>I.B.1 Complete the Business-in-One-Day initiative.</p>
		<p>I.B.2 Reduce registration time for the simplified regime (REMPE). Map all licensing and permitting requirements for all economic activities in all islands.</p>
		<p>I.B.3 Streamline post-establishment procedures, including licensing, inspections and access to electricity.</p>

What to do?

Why?

How?

<p>I.C.1</p>	<p>Adopt risk-based environmental permitting, including criteria for mandatory EIAs. Integrate a social impact assessment in the overall environmental impact assessment process for projects likely to produce unintended social consequences.</p>	<p>I.C.1</p>	<p>Adopt risk-based environmental permitting, including criteria for mandatory EIAs. Integrate a social impact assessment in the overall environmental impact assessment process for projects likely to produce unintended social consequences.</p>
<p>I.C.2</p>	<p>Cabo Verde's environmental permitting regime is insufficient to address the environmental and social concerns linked, in particular, to tourism-related growth. The Government has commissioned an expert review of the whole environmental licensing, with the aim of improving it. In this context, some measures should be considered.</p>	<p>I.C.2</p>	<p>Foresee adequate responses to significant social change processes associated with socially-sensitive projects.</p>
<p>I.C.3</p>	<p></p>	<p>I.C.3</p>	<p>Re-introduce ex-post inspections after licences are granted.</p>
<p>I.C.4</p>	<p></p>	<p>I.C.4</p>	<p>Create mandatory certification of EIA consultants. Increase human and financial resources devoted to environmental licensing and inspections. Encourage corporate social responsibility (CSR).</p>
<p>I.D.1</p>	<p></p>	<p>I.D.1</p>	<p>Encourage the participation of civil society and the public at large in discussions of environmentally-sensitive projects.</p>
<p>I.D.2</p>	<p></p>	<p>I.D.2</p>	<p>Amend the labour legislation in line with international obligations with regards to civil requisitioning and voting on strike practice by labour unions.</p>
<p>I.D.3</p>	<p></p>	<p>I.D.3</p>	<p>Operationalize the tripartite commission on collective bargaining. Priority should be given to promote the creation of employer's associations in activities where these do not yet exist.</p>
<p>I.D.4</p>	<p></p>	<p>I.D.4</p>	<p>Amend the legislation on equal value of remuneration. Promote the formalization of grey work in high gender disparities occupations. Strengthen the capacities of IGT and open an office in one island where most tourism occurs.</p>
<p>I.D.5</p>	<p></p>	<p>I.D.5</p>	<p>Augment the regularity of IGT's random inspections. Improve the collection of data related to work accidents.</p>
<p>I.D.6</p>	<p></p>	<p>I.D.6</p>	<p>Strengthen inspections of firms that request work permits for foreigners to ensure that they comply with what they have requested for. Promote in-company training schemes aimed for domestic employees in companies that seek access to foreign skills. Create a scarce-skills list approach to replace the quota and labour market testing system. Incorporate social partners in the work of the recently re-activated National Council on Immigration. Entrust the National Council on Immigration with the task of determine and regularly review the list of scarce skills on the basis of requirements in different sectors of the economy.</p>

3. Strengthen the environmental protection regime

4. Enhance labour policy and facilitate access to skills



What to do?

Why?

How?

5. Improve access to land

In the absence of a comprehensive and effective cadastre and registration system in all islands, securing land tenure remains a challenge and access to land is lengthy and costly, representing a deterrent to investment.

Improve coordination between government stakeholders in the process of project approval and development of land parcels administered by the State in areas with high investment potential.

I.E.1 Improve access to land for tourism development projects.

Ensure that private development growth is accompanied by proper infrastructure development, services and maintenance.

I.E.2 Build the capacities of INGT to take over responsibility for cadastral operations in the rest of the country, including maintenance functions, or set up a management organization with a mandate to continue the execution of the cadastre to all the other islands.

I.E.3 Consider legal reforms to ensure gender equality in land rights, such as mandating that the addition of two names in land registries be undertaken without additional costs.

Undertake a cost-benefit analysis of existing incentives.

Define a strategy for streamlining incentives.

I.F.1 Monitor and assess the effect of incentives against their objectives.

Retain tax incentives that: 1) reward re-investment and capital expenditure (rather than profit-based ones); 2) are performance-based and aimed at supporting measurable and sustainable development objectives; and 3) are time-bound.

I.F.2 Improve the competitiveness of the general tax regime.

I.F.3 Reduce the burden of taxation at the borders by training border officials on tax issues to improve customs facilitation (in the short run) and streamlining rates of indirect taxation, such as VAT.

Eliminate tax and customs-related clauses in investment contracts.

I.F.4 Harmonize the content of new investment contracts until their phasing out (I.A.4.)

While the solid performance on foreign investment flows shows much success, it also came at significant costs: the proliferation of tax exemptions linked to different incentives schemes contributed to revenue losses that added to growing budget deficits. Recent reforms indicate the willingness to streamline the tax regime, but there are no plans to lower the use of investment contracts. Some new incentives schemes may even increase the complexity of the tax regime.

6. Streamline the taxation regime



Competition regime

- I.G.1 Operationalize the competition authority and grant it adequate financial resources and personnel.
- I.G.2 Specify the mechanisms for coordination between the competition authority, the ministries and the regulatory agencies.
- I.G.3 Engage further in international and regional cooperation initiatives on competition.

Trading internationally

- I.H.1 Improve inter-agency coordination at the borders.
- I.H.2 Harmonize progressively customs-related incentives.

Intellectual property

- I.I.1 Undertake more active policies for financing research and development (R&D), increase linkages between universities and private sector, and promote foreign investment and joint venture in technological fields and R&D to foster innovation.
- I.I.2 Undertake awareness campaigns amongst cultural actors about the benefits of registering their intellectual property.
- I.I.3 Provide financial or other support for people willing to register their intellectual property.
- I.I.3 Prioritize work with craftsmen and artists for the certification and collective marks of traditional Cape Verdean cultural expression.

Cabo Verde has adopted significant reforms to liberalize its trade regime and align its competition and intellectual property regimes with international good practice. However, the complexity of the incentives regime increases waiting times at the border, the lack of a competition authority makes the legislation ineffectual, and awareness on the benefits of registering knowledge creation remains low.

7. Continue progress on other trade related issues



Investment policy

II.B.1 Prioritize the reform on access to land, tax, competition, environment and labour which are relevant to promote tourism diversification and sustainable development.

Reform the regime of incentives for the tourism sector to promote economic and regional diversification:

- Apply higher investment allowance rates on fixed assets to hotels being transformed into boutique hotels, business hotels, conference centres or other target activities.
- Provide differential incentives in areas of the country with unfulfilled tourism potential, or in target activities.
- Consider extending tax relief to concessions entered into with the State for the construction of public infrastructure relevant to tourism.

II.B.3 Align land planning and zoning to the sustainable tourism development objectives through parcel size and occupancy limits.

Leverage partnerships with the private sector to improve or develop smaller scale tourism infrastructure.

II.B.4 Compile a project pipeline of small tourism infrastructure projects for each of the islands, jointly with local stakeholders.

II.B.5 Broaden tourism education and professional training to accompany diversification.

FDI promotion

Develop a destination brand focussed on the sustainability of Cabo Verde as a tourism destination by:

- Ensuring consistency with the objectives of the tourism development strategy;
- Involving all tourism promotion stakeholders;
- Positioning Cabo Verde as a lead destination for sustainable tourism and attracting increased interest across different segments of the industry;
- Forming the basis for the image-building activities of TradeInvest.

II.B.7 Set up a professional Tourism Board – supported by DGTT and the Chamber of Tourism – with a mandate to conduct and implement the country branding exercise and perform informational activities.

One of the objectives of the Government is to diversify the economy, and tourism can be used as a leverage for broadening development into new sectors and islands of the country.

There is potential for niche tourism offers in the cultural, adventure, historical and other leisure-related segments of the industry, which are largely unexploited. Even within the “sun-sea-sand” segment, a stronger focus could be given to other economic activities with the potential for linkages with local firms. In support of the Government’s objectives, after reviewing the status of the tourism sector in Cabo Verde and the role of FDI, the IPR recommends some policies, tools and initiatives to maximize the sustainable development impact of FDI in tourism.

8. Maximize the sustainable development impact of FDI in tourism



II.B.8 Support TradeInvest to implement new investment promotion functions, including: Image building and branding; implement the investment-related component of the branding exercise and develop a shared message stressing the fact that Cabo Verde is a destination for sustainable tourism investment activities.
 Research and market intelligence: 1) Complete the identification of subsector-specific advantages in each of the islands and undertake gap analysis of infrastructure investments that are needed to enhance their tourism potential; 2) Prepare concrete investment project opportunity briefings and profiles.
 Investor targeting: Generate lists of potential companies to be targeted in each target subsector (leads), customised to the resources available in each of the islands and approach them through a comprehensive communication strategy.
 Aftercare services: Move forward with the implementation of the action plan to foster better services for retaining and expanding existing FDI and adopt adequate project tracking mechanisms.

Entrepreneurship

Formulate a national entrepreneurship strategy, aligned with the PEDS and the national strategy for sustainable tourism, to enhance the effectiveness of the entrepreneurial ecosystem. The strategy should tackle:
 The optimization of the regulatory framework.
 The promotion of entrepreneurship education and skills development.
 The facilitation of technology exchange and innovation.
 Improvements in access to finance.
 The promotion of awareness and networking.

II.B.10 Adopt entrepreneurship education support initiatives such as the EMPRETEC programme.
 Promote a more active engagement of the diaspora to boost investment in productive sectors:

Adopt a Cabo Verde Diaspora Scheme. Incentives under the scheme could include time-bound income tax exemption, customs duty exemption on imported household and personal effects, and permanent resident status extended to spouse, children or dependents.
 Establish a network to connect diaspora and local entrepreneurs, and target specific countries and sectors.
 Adopt the Diaspora Bond Initiative to increase availability of funds for entrepreneurs.

8. Maximize the sustainable development impact of FDI in tourism

Linkages programme

Set up a linkages programme to facilitate economic diversification, quality upgrading of local suppliers and their match-making with MNEs operating in the tourism sector.
 Market study: prepare a demand-supply analysis by conducting a survey among the all-inclusive resorts to analyse their needs and match them with the existing local food & beverage produce.

Gap analysis: undertake a screening of entrepreneurship opportunities for some of the activities where there is a high potential demand and assess the gaps in the required quality or delivery standards.

Company selection: select the products and companies that will participate in the pilot projects and prepare detailed manuals on the standards, requirements and supply specifications relevant for each product to access the supply chain of the buyer company.

Upgrading: in cooperation with the buyer, strengthen the productive capacity of targeted local suppliers through training and matchmaking exercises to reach supply agreements.
 Complementary support: adopt policy measures and other support initiatives relevant to strengthening existing linkages by means of technology upgrading, certification support, logistics and financial assistance.

Sustainability initiatives

Operationalize the National Tourism Council.

Allow the membership of the Council to include “direct” tourism sector stakeholders, and also representatives of civil society groups such as environmental, women, farmers and artisanal fishermen associations to design more inclusive policies and programmes.

Promote the creation of dialogue mechanisms within each of the islands.

II.B.14 Adopt suitable dialogue and engagement models. The Destination Council in Sal could be used as a model to be replicated elsewhere.

II.B.15 Increase the decision-making capacity of the municipalities and local communities with regards to the selection of projects to be implemented by the Tourism Fund.

II.B.16 Encourage voluntary sustainability reporting initiatives by the large hotel chains.

II.B.17 Support efforts to promote international certification of sustainable practices.

8. Maximize the sustainable development impact of FDI in tourism



ANNEX 2. STATISTICS ON THE TOURISM SECTOR IN CABO VERDE, 2016

Arrivals and overnight stays, by island

Categories	Cabo Verde	Santo Antão	São Vicente	São Nicolau	Sal	Boa Vista	Maio	Santiago	Fogo	Brava
Arrivals	644 429	22 149	38 542	1 651	293 987	203 331	1 469	72 357	9 386	1 557
Share arrivals (per cent)		3.4	6	0.3	45.6	31.6	0.2	11.2	1.5	0.2
Overnight stays	4 092 551	61 547	109 526	7 020	2 062 034	1 664 983	6 772	150 830	23 041	6 798
Share overnights (per cent)		1.5	2.7	0.2	50.4	40.7	0.2	3.7	0.6	0.2

Establishments, capacity and personnel in service, by island

Establishments	233	42	41	9	29	22	9	50	22	9
Number of rooms	11 435	490	827	98	5 261	3 044	81	1 260	277	97
Number of beds	18 382	697	1 200	136	8 487	5 385	114	1 864	385	114
Accommodation capacity	24 376	962	1 658	193	11 791	6 321	174	2 551	557	169
Personnel employed	7 742	230	515	37	4 070	1 910	25	819	110	26
Arrivals	644 429	22 149	38 542	1 651	293 987	203 331	1 469	72 357	9 386	1 557
Overnight stays	4 092 551	61 547	109 526	7 020	2 062 034	1 664 983	6 772	150 830	23 041	6 798
Occupancy (per cent)	55	20	23	11	58	82	11	20	13	12

Source: INE, 2017

Tourist visits in Cabo Verde by countries

Country of residence	Arrivals	Per cent	Overnight stays	Per cent
United Kingdom	131 793	20.5	1 225 913	30
Germany	71 448	11.1	529 586	12.9
Portugal	64 899	10.1	318 095	7.8
France	64 861	10.1	325 497	8
Belgium and Holland	62 391	9.7	478 660	11.7
Italia	48 824	7.6	259 806	6.3
Cabo Verde	44 942	7	122 423	3
Spain	10 732	1.7	43 356	1.1
United States	4 874	0.8	14 174	0.3
Austria	1 562	0.2	7 489	0.2
South Africa	611	0.1	1 082	0
Other countries	137 492	21.3	766 470	18.7
Total	644 429	100	4 092 551	100

Source: INE, 2017





The Investment Policy Review of Cabo Verde is the latest in a series of investment policy reviews undertaken by UNCTAD at the request of countries interested in improving their investment framework and climate. The economies included in this series are:

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Mozambique (2012)
Djibouti (2013)
Mongolia (2013)
Bangladesh (2013)
Republic of Moldova (2013)
Republic of the Congo (2015)
The Sudan (2015)
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