ICR Review
Operations Evaluation Department

Report Number : ICRR11687

1. Project Data:		Date Posted :	02/27/2004	
PROJ ID :	P075700		Appraisal	Actual
Project Name :	Structural Adjustment Credit	Project Costs (US$M)	15.0	15.0
Country:	Cape Verde	Loan/Credit (US$M)	15.0	15.0
Sector(s):	Board: EP - Central government administration (33%), General industry and trade sector (25%), Aviation (17%), General transportation sector (17%), Oil and gas (8%)	Cofinancing (US$M)		
L/C Number:	C3587; CQ289			
		Board Approval (FY)		02
Partners involved :		Closing Date	12/31/2002	06/30/2003
Prepared by :	Reviewed by :	Group Manager :	Group:	
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2. Project Objectives and Components

a. Objectives

To help the Government of Cape Verde re-establish internal and external balances, by assisting to alleviate the impact of the oil shock and effects of September 11, 2001, thus creating the conditions for sustained GDP growth.
To make financial resources available to support the Government's stabilization program and maintain sound macroeconomic policies.
To help implement critical structural reforms in support of renewed growth and poverty alleviation.

b. Components

The SAC was a two-tranche operation with a first tranche of US$7.04 million and a floating tranche of US$7.39 million. The remainder of the US$15 million credit refinanced a Project Preparation Facility (PPF).The medium-term reform program included policies aimed at (i) improved economic management and institutional capacity, including budget reform, (ii) encouraging private sector growth, including petroleum reform; privatization and measures to enhance the investment climate such as tax and tariff reform, (iii) financial sector reform, and (iv) human development.

c. Comments on Project Cost, Financing and Dates

The project objectives were not revised. However, in December 2002 the Government requested a supplemental credit of US$4 million to assist in meeting its financing shortfalls caused by the faster repayment of past government arrears to the private sector than was anticipated in the program (approximately US$8 million), which had been stifling growth. While repayment of arrears contributed to sustained GDP growth, the resulting fiscal burden could have put at risk the impressive macroeconomic stabilization record achieved during 2001 and 2002. The supplemental credit (Report Number P-7570-CV of November 22, 2002), which was approved in December 2002, helped to fill the program's emerging financing gap. There was no QAG review of the SAC. The Quality at Entry of the operation is rated as satisfactory (consistency with the CAS, contains an appropriate design, and has a clear assessment of risks).

3. Achievement of Relevant Objectives:

The SAC achieved its objectives well. Fiscal developments were overall positive. All of the original targets in the Government's program were met as of September 2002. Notably, the deficit (excluding grants) fell from a very high 26 percent of GDP in 2000 to around 9.4 percent and 10.2 percent of GDP in 2001 and 2002 respectively (Table 1, page 7 of the ICR). The fiscal deficit including grants was 5.4 percent and 1.9 percent of GDP respectively in 2001 and 2002. The GDP growth rate, at 4.3 percent in 2002, was twice as high as originally estimated. The external reserve targets for 2004 were already met in 2002. The fiscal deficit (after grants) dropped to 1.9 percent of GDP in 2002, but rose again in 2003 to 4.2 percent of GDP (latter is the IMF's revised figure). This is within the sustainable range. Inflation fell to 1.8 percent in 2002 and 2 percent in 2003, down from 3.8 percent in 2001.
The Government reformed the petroleum sector. As a result of measures introduced over the past two years, no subsidies were paid to petroleum companies in 2003, and sector efficiency increased.
Progress on six scheduled privatizations was satisfactory. However, privatization of the state airline was not possible due to the downturn in the industry world-wide. Nevertheless, important steps were taken to move the company towards a corporatized enterprise that can later be privatized. The most important of the privatizations was that of EMPA, the Public Supply Enterprise.
Tax and Trade reforms were implemented with some delays, e.g. the VAT. The IMF report of December 2003 indicates that the VAT was on schedule for implementation as of January 2004. The tax code was streamlined.

Budget reforms were implemented. Public expenditures were curtailed as noted. The PER, produced at the end of 2002, provided the necessary analysis for improved budgetary management.

4. Significant Outcomes/Impacts:

1. This SAC was one of the best performing adjustment operations in the Africa Region. The stabilization and analytical work carried out in connection with the SAC led to the Medium Term Expenditure Framework (MTEF), which is now being developed. As a result of the policy measures and analytical work, many of the preconditions for a Poverty Reduction Support Credit (PRSC) considered in the SAC documents were met. The PRSC is under preparation.
2. The project had a substantial institutional impact. It helped to strengthen the Ministry of Finance and other institutions associated with public finance. It helped to install stronger programming and budgeting mechanisms necessary for the public expenditure reviews. The privatization of six state enterprises and elimination of state intervention in other key public enterprises, as well as the liquidation of inefficient enterprises, reduced the administrative burden of the agencies charged with their supervision The establishment of an adequate supervisory mechanism for the petroleum sector was noteworthy. The petroleum sector reforms are likely to have a lasting impact.

5. Significant Shortcomings (including non-compliance with safeguard policies):

These shortcomings are not major. In 2003, as noted in the most recent IMF Report, there were some slippages in economic performance and structural measures (e.g. delayed VAT implementation, but it was implemented in January 2004). Revenue shortfalls in the first half of 2003 on account of lower than expected economic growth necessitated a sharp curtailment of expenditures. The fiscal deficit (including grant financing) widened to 4.2 percent of GDP in 2003, up from 1.9 percent the year before. Half of the increase in the deficit (including grants) between 2002 and 2003 was due to a decline in the level of grants relative to GDP in the latter year -- this is an exogenous factor. With a pick-up in tourism in the second half of the year, economic growth rebounded to 5 percent for 2003 as a whole. Sustainability is rated as likely because of overall good economic management, in the face of continued exposure to external shocks associated with a small open economy. The country is very dependent on foreign assistance, as well as on private transfers. In 2003 donors reiterated their intention to continue to support the Cape Verde economy at similar levels of financing as before. The macroeconomic outlook warrants close watching.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Highly Satisfactory	Highly Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability:	Likely	Likely	
Bank Performance:	Highly Satisfactory	Highly Satisfactory	
Borrower Perf .:	Highly Satisfactory	Satisfactory	This would have been highly satisfactory were it not for late reporting and delays in implementing some of the measures, mainly as a result of weak performance of the PCU coordinator. A change in PCU management improved matters. Delays were also related to the extensive Government consensus-building efforts, which were under-estimated, but necessary to implement and sustain the reforms. The Government implemented the reforms in two years, which is noteworthy.
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. There was prompt implementation of actions on the part of the Borrower. A close dialogue existed between the Government, the Bank and the IMF.
2. There was quick adoption of a supplemental IDA Credit to meet financing gaps arising from the faster repayment of past government arrears to the private sector, than was originally estimated. Successful implementation of adjustment operations calls for quick, but careful responses on the Bank's part. This is a delicate balance. The Bank team showed a prompt and flexible approach.
3. SAC benchmarks and achievement indicators are clearly laid out in Annex 1 of the ICR.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR is clearly written. Good use of the skill mix on the Bank team is evident, combining macroeconomic and private sector focus in one operation.