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IDA/R2018-0013/1

January 29, 2018

Closing Date: Thursday, February 15, 2018 at 6:00 p.m.

FROM: Vice President and Corporate Secretary

Cabo Verde - Access to Finance for Micro, Small and Medium-Sized Enterprises Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed credit to Cabo Verde for an Access to Finance for Micro, Small and Medium-Sized Enterprises Project (IDA/R2018-0013), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

Document of

The World Bank

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Report No: PAD2572

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 10.6 MILLION

(US$15 MILLION EQUIVALENT)

TO THE

REPUBLIC OF CABO VERDE

FOR AN

CABO VERDE: ACCESS TO FINANCE FOR MSMESIZED ENTERPRISES PROJECT

JANUARY 25, 2018

Finance, Competitiveness and Innovation Global Practice
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2017)

Currency Unit =	Cabo Verde Escudos (CVE)
CVE 93.232 =	US$1
US$1.41542 =	SDR 1

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

BCV	Bank of Cabo Verde (*Banco de Cabo Verde*)
BVC	Cabo Verde Stock Exchange (*Bolsa de Valores de Cabo Verde*)
DA	Designated Account
ESMF	Environment and Social Management Framework
ESMS	Environmental and Social Management System
FDI	Foreign Direct Investment
FM	Financial Management
FOGAPE	Guarantee Fund for Small Enterprises *(Fondo de Garantía para Pequeños Empresarios)*
FSDS	Financial Sector Development Strategy
GDP	Gross Domestic Product
GNI	Gross National Income
GoCV	Government of Cabo Verde
GPN	General Procurement Notice
IEG	Independent Evaluation Group
INE	National Statistics Institute (*Instituto Nacional de Estatística*)
CVE	Cabo Verde Escudos
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IPF	Investment Project Financing
IRR	Internal Rate of Return
IT	Information Technology
IUFR	Interim Unaudited Financial Report
M&E	Monitoring and Evaluation
MIS	Management Information System
MOF	Ministry of Finance

MOEE	Ministry of Economy and Employment
MSME	Micro, Small, and Medium Enterprise
NPF	New Procurement Framework
NPL	Nonperforming Loan
PCG	Partial Credit Guarantee
PCR	Public Credit Registry
PDO	Project Development Objective
PFI	Participating Financial Institution
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PP	Procurement Plan
PPA	Project Preparation Advance
PPSD	Project Procurement Strategy for Development
PSC	Project Steering Committee
RWA	Risk-weighted Assets
SISP	Interbanking Corporation and Payment Systems *(Sociedade Interbancária e Sistema de Pagamentos)*
SME	Small and Medium Sized Enterprise
SOE	State-owned Enterprise
SPN	Specific Procurement Notice
TA	Technical Assistance
UGPE	Implementation of Special Projects Unit *(Unidade de Gestão de Projetos Especiais*)
UNDB	United Nations Development Business
WDI	World Development Indicator

Regional Vice President:	Makhtar Diop
Country Director:	Louise J. Cord
Senior Global Practice Director:	Ceyla Pazarbasioglu-Dutz
Practice Manager:	Consolate K. Rusagara
Task Team Leader(s):	Julian Casal

BASIC INFORMATION

Is this a regionally tagged project?	Country(ies)	Financing Instrument
No		Investment Project Financing

[ ] Situations of Urgent Need of Assistance or Capacity Constraints

[✓] Financial Intermediaries

[ ] Series of Projects

Approval Date	Closing Date	Environmental Assessment Category
15-Feb-2018	31-Jan-2023	F - Financial Intermediary Assessment

Bank/IFC Collaboration
No

Proposed Development Objective(s)

The objective of the Project is to increase access to finance to MSMEs.

Components

Component Name	Cost (US$, millions)
Partial Credit Guarantee Fund to Enhance MSME Finance	11.20
Technical Assistance to MSMEs	3.10
Improve Credit Information Systems	0.50
Project Implementation Support	0.20

Organizations

Borrower :	Ministry of Finance
Implementing Agency :	Unidade de Gestao de Projectos Especiais

PROJECT FINANCING DATA (US$, Millions)

[ ] Counterpart Funding	[ ] IBRD	[✓] IDA Credit	[ ] IDA Grant	[ ] Trust Funds	[ ] Parallel Financing

Total Project Cost:	Total Financing:	Financing Gap:
15.00	15.00	0.00
	Of Which Bank Financing (IBRD/IDA):	
	15.00	

Financing (in US$, millions)

Financing Source	Amount
International Development Association (IDA)	15.00
Total	**15.00**

Expected Disbursements (in US$, millions)

Fiscal Year	2018	2019	2020	2021	2022	2023
Annual	0.02	5.03	5.05	1.30	2.02	1.58
Cumulative	0.02	5.05	10.10	11.40	13.42	15.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	High
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Low
9. Other	
10. Overall	Moderate

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

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

Legal Covenants

Sections and Description

The Recipient shall, not later than three (3) months from the Effective Date, appoint an independent external auditor, with qualifications, experience and under terms of reference acceptable to the Association.

Sections and Description

The Recipient shall ensure that during Project implementation, the PCG Fund uses the proceeds of the Subsidiary Financing for purposes of providing partial credit guarantees to cover credits extended by eligible PFIs to eligible MSMEs to finance eligible activities to be carried out by said MSMEs, all in accordance with the PIM and Operational Guidelines

Sections and Description

The Recipient shall ensure that after the Closing Date, the PCG Fund uses the proceeds of any Subsidiary Financing, which are remaining after any payments under said partial credit guarantees, for purposes of providing partial credit guarantees to cover credits extended by eligible PFIs to eligible MSMEs to finance eligible activities to be carried out by said MSMEs.

Conditions

Type	Description
Disbursement	No withdrawal shall be made under Category 1 unless and until an independent Fund Manager is selected and appointed as provided in Section I.A.4 of this Schedule

Type	Description
Disbursement	No withdrawal shall be made under Category 3 unless and until: (i) the PCG Fund has been duly established and licensed to operate as a financial institution, in a manner acceptable to the Association, and in accordance with the Financial Sector Laws; (ii) the Subsidiary Agreement is executed, in form and substance satisfactory to the Association; (iii) the PCG Fund Operational Guidelines, including its business model and investment policy, are adopted by the competent body of the PCG Fund, in form and substance satisfactory to the Association; (iv) corporate governance instruments and internal controls are adopted by the Recipient, in form and substance satisfactory to the Association; and (v) an external auditor is appointed with qualifications, experience and terms of reference satisfactory to the Association, as provided in Section III.B.1.c

Type	Description
Disbursement	No withdrawal shall be made under Category 4 unless and until the conditions in sub-paragraph (c) above have been satisfied and a framework agreement is executed between the PCG Fund and a PFI, under terms and conditions satisfactory to the Association and in accordance with the provisions in the PIM and Operational Guidelines, as provided in Section III.B.1.d

Type	Description
Effectiveness	The adoption by the Recipient of a Project Implementation Manual in form and substance satisfactory to the Association, as provided in Section I.B.1.b

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Julian Casal	Team Leader(ADM Responsible)		GFCAS
Ndeye Fatou Mbacke	Procurement Specialist(ADM Responsible)		GGOPZ
Mamata Tiendrebeogo	Procurement Specialist		GGOPF
Maimouna Mbow Fam	Financial Management Specialist		
Antonio Manuel Baptista	Team Member		GMTIA
Astou Diaw-Ba	Team Member		AFCF1
Clarisse Torrens Borges Dall Acqua	Environmental Safeguards Specialist		GEN04
Francesco Strobbe	Peer Reviewer		GFCAE
Jose C. Janeiro	Team Member	Disbursement Officer	WFACS
Magalie Pradel	Team Member		GFCAC
Mame Safietou Djamil Gueye	Social Safeguards Specialist	Social Safeguards Specialist	GSU01
Mazen Bouri	Peer Reviewer		AFCC1
Monica Patricia Rivero Riveros	Team Member		GFCAE
Nataliya Mylenko	Peer Reviewer		AFCE3
Ruben Jorge De Lemos Botelho Barreto	Team Member		GFCGP
Seynabou Thiaw Seye	Team Member		AFCF1
Simon C. Bell	Peer Reviewer		GFM2A
Sofia De Abreu Ferreira	Counsel	Counsel	LEGEN

Extended Team

Name	Title	Organization	Location

CABO VERDE
ACCESS TO FINANCE FOR MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES PROJECT

TABLE OF CONTENTS

I. STRATEGIC CONTEXT

A. Country Context

1. **Cabo Verde is an archipelago of ten islands, nine of which are inhabited, located 500 kilometers off the west coast of Africa with an estimated population of 540,000.** Only 10 percent of its territory is classified as arable and the country possesses limited mineral resources. The country is vulnerable to climate change, rising sea levels, and natural disasters including an active volcano on the island of Fogo that last erupted in November 2014. Despite the arid climate and mountainous terrain, Cabo Verde has developed rapidly, in large part owing to its sizeable tourism industry, and attained lower-middle-income country status with a gross national income (GNI) per capita of US$2,970 in 2016.

2. **Cabo Verde's economic growth over the past decade has resulted in poverty reduction.** Using a national poverty line of US$5.4 per person per day, poverty fell from 58 percent in 2001 to 35 percent in 2015 while extreme poverty, defined as purchasing power parity US$2.9 in 2015, fell from 30 percent to 10 percent. Over the same period, the share of income of the bottom 40 percent increased from 12.4 percent to 15.3 percent. In 2016, the unemployment rate was 15 percent and underemployment rate was 26 percent. Cabo Verde outperforms its peers on most nonmonetary dimensions of poverty, including life expectancy, maternal mortality, net primary school enrolment, and access to an improved water source. Cabo Verde's average life expectancy, estimated at 73 years, is the highest in Sub-Saharan Africa. Similarly, education outcomes put Cabo Verde at the top of Sub-Saharan Africa: the adult literacy rate is estimated at 87 percent, although disparities continue to persist between men and women.

3. **Economic activity in Cabo Verde is mostly conducted by small, mostly informal, firms.** In 2015, the business sector comprised 9,357 formal firms providing 52,783 jobs and approximately 33,000 informal firms providing close to 40,000 jobs. Micro, small, and medium enterprises (MSMEs), as defined by the 2014 Special Legal Regime for Micro and Small Enterprises, constitute 98 percent of firms operating in Cabo Verde, providing more than 40 percent of jobs and a significant share of the economy (when informal businesses are included).[1] About two-thirds of formal firms are located on the islands of Santiago and São Vicente. In 2014, 19 out of 100 adults were business owners.[2] This rate was higher for men (21.8 percent) than for women (16.1 percent). In the last 12 months, one in ten entrepreneurs (either new, young, or established) closed, suspended, or gave up a business that they owned or managed.

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[1] Staff calculations based on data of the National Statistics Institute (*Instituto Nacional de Estatística*, INE). A micro enterprise has up to five employees and/or annual revenues of less than CVE 5 million (about US$54,000). A small enterprise has between six and ten employees and/or annual revenues between CVE 5 million and CVE 10 million (about US$54,000–US$108,000). The INE categorizes a medium-size enterprise as one with annual revenues of less than CVE 150 million (about US$1,600,000).

[2] Established business ownership rate is the percentage of adult population who are currently owner-manager of an established business, that is, own and manage a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months.

4. **The economy is based on services, particularly wholesale and retail trade, as well as tourism, mainly for European markets.** Canned fish (using fish caught by foreign vessels) dominates the manufacturing sector, which comprises 15 percent of gross domestic product (GDP). Construction plays an important role in the economy and represented 9 percent of GDP between 2011 and 2015. Over the last decade, the share of the primary sector in GDP has been relatively stable, reaching 9.1 percent in 2015. The main export is tourism for European markets; other exports include fuels, lubricants, and fish.

5. **The economy has limited productive capabilities and its global competitiveness is low.** While there is potential for agribusiness and fisheries, the limited level of processing of agricultural products and the lack of food and handling safety certifications remains a constraint. MSMEs are not well-connected to tourism supply chains, which are dominated by large international resorts located in the islands of Boa Vista and Sal and based on an all-inclusive model that obtains most of the goods and services abroad. A weak transport sector results in poor interisland connectivity, which limits tourism's inclusiveness. The small size of the domestic market imposes limitations to economies of scale. During 2011–16, the current account deficit was 9 percent on average. The Global Competitiveness Report ranks poor financial sector development as one of the most problematic factors, after a small market size, an inefficient labor market, and the macroeconomic environment.[3] Enterprise surveys consistently rank limited access to finance as the most significant constraint for businesses.

6. **Cabo Verde's economic growth slowed down significantly due to the global financial crisis, which was primarily transmitted to Cabo Verde by the Eurozone crisis.** During 2010–15, average real GDP growth fell to 1.8 percent compared to the 7.1 percent average growth achieved during 2005–09. Foreign Direct Investment (FDI) fell to 6.7 percent of GDP from 10.4 percent of GDP over 2005–09. Growth was mainly driven by public expenditure financed with external debt. The economy recovered in 2016 with an estimated real GDP growth of 3.8 percent supported by FDI, domestic demand, and tourism, which benefitted from the economic recovery in Europe. The economy is still vulnerable to external shocks, notably from Europe, the main source of tourism, FDI, and remittances.[4]

7. **The macroeconomic situation is challenging with public debt at 132 percent of GDP at the end of 2016.** The slow pace of public financial management (FM) reforms and weak fiscal discipline—particularly in the State-owned Enterprise (SOE) sector—has undermined macroeconomic resilience. The current account deficit has been mostly financed by external debt, which increased from 42.8 percent of GDP in 2009 to 97.4 percent of GDP in 2016. Public debt is likely to continue to increase given Government liabilities associated with largely insolvent SOEs. The latest debt sustainability analysis found Cabo Verde to be at a high risk of debt distress, although baseline debt service indicators remain at comfortable levels. While most of this debt is concessional, gross financing needs are increasing, limiting the ability of the Government to use fiscal policy to absorb shocks. If risks materialize, confidence levels could be affected and bring shocks to the economy, including through the financial system, particularly given the limited monetary and fiscal space available to the Government. The Government has invested heavily in the

[3] World Economic Forum. Global Competitiveness Report 2017–2018.
[4] After a decline during 2006–10, remittances from migrants have picked up and increased to 13.6 percent of GDP in 2016 from 7.9 percent of GDP in 2010.

country's infrastructure in recent years. The challenge now is to wind down the public investment program and enable businesses to utilize the new infrastructure for growth, job creation, and poverty reduction. The Government is undertaking a macroeconomic reform program with support from its international development partners and this has the potential to mitigate these risks.

A. Sectoral and Institutional Context

8. **The size of the financial sector is significant and larger than what would be expected given the country's level of economic development.** As of end-2016, financial sector assets were estimated at 138 percent of GDP (just over US$2 billion) and have increased by about two-thirds since 2010. Domestic credit provided by the financial sector is estimated at 86 percent of GDP as of end-2016, which compares well with regional and income group comparators as well as other small island states (see Table 4.1). Financial assets are largely denominated in the local currency and the sector has benefitted from the confidence provided to investors by the stable currency peg to the Euro.

9. **The financial sector in Cabo Verde is dominated by banks, which are liquid but risk averse.** The banking sector, which has more than 85 percent of the total financial sector assets, is highly concentrated with two out of seven licensed banks dominating the credit and deposit markets with a combined market share of almost 70 percent (see Table 4.2 for additional details). Bank liabilities are predominantly deposits from residents, migrants, and the Government.

10. **Banks struggle with low asset quality, low profitability, and limited capital buffers.** The 2009–15 economic downturn's impact on tourism and real estate caused the level of nonperforming loans (NPLs) to increase to 17.4 percent of total loans as of June 2017.[5] Average return on assets during 2011–16 was only 0.3 percent. In June 2017, capital was only 8.4 percent of total assets and varied by bank. Some banks have experienced capital constraints. In March 2017, the Bank of Cabo Verde (BCV) took measures to resolve an insolvent state-owned bank (Novo Banco) established in 2010 to support MSME finance and low-income housing.[6] To mitigate risks, the BCV is reinforcing its banking supervision team, increasing the frequency of on-site audits, and encouraging banks and corporates to recognize and address NPLs while rebuilding capital buffers.[7]

11. **Access to finance is a significant constraint.** Domestic credit to the private sector has declined to an estimated 60 percent of GDP in 2017, from 66 percent in 2011, as banks increased the share of their

[5] A significant share of asset quality issues pertains to large tourism real estate exposures, which consist of residential real estate property developments targeted to foreigners funded by local banks. As the global crisis unfolded, key projects ceased to be viable and companies (mostly foreign-owned) went bankrupt.
[6] In March 2017, the BCV transferred Novo Banco's deposit liabilities to Caixa Económica de Cabo Verde together with some assets (collateralized loans, cash, and Government securities) and restricted Novo Banco from taking deposits or extending credit. The BCV withdrew Novo Banco's license in June 2017. The Government is likely to bear losses up to the amount of the bank's capital (about US$9 million or 0.5 percent of GDP).
[7] In 2014, the BCV approved a gradual increase of the minimum capital requirements from 10 percent to 12 percent of risk-weighted assets (RWA): the minimum capital requirement will increase to 10.5 percent on January 1, 2018, 11.25 percent on January 1, 2019, and 12 percent on January 1, 2020. In 2015, the BCV increased to five years the time limit for banks to sell their real estate assets received as payment for NPLs during 2013–16.

assets deposited with the BCV and lent to the Government and SOEs. This reflects both a higher risk aversion by banks and the lack of viable investment opportunities. Despite progress, in 2016 there were only 184 commercial bank borrowers per 1,000 adults. Lending rates are also high in real terms.

12. **The average cost of finance is high with lending rates of about 10 percent in real terms for loans of up to one year.**[8] In 2016, the average interest rate spread (lending minus deposit rates) was 7.0 percent, in line with lower-middle-income economies and slightly above middle-income economies (6.4 percent). This is due to inefficient banking and capital allocation—as evidenced by high NPLs and high level of reserves at the central bank—and also because of high operating costs due in part to the nature of operating bank branches on an archipelago and lack of sufficient economies of scale. Cost-to-income ratios are very high (an average of 69 percent during 2012–16), indicating room for improvement in banking sector efficiency.

13. **Micro and small enterprises, in particular, face significant financing constraints.** Domestic bank credit to MSMEs in Cabo Verde is estimated to be about US$320 million. Banks do not segment their customers by size and as a result bank staff have an incentive to focus on larger customers. Micro and small enterprises receive only 58 percent of the number of bank loans, despite representing 90 percent of the number of firms in the economy. Businesses in Cabo Verde tend to source their external financing from informal investors (24 percent), family and friends (24 percent), banks (22 percent), and microcredit institutions (14 percent).[9] On average, MSMEs have credit with only one bank (versus an average of two banks, in the case of large enterprises). This signals limited competition in the credit market for MSMEs and is likely due to MSMEs lacking fixed assets (for example, real estate) to offer as collateral.

14. **The microfinance sector is small and comprises mostly nonprofit institutions with social objectives that rely primarily on donor funding and are not financially sustainable.** The sector's loan portfolio is US$6 million distributed across 11,000 borrowers (for an average loan size of US$545) located mostly on the islands of Santiago and Fogo. Funding from commercial banks is limited by the amount of real estate guarantees provided by microfinance institutions.

15. **Inadequate financial infrastructure undermines credit allocation by financial institutions.** A weak insolvency regime, the absence of large-scale financial reporting, and an inefficient credit reporting system results in suboptimal credit allocation. This partly explains why banks primarily provide asset-based lending and offer little cash flow-based lending or start-up financing, and why they provide limited credit to small-scale borrowers.

16. **A mutual credit guarantee system was launched in 2010 but has been highly ineffective.** The system is based on mutual guarantee companies that provide guarantees directly to MSMEs and benefit

[8] In 2015 and 2016, inflation and interest rates hardly reacted to the BCV's program of monetary easing of February 2015, which signaled problems in the transmission mechanism of monetary policy and could be linked to the illiquid interbank money market. In June 2017, the BCV introduced more aggressive monetary stimulus measures, reducing the benchmark interest rate from 3.50 percent to 1.50 percent. Positive inflation has returned in the second half of 2017.

[9] Based on an unpublished study on entrepreneurship commissioned by the Ministry of Economy that conducted a survey of 2,200 adults in Cabo Verde in December 2014.

from a counter-guarantee from a public fund. CVGarante is the only mutual guarantee company operating in Cabo Verde. An assessment of the system conducted by the World Bank in August 2016 found that its governance, institutional structure, and design had rendered it unattractive for banks as a risk-sharing mechanism.[10] The public counter guarantee also introduced uncertainty around claim payout given the requirement of board approval rather than well-defined criteria.

17. **CVGarante does not meet many of the principles for Public Credit Guarantee (PCG) schemes.[11]** Since inception, CVGarante has issued only seven guarantees on loans equivalent to US$250,000, of which banks have disbursed funds from only two loans given the low credibility of the fund.[12] Guarantee approvals were unnecessarily cumbersome and redundant as they duplicated the review conducted by the lending institution without any value addition or expertise in credit risk. The rejection rate was high and processing slow (paper-based and manual) with much of the information required by CVGarante being unnecessary to make decisions on guarantees. Fees were high and unattractive to banks. Given the size of the fund and volume of business, the assessment concluded that the operation was not financially sustainable (see annex 1 for additional information). In other countries, well-functioning PCG schemes increase banks' risk appetite to lend to MSMEs. Particularly for financial systems characterized by high liquidity and risk aversion, mechanisms like a well-designed PCG help banks move to higher-risk client segments. International experience suggests that key factors determining PCG success include governance, coverage, management of claims, and pricing.

18. **Financial reporting and auditing practices are absent in most firms.** Two-thirds of registered firms do not have proper accounting.[13] This creates obstacles to accessing bank credit: according to a recent BCV study, 92.5 percent of businesses with bank credit had organized accounting. Registered firms with organized accounting represent 96 percent of total turnover; but banks believe that most of these financial reports are not credible as they are not properly audited and are prepared primarily for tax purposes. Confusion between personal and business accounts and financial flows is common. Accounting standards are not enforced.

19. **The central bank maintains a public credit registry (PCR), but it is only used by banks and the percentage of the population covered is low, mainly because the only source of information is solely bank credits.** Coverage has fallen slightly from 23 percent in 2009 to 20 percent in 2016. Banks receive limited information from the PCR.[14] Banks note (a) that credit references are not available for everyone, particularly for small businesses that do not have bank credit; (b) the absence of information about other type of arrears, such as tax, social security, customs, and utilities; and (c) that identification of borrowers

[10] World Bank, Cabo Verde: Partial Credit Guarantee Scoping Report, August 2016.
[11] World Bank Group: FIRST Initiative. 2015. *Principles for Public Credit Guarantee Schemes for SMEs*. Washington, DC.
[12] CVGarante was established in 2013 by four of the largest banks and with the support of Government.
[13] *Instituto Nacional de Estatística*. 2017. *Estatísticas de Empresas*. *Inquérito Anual às Empresas*.
[14] Available information includes type of credit (utilized versus available), type of borrower (individual versus legal entities; resident versus nonresident), address, loan maturity (short, medium, and long term), guarantees (assets versus personal), and credit quality (performing, nonperforming, in judicial process, write-off, and restructured).

is sometimes difficult due to duplication of names, given the lack of a standardized, generalized, and unequivocal identification system in Cabo Verde.

20. **In 2016, the BCV developed a plan to upgrade the registry based on a diagnostic of the information technology (IT) architecture, data quality, communication processes, and sharing information sharing capabilities.** The plan includes enhancements to the regulatory framework and to the IT architecture and software solution. The BCV has recently recruited a full-time IT staff for its credit registry team. The upgrade will improve the quality and reliability of information but will not necessarily increase financial inclusion. The PCR holds data about a population that is already 'banked' and will improve credit risks reviews for clients with an existing credit history, but is unlikely to incorporate alternative data (for example, from mobiles) that is one of the best mechanisms to expand financial inclusion.

21. **The credit registry has positive and negative information about borrowers' credits from banks that are more than CVE 1,000.** The BCV aims to expand the type of information available, including the loan modality, lending rate, currency denomination, and gender-disaggregated data. The BCV is expected to improve its reporting templates for banks for regular reporting of loans outstanding (by number and value) among corporate, household, and public sector, and within its corporate category for MSMEs. Reporting requirements for microfinance institutions will also be modified to capture the number and value of loans to MSMEs.

22. **A private credit bureau established in 2013 is not operating and is constrained by the lack of coordination and the absence of a conducive regulatory environment.** The bureau was established by the chambers of commerce in Cabo Verde and an international partner, to offer full and semi-full credit reports for both consumers and businesses. The bureau is yet to complete its registration with the BCV.

23. **Determining the creditworthiness of small businesses is challenging and costly, and therefore banks require small firms to provide higher levels of collateral (an average of 201 percent of the loan, against an average of 176 percent for all firms).**[15] Banks rely on real estate, cash deposits, and third-party guarantees (*aval*) as collateral for loans, since these receive a reduced risk weight for the purposes of calculating regulatory solvency ratios. Banks do not tend to lend against inventory or make use of cash flow-based financing. There is no movable collateral registry and no leasing industry, although some banks engage in sporadic leasing activities.

24. **There is limited institutional capacity to facilitate greater provision of bank credit to MSMEs.** Public support programs and agencies have some capacity to support development of small enterprises but their activities remain modest. In 2017, the Government established ProEmpresa to support capacity building for MSMEs, in partnership with existing business incubators and business associations that will be responsible for implementation of the programs.[16] ProEmpresa will be funded by the state budget.

[15] Enterprise Surveys, 2009. http://www.enterprisesurveys.org/data/exploreeconomies/2009/cabo-verde#finance

[16] In June 2017, the Government created *ProEmpresa* by absorbing the small-business promotion agency (*Agência para o Desenvolvimento Empresarial e Inovação*); the latter was responsible for technical assistance (TA) to businesses but showed

25. **MSMEs are critical for economic growth and development.** They create jobs, alleviate poverty and raise the standard of living and play an important role in service, export, and tourism value chains. One of the major impediments to access to finance has been the high collateral requirement demanded by lending financial institutions. The majority of MSMEs are unable to provide sufficient or acceptable collateral to obtain finance, leaving them underserved. Governments have undertaken numerous initiatives to create a conducive environment that would facilitate access to finance in a manner that is sound and protects the stability of the financial system. Financial intermediation such as an efficient and streamlined PCG scheme plays an important role in facilitating access to finance and supporting MSMEs to grow and create employment. PCG schemes have proved their effectiveness in attaining this goal, given the right structure and support.

B. Higher Level Objectives to which the Project Contributes

26. **The project is aligned with the growth agenda of the Government of Cabo Verde (GoCV) and supports a key pillar of the national program to support private investment and entrepreneurship.** Specifically, the program aims to improve Cabo Verde's business environment, increase access to finance for MSMEs, attract FDI, and connect the local economy with the most strategic sector—tourism.[17] Other elements of the Government's growth agenda, such as an Anti-money Laundering/Combating of Financing of Terrorism National Risk Assessment, are being supported by the World Bank through TA. In addition, the World Bank has been supporting the strengthening and deepening of Cabo Verde's business environment through several interventions, including the ongoing Doing Business reform agenda TA and the Competitiveness for Tourism Development Project (P146666), which includes measures to improve the insolvency framework and support the development of a secured transactions framework and movable collateral registry.

27. **The proposed project is aligned with the FY15–17 Country Partnership Strategy that seeks to enhance Cabo Verde's macrofiscal stability and address growth challenges.[18]** In particular, the project supports the programmatic pillar on improving competitiveness and private sector development through improvement of the MSME sector and of the overall investment climate. This project is also aligned with the Government's objective of increasing access to finance outlined in the 2015 MSME Finance Strategy commissioned by the BCV and prepared with World Bank technical support.[19]

minimal results.

[17] Republic of Cabo Verde. 2016. *Programa do Governo. IX Legislatura*.

[18] World Bank. 2014. *Country Partnership Strategy for the Republic of Cabo Verde for the Period FY15–17*.

[19] Republic of Cabo Verde. 2015. *Strategy for Increasing Access to Finance for Micro, Small, and Medium Enterprises*. Unpublished.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

28. The objective of the project is to increase access to finance to MSMEs.

B. Project Beneficiaries

29. **The main project beneficiaries will be creditworthy MSMEs that have good business opportunities but cannot develop them due to lack of finance.** The access to finance and TA components are expected to increase private investment and therefore lead to more jobs and higher wages. The provision of inclusive and affordable financial services, including credit, increases opportunities for smaller enterprises and lower-income households. Women in particular will benefit from affirmative action in the allocation of financial support for TA.

30. **The financial sector will also benefit from an improved credit information system, which is expected to help improve credit reporting, reduce credit costs, and improve credit allocation in the economy.** Better financial infrastructure will also help strengthen the financial system and help avoid market failures that could lead to debt crises. A stable, competitive, and inclusive financial system capable of providing affordable financial services supports economic growth, employment, and shared prosperity.

C. PDO-Level Results Indicators

31. **The Project Development Objective (PDO)-level results indicators are:** (a) number of approved guarantees for micro and small enterprises, of which women-led enterprises; (b) number of approved guarantees for medium-sized enterprises, of which women-led enterprises; (c) percentage of adult individuals covered by the credit registry; (d) number of firms covered by the credit registry; (e) amount of credit to MSMEs guaranteed; and (f) first-time MSMEs borrowers covered by the guarantee scheme, of which women-led enterprises.

32. **Intermediate indicators are:** (a) number of businesses supported with technical assistance, of which female-led enterprises; (b) depth of credit information index; (c) businesses satisfied with the technical assistance received under the project, of which female-led enterprises; and (d) percentage of beneficiaries that feel project activities reflected their needs (Citizen Engagement Indicator).

III. PROJECT DESCRIPTION

A. Project Components

33. **The proposed project will have the following four components:** (a) Partial Credit Guarantee Fund to Enhance MSME Finance; (b) Technical Assistance for MSMEs; (c) Improve Credit Information Systems; and (d) Project Implementation Support. These components would complement access to finance reforms

supported by the Competitiveness for Tourism Development Project (insolvency reforms and introduction of a framework for secured transactions). See annex 4 for more details of the Competitiveness for Tourism Development Project.

Component 1: Partial Credit Guarantee Fund to Enhance MSME Finance (SDR7.9 million equivalent to US$11.2 million)

34. **Under this component, the proposed project will finance activities to support the establishment and operationalization of a PCG fund to improve access to finance for MSMES**.[20] This will be achieved by, among other things, (a) preparation and development of a business plan, financial model, and operational policies and procedures for the PCG fund; (b) undertaking of outreach and communication activities targeting Participating Financial Institutions (PFIs) and MSMEs; (c) training to PFIs on accessing the credit guarantees; and (d) capitalization of the PCG fund. The scheme will apply the principles for PCG schemes.

35. **The PCG fund will be administered by an independent firm (Fund Manager) responsible for developing the business plan, financial model, operational policies, and procedures including the selection criteria for PFIs.** The Fund Manager will be selected through an international competitive bidding process. The Fund Manager will have a performance-based contract that will balance outreach and sustainability. The Project Steering Committee (PSC) will conduct oversight of the Fund Manager.

36. **The Fund Manager will select PFIs based on financial and prudential indicators and minimum performance ratios.** PFIs must maintain adequate prudential ratios relating to capital adequacy, asset quality, and liquidity to be considered eligible. Only PFIs licensed and supervised by the BCV will be eligible to participate. The selected PFIs should have and use internal environmental and social safeguards systems that comply with the national and World Bank environment and social policies. PFI selection will be subject to 'no-objection' by the World Bank.

37. **The Fund Manager will determine the conditions of operation, information requirements, and support systems for the PFIs.** The Fund Manager will develop actions to evaluate and measure the risk of guaranteed credits, exercise control on all operations arising from the administration of the PCG fund, ensure compliance with the regulations governing the PCG fund, study and propose regulatory and administrative changes that help optimize the use of the PCG fund, develop commercial dissemination functions, and train financial institutions and others to increase take up of the fund.[21] It will provide operational and commercial advice to PFIs in their use of guarantees for loans to MSMEs.

[20] MSMEs with annual sales of less than CVE 150 million (equivalent to about US$1.6 million), as defined by INE, in all sectors will be eligible to receive guarantees, if determined creditworthy by a PFI.

[21] The Fund Manager will sign umbrella contracts with each PFI, defining terms and conditions for individual guarantees. The Fund Manager will also approve a limit for each PFI for the total amount of guarantees for a certain period (for example, one year). The PFI would then decide which MSME loans will be covered by a guarantee, as long as the loan meets the eligibility criteria, and reflect this in each MSME loan contract. In this model, there is no individual certificate of guarantee, as the guarantee is reflected in each loan contract. The PFI submits a list of guaranteed MSME loans to the Fund Manager. Payouts are made on an individual basis (not on a portfolio basis).

38. **The Fund Manager will have the fiduciary responsibility of the guarantees financed by the PCG fund as a delegated management contractor and the Project Implementation Unit (PIU) will manage the balance of project funds and be responsible for overall financial reporting.** The Fund Manager's fiduciary obligations will be included in the performance-based contract. It will be responsible for setting up FM systems that meet World Bank requirements, preparing financial statements and accounts, signing of contracts with PFIs, managing systems and operational risks (for example, cash flow), and payment of claims. The PCG fund will be legally established with fiduciary and operational responsibility for administering credit guarantees and will have to comply with all World Bank fiduciary requirements to administer the funds. Operations will commence following the adoption of a legal framework (including approval and registration with the BCV as a financial institution) and a suitable management structure capable of administering the PCG fund. The World Bank has provided recommendations to the Government on the optimal legal, institutional, and financial structure of the PCG fund.

39. **Capitalization of the PCG fund will take place in two disbursements.** The first disbursement of US$5 million equivalent will take place upon the adoption of the following conditions: (a) establishment and licensing of the PCG fund, in a form and manner satisfactory to the World Bank, including in accordance with the applicable laws of Cabo Verde regulating the financial system and financial institutions; (b) execution of a subsidiary agreement between the Government and the Fund Manager, in form and substance satisfactory to the World Bank; (c) adoption by the recipient of corporate governance instruments and internal controls satisfactory to the World Bank; (d) selection of an external auditor for the PCG fund, with qualifications and under terms of reference satisfactory to the World Bank; and (e) adoption of operational guidelines by the PCG fund, including a business model and investment policy, in form and substance satisfactory to the World Bank. The second disbursement of US$5 million equivalent will take place upon signature of the first framework contract between the Fund Manager and at least one PFI.

40. **The total initial capital available for the PCG fund will be US$10 million, to be made available in two disbursements.** This capital will be deposited into a bank account identified by the PCG fund in accordance with the signed contract between the Ministry of Finance (MOF) and the PCG Fund Manager and the procedures established in the operational guidelines. It will accumulate interest and capital gains pending calls for payments on PCGs issued by the PCG fund to PFIs under the framework agreements. Capitalization of the PCG fund is necessary to provide confidence to the PFIs that the guarantees will be paid and to provide liquidity to manage operations. Upon completion of the project, it is expected that the capital deposited in the PCG fund account will continue to be used by the fund to provide credit guarantees to facilitate access to finance for MSMEs. The fund is designed to be financially sustainable over time.

Component 2: Technical Assistance for MSMEs (SDR2.2 million equivalent to US$3.1 million)

41. **Under this component, the project will finance activities to support MSMEs in generating and providing information to financial institutions supporting their loan applications, including the provision of accounting and auditing services and support for preparation of business plans and feasibility studies for new ventures.** This will include support for loan applications preparation in a clear and complete

manner, including higher quality of financial statements. Funds should target credit-constrained MSMEs. This component aims to benefit 500 MSMEs, of which half should be women-led enterprises. This component is critical to improve credit demand, as banks' current business model requires MSMEs to have proper accounting: according to a recent BCV study, 92.5 percent of businesses that received bank credit had organized accounting. Therefore, this component complements Component 1.

42. **This TA will be delivered by a professional service provider that will be selected through an international competitive bidding process.** The service provider will report to the PSC. It will finance standard consulting services on a first-come, first-served basis. The component benefits from knowledge developed in the World Bank for designing these programs, including in Cabo Verde. The project follows the findings of a 2016 Independent Evaluation Group (IEG) evaluation that highlighted the positive impacts of a World Bank project that supported a similar facility for TA services in Cabo Verde, which helped enhance the capacity of private operators (especially MSMEs). The service provider will partner with Government agencies with a mandate to support MSMEs and private sector stakeholders, including the accounting and auditing association, which can support the improvement of the financial statements for MSMEs, and the chambers of commerce, which have experience in this area.[22] The service provider will request feedback from financial institutions regarding the loan applications and share information with the PCG Fund Manager who will provide TA to PFIs.

43. **This component will help address market failures in Cabo Verde's MSMEs credit market, which suffers from risk aversion as financial institutions lack information to appraise MSME creditworthiness.** It will support utilization of the PCG fund and other credit enhancement mechanisms, which need to be complemented by improved financial reporting capacity of MSMEs, as well as better business and financial plans and models. Implementation of this component will involve the provision of professional accounting and auditing services to improve financial statements and will provide an incentive for MSMEs to formalize.

Component 3: Improve Credit Information Systems (SDR0.35 million equivalent to US$0.5 million)

44. **This component will support an upgrade and expansion of the coverage and depth of information contained in the central bank's credit registry, in line with the General Principles for Credit Reporting.**[23] It will also support measures to establish effective oversight of credit reporting systems, including of a system where the public registry complements the provision of credit information by private bureaus. The project will assist the recipient in producing more detailed data to better inform policy interventions to support access to finance by MSMEs. Specifically, the project will finance the following:

(a) Consulting services to the BCV to assess gaps in its existing registry and opportunities for upgrades, including by expanding data availability (for example, connecting with other databases, such as tax administration, social security, and customs, and by providing gender-disaggregated and geo-located data), improving the client interface, providing new value

[22] A Report on Observance of Standards and Codes on Accounting and Auditing was conducted in 2012 and contains recommendations to improve financial reporting.
[23] World Bank. 2011. *General Principles for Credit Reporting*. Washington, DC.

added services, and conducting workshops designed to build consensus on required actions to improve the credit reporting system in Cabo Verde

(b) Hardware and software development for the PCR, as identified by the needs assessment

(c) Consulting services to improve reporting templates for commercial banks for regular reporting of loans outstanding (by number and value) among corporates, households, and the public sector, and within its corporate category for MSMEs. This could also entail modifications to reporting requirements for microfinance institutions to capture the number and value of loans to MSMEs

(d) Consulting services for the design of an electronic database for collection and processing of economic and financial data of nonfinancial corporations (*Central de Balanços*) to enable a more efficient collection of financial statements to be used by the tax and statistical authorities

45. **Credit reporting systems are a crucial component of the financial infrastructure that promotes access to finance and financial stability.** Comprehensive and well-functioning credit reporting reduces information asymmetries, supports efficient credit allocation, and strengthens credit risk management. It enables lenders to make better credit decisions and the BCV to better supervise the financial system. The credit reporting system should be safe and efficient and fully supportive of data subject/consumer rights. It should be complemented by efforts to increase financial inclusion and the number of individuals and firms with access to credit.

46. **The main utilization of the PCR will be for BCV internal purposes.** This includes utilizing credit reporting data for micro and macroprudential supervision, monetary policy, statistics, trends, and risk management, particularly on large borrowers and significant banks. In practice, the PCR should be a data warehouse supplied by different sources among which the banks provide regular updates, allowing data extraction and dynamic reporting to any central bank department.

Component 4: Project Implementation Support (SDR0.15 million equivalent to US$0.2 million)

47. The project will cover the project implementation costs (that is, coordination, procurement, FM, and monitoring and evaluation [M&E]).

B. Project Cost and Financing

48. Table1 presents the total project costs and IDA financing (in US$, millions).

Table 1. Project Costs

Project Components	Project Cost	IDA Financing
Partial Credit Guarantee Fund to Enhance MSME Finance	11.2	11.2
Technical Assistance for MSMEs	3.1	3.1
Improve Credit Information Systems	0.5	0.5
Project Implementation Support	0.2	0.2
Total	15.0	15.0

C. Lessons Learned and Reflected in the Project Design

49. The World Bank Group has been active in supporting financial sector reforms in Cabo Verde, bringing lessons learned from several years of engagement. The World Bank Group supported the 2015 Financial Sector Development Strategy (FSDS), which focused on measures to increase MSME finance and established the analytical foundation for this project. The World Bank Group also prepared a technical note assessing the viability of the existing mutual guarantee scheme in Cabo Verde (Cabo Verde: PCG Scoping Report, 2016) and recommendations to improve its effectiveness, which also informed the design of this project (see annex 6). Subsequently, the World Bank Group has provided TA to the authorities on implementation of a national risk assessment of money laundering and terrorist financing vulnerabilities, in an effort to increase the integrity of the financial system.

50. **Lessons learned include the need for significant implementation support and extensive consultations with stakeholders.** This was undertaken as part of the extensive consultation process surrounding preparation of the FSDS and the subsequent PCG Scoping Report, which involved discussions with all financial institutions, chambers of commerce, professional associations, and civil society organizations, including youth and women groups as well as business associations. Preparation of the relevant environmental and social safeguard documents has followed a similar consultative approach, which has generated strong buy-in and support from key stakeholders.

51. **Another important lesson from other recently approved World Bank Projects in Cabo Verde is the importance of providing close implementation support and advancing key preparatory activities to mitigate institutional capacity constraints.** In this case, this involved approval, upon the Government's request, of a Project Preparation Advance for (a) a PCG demand survey and market assessment, and (b) a PCR gap assessment and diagnostics. The Government already started the recruitment of the PCG Fund Manager and has received expressions of interest from several candidates.

52. **The World Bank also has extensive experience in developing financial sectors and will help the Government to better design their planned interventions.** The design reflects good practices identified by the World Bank. The project will also follow the findings of a 2016 IEG evaluation that highlighted the

positive impacts of a World Bank project that supported a similar facility for TA services in Cabo Verde, which helped enhance the capacity of private operators (especially MSMEs).

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

53. **The MOF will oversee project implementation.** The Implementation of Special Projects Unit (*Unidade de Gestão de Projetos Especiais*, UGPE), the PIU within the MOF, will have responsibility for the day-to-day project management and coordination of project-related activities. This includes overall responsibility for, among other things, (a) ensuring timely implementation of the project in accordance with the Project Implementation Manual (PIM), (b) overseeing project activities under its direct responsibility and of project-related activities to be carried out by other entities, (c) managing project finances and maintaining consolidated project accounts, (d) developing and maintaining a system for monitoring the project performance indicators, and (e) preparing progress reports, including updates to the Results Framework, budgets, and Procurement Plan (PP). The adoption of a satisfactory PIM will be an effectiveness condition of the proposed credit.

54. **A Fund Manager, recruited on an internationally competitive basis, will manage the PCG fund and have the fiduciary responsibility for the first component.**

55. **To ensure proper coordination and supervision of the project, members of the Financial Reforms Committee chaired by the Minister of Finance will serve as the PSC, conduct oversight on project implementation, and provide overall policy guidance to the PIU and the Fund Manager.** In addition to the MOF, the committee includes representatives from the Ministry of Economy and Employment (MOEE), the BCV, and the private sector.

B. Results Monitoring and Evaluation

56. **The PIU will prepare progress reports with updated information for the Results Framework indicators, in form and substance acceptable to the World Bank, 30 days after the calendar quarter ends until midterm review and every 6 months thereafter.** Some of the data can be collected from the National Statistics Institute (Instituto Nacional de Estatística – INE) and BCV's regular data collection. The BCV is expected to collect financial sector data, including credit reporting levels, and its capacity for such collection is expected to be enhanced through the project. The managers of the PCG fund and of the TA program will share administrative data with the UGPE.

57. **The World Bank will conduct regular implementation support missions over the project lifetime to monitor and evaluate the achievement of the PDO and to discuss corrective actions with the**

Government as necessary. In addition, financial reports will be audited by independent auditors (financed under the project).

C. Sustainability

58. **Government institutions and systems to be supported by the project—the PCG fund and the credit registry—will continue operating after the project closes.** The TA program is expected to be discontinued after the project is completed as information sharing and understanding between banks and MSMEs will have improved as a result of the project.

59. **The PCG fund is designed to be financially sustainable.** The project is financing preparatory activities, including a market study and demand assessment and a legal and institutional framework for a PCG fund financed by guarantee fees and returns from financial investments, to ensure its financial viability and soundness. The Fund Manager will have a performance-based contract that will balance outreach and sustainability. However, international experience suggests the existence of trade-offs between outreach and sustainability of PCG schemes. The Government will likely require new capital contributions if it increases support to MSMEs with higher levels of risk (for example, start-ups).

60. **A risk-based model and business plan will determine pricing and adequate coverage ratios for the PCG fund.** A balance between incentives for lenders to expand lending to MSMEs while ensuring enough risk sharing to avoid moral hazard will be a fundamental operating principle. The PCG fund will be commercially oriented and privately managed, which creates market discipline.

61. **The BCV has financial autonomy to ensure funding for operational costs of the credit registry and is expected to finance part of the investment costs.** The credit registry will expand its role and become a source of information about systemic risks in the financial system and will further help the BCV in its role as financial supervisor.

D. Role of Partners

62. **To carry out its responsibilities and effectively implement the project, the PIU will work with several stakeholders,** including financial institutions, chambers of commerce, consultants, and accounting and auditing professionals.

63. **The choice of components complements ongoing World Bank Group projects and avoids duplication with other development partners.** Some partners have programs that support access to finance, particularly for MSMEs. The International Monetary Fund and the Bank of Portugal have been providing TA to the BCV for improving banking supervision. In capital market development, Euronext (through its Euronext Lisbon subsidiary) and the Cabo Verde Stock Exchange (*Bolsa de Valores de Cabo Verde*, BVC) signed in 2012 a cooperation protocol that aims to give the BVC access to a broader international pool of investors. The regulator (*Auditoria Geral de Mercados de Valores Mobiliários*) established cooperation protocols with counterpart institutions in Portugal and Angola. In the microfinance sector, some multilateral and bilateral organizations (for example, the African Development

Fund, a U.S. Government agency, and the Government of Luxembourg) have supported local microfinance institutions such as Morabi (Association for Woman Self Promotion).

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

Risk categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	High
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Low
9. Other	
Overall	Moderate

64. **The project's overall risk rating is Moderate.** Despite the small size of the project and the PIU's experience with World Bank projects, the Government has demonstrated limited capacity to carry out long-term programs particularly in the context of weak economic growth. The high risk of debt sustainability may bring negative spillovers to the financial sector and therefore to the sustainability of the PCG scheme. The key risks that can affect successful implementation of the project are outlined in the following paragraphs.

65. **Governance and political risk is Moderate.** In the absence of a return to growth, public support for the Government's reform agenda could weaken. The project includes legal and regulatory reforms for which consensus and legislative support is required. This risk is mitigated by the establishment of a PSC, which will guide the strategic direction of the project and provide a platform for achieving consensus on the necessary legal and regulatory reforms.

66. **Macroeconomic risk is High.** As the Government transitions from a public to private-financed growth model, it will rely on improvements in business sentiment to support growth. However, economic growth is fragile and vulnerable to shocks with limited fiscal capacity to respond. Weak economic growth could limit the demand for MSME credit as firms postpone investment decisions. The Government and SOE's reliance on bank credit to finance an already high level of public and public-guaranteed debt could crowd-out private sector financing, through credit rationing and higher interest rates. Macroeconomic imbalances could further reduce the risk appetite of financial institutions, which already face difficulties in managing credit risks and a legacy of asset quality issues. This risk is mitigated by the

macroeconomic reform program undertaken by the Government with support from its international development partners. The World Bank will continue close monitoring of Government borrowing levels and interest rates.

67. **The institutional capacity risk for implementation is Moderate.** The UGPE has experience implementing World Bank projects and is well-suited to coordinate a small number of technical agencies. This risk is mitigated by a well-equipped PIU, which reports to a representative PSC, and gets the assistance from external consultants. M&E arrangements are largely adequate, although reports may be produced with some delay.

68. **The fiduciary risk is Moderate**. The UGPE has the overall responsibility for the FM and procurement functions and has significant experience with World Bank-financed projects. The FM risk is Moderate. The UGPE's FM arrangements in place satisfy the World Bank's minimum requirements under the World Bank Policy and Directive on Investment Project Financing (IPF) effective from 2017.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

69. **Financial development is constrained by market failures, particularly information asymmetry, costly enforcement, and restricted risk pooling and participation.** Credit market conditions for MSMEs in Cabo Verde justify public interventions to encourage lending to this segment, considering the high levels of asymmetric information, high-risk perception, and lack of collateral. The improved PCG scheme and credit reporting system, complemented with TA to improve MSME's ability to share (and banks understand) information about their creditworthiness, can help promote access to finance by expanding the risk frontier for financial institutions.

70. **PCGs play an important role, especially in countries with weak institutional environments for lending, by improving the information available and reducing collateral requirements.** PCGs are market friendly as financial institutions maintain a primary role in the screening of borrowers and lending decisions. Well-designed PCGs facilitate financing to creditworthy borrowers who would otherwise have been denied credit (Additionality Type 1) and can contribute to improved loan terms and conditions for existing borrowers (Additionality Type 2).[24]

71. **Credit reporting systems have shown to help reduce borrowing costs.** The existence of publicly available information about credit history favors creditors' better understanding of borrowers,

[24] A recent (unpublished) impact evaluation of the Government of Chile's fund for guarantees to SMEs (The Guarantee Fund for Small Entrepreneurs—*El Fondo de Garantía para Pequeños Empresarios* [FOGAPE]) has shown positive impacts in the level of credit in MSMEs that benefited from the program. Ono et al (2016) showed that the Government of Japan's Emergency Credit Guarantee program significantly improved credit availability for firms using the program. (Ono, A., Uesugi, I., Yasuda, Y. 2016. *Are Lending Relationships Beneficial or Harmful for Public Credit Guarantees? Evidence from Japan's Emergency Credit Guarantee Program*. Journal of Financial Stability.)

particularly for new borrowers. This link is especially strong for positive information and several empirical studies have demonstrated that it allows for credit conditions with lower risk premium.

72. **The PCG scheme is expected to be financially sustainable during the next ten years and therefore the impact on the Government budget is likely to be minimal during this period.** The benefits include not only the expected revenues from the PCG scheme, but mainly the higher opportunities for growth that MSME borrowers will encounter and can translate into higher tax revenues. At project completion, the PCG scheme is expected to guarantee about 10 percent of the current MSME loan market, in line with the global average. However, international experience suggests the existence of trade-offs between outreach and sustainability of PCG schemes. The Government will likely require new capital contributions if it increases support to MSMEs with higher levels of risk. Overall, the project's estimated costs are those necessary to capitalize the PCG scheme, provide TA to MSMEs and PFIs, and strengthen the credit reporting system. Benefits are likely to exceed costs. See annex 5 for details.

B. Technical

73. **The project benefitted from the diagnostic study conducted for preparation of the Strategy for Increasing Access to Finance for MSMEs completed in 2015 and a PCG Scoping Report completed by the World Bank in 2016 (see annex 6 for key findings).** The diagnostic highlighted the need to build better financial infrastructure and credit information systems and to strengthen financial instruments for MSMEs.

74. **The design reflects good practices identified by the World Bank for establishing PCG schemes, TA programs for MSMEs, and credit reporting systems.** Uncertainty about the ultimate demand for guarantees could create a risk of low impact, but this will be mitigated by the World Bank's technical advice and the recruitment of a professional Fund Manager.

C. Financial Management

75. **The FM arrangements will be based on existing arrangements under the UGPE, which is implementing several ongoing projects.** These include the Competitiveness for Tourism Development Project (P146666), Recovery and Reform of the Electricity Sector Project (P115464), and Distributed Solar Energy Systems (SIDS DOCK) (P151979). Its FM capacity, developed under these projects, is adequate to meet the World Bank's requirements. The UGPE staff includes an experienced FM specialist and two accountants familiar with World Bank fiduciary procedures.

76. **The overall performance of the ongoing projects' management by the UGPE is Satisfactory.** Staffing has remained adequate and proper books of accounts and supporting documents have been kept for all expenditures. The UGPE is familiar with the World Bank's FM requirements. The interim unaudited financial reports (IUFRs) as well as the audited financial statements for the ongoing projects have been submitted on time and have been acceptable to IDA.

77. **To accommodate the project in the existing FM system and ensure adequate segregation of duties, the following measures should be taken three months after effectiveness:** (a) the update of the

existing PIM of the UGPE, including FM procedures; (b) the customization of the existing accounting software to include the bookkeeping of the project and generating IUFRs and financial statements; (c) the appointment of an additional accountant; and (d) the recruitment of an external auditor.

78. **A Fund Manager recruited through a competitive process will manage the PCG fund and have the fiduciary responsibility for the first component.** The Fund Manager will (a) elaborate and adopt operational lending guidelines for the PCG fund, and (b) establish corporate governance mechanisms including an oversight mechanism, a manual of administrative and financial procedures, and an accounting software for proper bookkeeping and financial reporting before the disbursement of the first tranche to the PCG fund. The Fund Manager will also submit to the World Bank the audited financial statements of the PCG fund not later than six months after the end of each fiscal year.

D. Procurement

79. **The borrower will carry out procurement for the proposed project in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers'** (Procurement Regulations) dated July 2016 under the New Procurement Framework (NPF), and the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006 and revised in January 2011, and other provisions stipulated in the Financing Agreement.

80. **The UGPE shall carry out the procurement under the project.** The UGPE has implemented several projects since its establishment in 1999 and has strong experience using World Bank procedures. However, this project will be implemented under the new Procurement Regulations and bring an additional workload on the team. There are risks of possible delays in project implementation and ineffective procurement that deliver poor results. The following measures are proposed to mitigate these risks and reduce their classification from Substantial to Moderate: (a) recruitment of a second Procurement Specialist who will share the workload; (b) update of the existing PIM to include the new provisions of the World Bank regulations; and (c) have an acceptable procurement filing system in place during project implementation.

81. **As part of the preparation of the project, the borrower prepared its Project Procurement Strategies for Development (PPSD) which describe how procurement activities will support project operations for the achievement of PDOs and deliver value for money.** The procurement strategies are linked to the project implementation strategy and the state levels ensuring proper sequencing of activities. They consider institutional arrangements for procurement; roles and responsibilities; thresholds, procurement methods, and prior review arrangements; and the requirements for carrying out procurement. They also include a detailed assessment and description of state government capacity for carrying out procurement and managing contract implementation, within an acceptable governance structure and accountability framework. Other issues considered include the behaviors, trends, and capabilities of the market (that is, market analysis) to respond to the PP.

82. **The procuring entity, the bidders, and service providers (that is, suppliers, contractors, and consultants) shall observe the highest standard of ethics during the procurement and execution of**

contracts financed under the project in accordance with paragraph 3.32 and Annex IV of the Procurement Regulations. Annex 2 provides a detailed description of procurement and institutional arrangements.

E. Social (including Safeguards)

83. **The project will not finance land acquisition leading to involuntary economic or physical displacement as the project activities to be financed are focused on MSMEs.** This will be reflected in the list of excluded subprojects included in the Environmental and Social Management Framework (ESMF) and PIM and by a rigorous screening process of potential subprojects. As a result, OP/BP 4.12 (Involuntary Resettlement) and OP/BP 4.10 (Indigenous People) will not be triggered. These restrictions will be the subject of a framework contract which will be signed by the Fund Manager and the PFIs at the time of commitment to obtain the credits. Gender considerations will be an integral aspect of project activities. Gender indicators will be used to monitor support to women-led enterprises.

F. Environment (including Safeguards)

84. **The project triggers OP/BP 4.01 (Environmental Assessment) and OP/BP 4.11 (Physical Cultural Resources) and is classified as category FI, given the potential negative environmental impacts associated with subprojects financed by the PCG fund, and the prevalence of tourism-related MSMEs in Cabo Verde who can potentially engage in activities that could negatively affect national heritage sites.**[25] The specific location of MSME activities to be financed under the project are not known at this time. Specific MSME activities to be financed through the PCG are expected to be largely related to small- and medium-scale projects in light manufacturing, trade, tourism, and, to a lesser extent, construction and real estate development. This will require environmental assessment to ensure that potential adverse effects are mitigated.

85. **The potential negative environmental and social negative impacts and risks of the proposed project are associated with the implementation of Component 1, which is designed to support a PCG fund to enhance MSME finance.** These are expected to be moderate to low, mostly site-specific and easily manageable to an acceptable level. No large-scale or irreversible adverse impacts and risks are expected.

86. **An ESMF was developed by the borrower and subject to public consultations.** The ESMF includes appropriate screening and standard mitigation measures to effectively manage the potential negative impacts. To ensure an efficient implementation of the ESMF, the project will finance tailored capacity support measures. The ESMF includes chance find guidelines for PFIs, if any chance finds occur during subproject implementation. The ESMF also includes a list of transactions that are not eligible for financing under the project.

87. **Cabo Verde has a regulatory and institutional framework that ensures the integration of environmental and social considerations at the project and program level.** The Ministry of Agriculture

[25] The project will not support any activity that would require usage of pesticides, and therefore OP 4.09 (Pest Management) is not triggered. This will be part of the environmental eligibility criteria for project-financed activities and will be reflected in the exclusion list of the ESMF and in the PIM.

and Environment is responsible for the enforcement of the environment assessment legislation and procedures, through the Directorate General for Environment, which is familiar with the World Bank safeguard policies requirements.

G. World Bank Grievance Redress

88. **Communities and individuals who believe that they are adversely affected by a World Bank supported Project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to World Bank Inspection Panel, please visit www.inspectionpanel.org.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : Cabo Verde
Access to Finance for Micro, Small and Medium-Sized Enterprises Project

Project Development Objectives

The objective of the Project is to increase access to finance to MSMEs.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Number of approved guarantees for micro and small enterprises		Number	0.00	1000.00	Annual	Project Report	Project Implementation Unit
of which women-led enterprises		Number	0.00	300.00	Annual	Project Report	Project Implementatio Unit
Description: The number of loans to micro and small enterprises that are guaranteed by the government-funded partial credit guarantee scheme, as of the end of the period. One enterprise can have more than one loan guaranteed by the scheme. Micro and small enterprises are defined according to the local legislation. Women-led enterprises are those in which women are in leadership positions and in control of that business, regardless of whether they own 51 percent of the company. Women-led captures the role of women founders in companies that are not majority owners but hold significant equity.							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Number of approved guarantees for medium-size enterprises		Number	0.00	100.00	Annual	Project report	Project Implementation Unit
of which women-led enterprises		Number	0.00	30.00	Annual	Project report	PIU
Description: The number of loans to medium-sized enterprises that are guaranteed by the government-funded partial credit guarantee scheme, as of the end of the period. One enterprise can have more than one loan guaranteed by the scheme. Medium-sized enterprises are defined according to the local legislation. Women-led enterprises are those in which women are in leadership positions and in control of that business, regardless of whether they own 51 percent of the company. Women-led captures the role of women founders in companies that are not majority owners but hold significant equity.							
Name: Percentage of adult individuals covered by the credit registry		Percentage	19.00	22.00	Annual	Credit registry database	Banco de Cabo Verde
Description: Reports the number of adults listed in the Banco de Cabo Verde credit registry's database as of the end of the period, with information on their borrowing history within the past five years. The number is expressed as a percentage of the adult population, as defined by the National Statistics Institute (Instituto Nacional de Estatística - INE).							
Name: Number of firms covered by the credit registry		Number	3205.00	4000.00	Annual	Credit registry database	Banco de Cabo Verde

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: Reports the number of firms listed in the Banco de Cabo Verde credit registry's database as of the end of the period with information on their borrowing history within the past five years.							
Name: Amount of credit to MSMEs guaranteed		Amount(USD)	0.00	20000000.00	Annual	Project Report	Project Implementation Unit
Description: The USD amount of loans to MSMEs that are guaranteed by the government-funded partial credit guarantee scheme, as of the end of the period. One enterprise can have more than one loan guaranteed by the scheme. MSMEs are defined according to the local legislation.							
Name: First-time MSMEs borrowers covered by the guarantee scheme		Number	0.00	250.00	Annual	Project report	PIU
of which women-led enterprises		Number	0.00	75.00	Annual	Project Report	Project Implementation Unit
Description: Reports the number of MSMEs that are guaranteed by the government-funded partial credit guarantee scheme as of the end of the period, that do not have a borrowing history within the past five years in the Banco de Cabo Verde's credit registry database. Women-led enterprises are those in which women are in leadership positions and in control of that business, regardless of whether they own 51 percent of the company. Women-led captures the role of women founders in companies that are not majority owners but hold significant equity.							

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Number of businesses supported with technical assistance		Number	0.00	100.00	Annual	Project report	Project Implementation Unit
of which female-led enterprises		Number	0.00	50.00	Annual	Project report	Project Implementation Unit

Description: The number of formal businesses that receive a technical assistance grant from the project. Women-led enterprises are those in which women are in leadership positions and in control of that business, regardless of whether they own 51 percent of the company. Women-led captures the role of women founders in companies that are not majority owners but hold significant equity.

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Depth of credit information index		Number	6.00	7.00	Annual	Doing Business Report	Project Implementation Unit

Description: The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through either a credit bureau or a credit registry. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a credit bureau or a credit registry, to facilitate lending decisions. A score of 1 is assigned for each of the following eight features of the credit bureau or credit registry (or both): i) Data on firms and individuals are distributed. ii)Both positive credit information (for example, original loan amounts, outstanding loan amounts and a pattern of on-time repayments) and negative information (for example, late payments and the number and amount of defaults) are distributed. iii) Data from retailers or utility companies are distributed in addition to data from financial institutions. iv) At least two years of historical data are distributed. Credit bureaus and registries that erase data on defaults as soon as they are repaid or distribute negative information more than 10 years after defaults are repaid receive a score of 0 for this component. v) Data on loan amounts below 1% of income per capita are distributed. vi) By law, borrowers have the right to access their data in the largest credit bureau or registry in the economy.

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Credit bureaus and registries that charge more than 1% of income per capita for borrowers to inspect their data receive a score of 0 for this component. vii) Banks and other financial institutions have online access to the credit information (for example, through a web interface, a system-to-system connection or both). viii) Bureau or registry credit scores are offered as a value added service to help banks and other financial institutions assess the creditworthiness of borrowers.							
Name: Businesses satisfied with the technical assistance received under the project		Percentage	0.00	75.00	Annual	Project report	PIU
Of which, female-led enterprises		Percentage	0.00	75.00	Annual	Project report	PIU
Description: Measures the percentage of businesses that received a technical assistance grant from the project and report being satisfied with the outcome of the assistance. The feedback from businesses is expected to be collected through a questionnaire at the end of the technical assistance to each business.							
Name: Percentage of beneficiaries that feel project activities reflected their needs (Citizen Engagement Indicator)		Percentage	0.00	75.00	Semi annual	Project Report	Project Implementation Unit
Description: A survey will measure the satisfaction of the Project's final beneficiaries regarding the activities implemented under the Project. During mid-term review and every year after that, the Project Implementation Unit (PIU) will organize surveys of different Project stakeholders/beneficiaries. Surveys will be organized considering the type of product/activity, the type of beneficiary, and geographical location. To measure the level of satisfaction amongst the beneficiaries, the PIU will develop a set of questions and other tools with the support of the WB team. Field visits and interviews in situ will also be considered. Moreover, the PIU will collect and evaluate any feedback/complaint received associated with the Project through the DBJ’s Grievance Redress Mechanism. The survey results will be discussed with PFIs with a view to inform the project implementation, as appropriate.							

Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Number of approved guarantees for micro and small enterprises	0.00	0.00	100.00	200.00	500.00	1000.00	1000.00
of which women-led enterprises	0.00	0.00	30.00	60.00	150.00	300.00	300.00
Number of approved guarantees for medium-size enterprises	0.00	0.00	10.00	20.00	50.00	100.00	100.00
of which women-led enterprises	0.00	0.00	3.00	6.00	15.00	30.00	30.00
Percentage of adult individuals covered by the credit registry	19.00	19.00	19.00	20.00	21.00	22.00	22.00
Number of firms covered by the credit registry	3205.00	3205.00	3350.00	3500.00	3650.00	4000.00	4000.00
Amount of credit to MSMEs guaranteed	0.00	0.00	2000000.00	4000000.00	10000000.00	20000000.00	20000000.00
First-time MSMEs borrowers covered by the guarantee scheme	0.00	0.00	25.00	50.00	125.00	250.00	250.00
of which women-led enterprises	0.00	0.00	7.00	14.00	35.00	75.00	75.00

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Number of businesses supported with technical assistance	0.00	0.00	10.00	20.00	50.00	100.00	100.00
of which female-led enterprises	0.00	0.00	5.00	10.00	25.00	50.00	50.00
Depth of credit information index	6.00	6.00	6.00	6.00	6.00	7.00	7.00
Businesses satisfied with the technical assistance received under the project	0.00	0.00	50.00	50.00	66.00	75.00	75.00
Of which, female-led enterprises	0.00	50.00	66.00	66.00	66.00	75.00	75.00
Percentage of beneficiaries that feel project activities reflected their needs (Citizen Engagement Indicator)	0.00	0.00	0.00	0.00	75.00	75.00	75.00

ANNEX 1: DETAILED PROJECT DESCRIPTION

1. **The proposed project will have the following four components:** (a) Partial Credit Guarantee Fund to Enhance MSME Finance; (b) Technical Assistance to MSMEs; (c) Improve Credit Information Systems; and (d) Project Implementation Support. These components would complement access to finance reforms supported by the Competitiveness for Tourism Development Project (insolvency reforms and introduction of a framework for secured transactions). See annex 4 for more details of the Competitiveness for Tourism Development Project.

Component 1: Partial Credit Guarantee Fund to Enhance MSME Finance (SDR7.9 million equivalent to US$11.2 million)

2. **Under this component, the project will finance activities related to the preparation and management of a new PCG fund to improve access to finance for MSMEs:** (a) development of a business plan, financial model, policies, and procedures for the operations of the PCG fund; (b) outreach and communication activities with PFIs and MSMEs; (c) training to PFIs in utilization of the PCG fund; and (d) capitalization of the PCG fund.

3. **The PCG fund will guarantee credits issued by PFIs to MSMEs that lack sufficient guarantees or assets to secure optimal financing on their own.** Beneficiaries of the PCG fund will be MSMEs defined as firms with annual sales up to CVE 150 million (about US$1.6 million).[26] The Fund Manager and PFIs should establish a procedure to verify eligibility based on sales of the companies.

4. **General requirements for MSMEs to access the PCG fund are:**

- Natural and juridical persons with legal personality and of a business nature;
- Viable businesses with payment capacity to be evaluated by each PFI; minimum credit history is not required to participate within the system;
- Diverse economic activities (evidence that prohibited activities [contained in environmental and social safeguard documents] are excluded); and
- Operation of MSMEs for at least two years (start-ups with less than two years of operations are eligible, but the guarantee will be capped at CVE 2.5 million).

5. **The criteria for eligible credits are:**

- **Purpose.** Investment and working capital; this can be credit in installments, leasing, factoring, letters of credit, bank guarantees, and so on;

[26] MSMEs with annual sales of less than CVE 150 million (equivalent to about US$ 1.6 million), as defined by the INE, in all sectors will be eligible to receive guarantees, if determined creditworthy by a PFI.

- **Term.** Maximum of ten years for the guarantee; credit may have longer term; and
- **Maximum credit amount (consolidated by MSME)**
    - CVE 20 million (US$215,000) for small- and micro-size companies, for a maximum coverage rate of 70 percent
    - CVE 40 million (US$430,000) for medium-size companies and exporters, for a maximum coverage rate of 50 percent

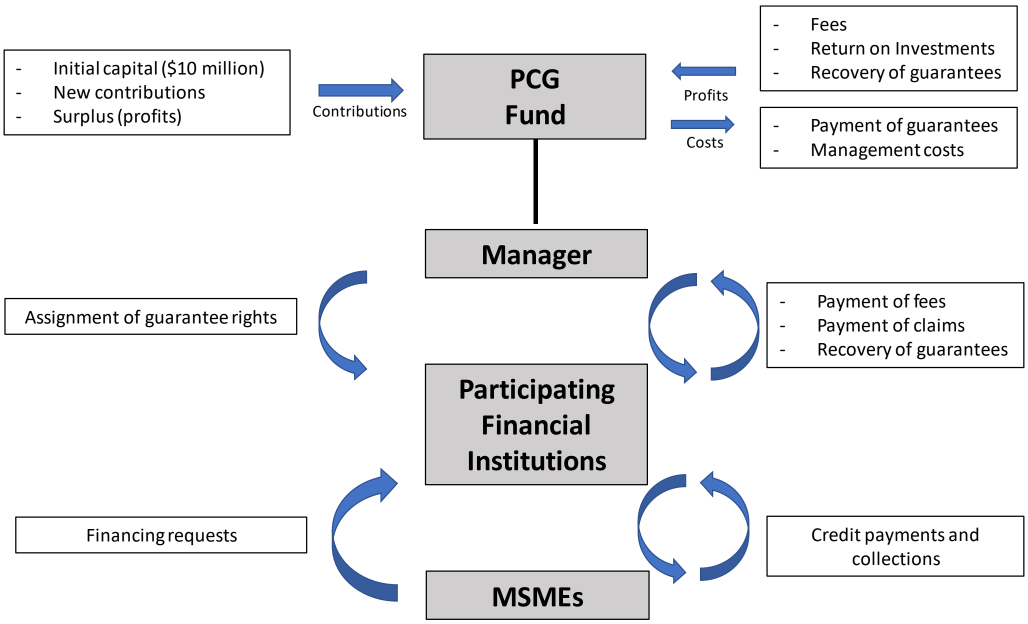
6. **The PCG fund will be created based on the principles discussed in the following sections.**

Credit Decisions will be Taken by the Participating Financial Institutions

7. **The business plan should be based on PFIs managing the selection and evaluation of MSME clients with responsibility to originate, evaluate, and decide credits that will be eligible to receive guarantees.** The PFI would automatically apply the agreed guarantee coverage once the conditions and requirements established in the participation agreement with the Fund Manager are fulfilled. This is possible because PFIs share the credit risk and therefore have the incentive to carry out an adequate credit risk analysis. The Fund Manager does not have direct contact with MSMEs or evaluates them. As a safeguard, the Fund Manager will carry out an automatic check of MSMEs with the information transmitted by the PFIs via the credit registry maintained at the BCV. This is done to avoid moral hazard and to prevent the PFI from sending dubious loans (nonperforming or at risk of going bad).

8. **The Fund Manager will select PFIs based on financial and prudential indicators and minimum performance ratios.** PFIs must maintain adequate prudential ratios relating to capital adequacy, asset quality, and liquidity to be considered eligible. Only PFIs licensed and supervised by the BCV will be eligible to participate. Selected PFIs should have and use internal environmental and social safeguards systems that comply with the national and World Bank's environment and social policies. PFI selection will be subject to 'no-objection' by the World Bank.

Figure 1.1. Credit Guarantee Fund Flow



9. **The Fund Manager will determine the conditions of operation with PFIs, and define information requirements and support systems for the institutions that utilize the fund.** The Fund Manager will sign umbrella contracts with each PFI, defining terms and conditions for individual guarantees. The Fund Manager would also approve a limit for each PFI for the total number of guarantees for a certain period (for example, one year). The PFI would then decide which MSME loans will be covered by a guarantee, as long as the loan meets the eligibility criteria, and reflect this in each MSME loan contract. In this model, there is no individual certificate of guarantee, as the guarantee is reflected in each loan contract. The PFI submits a list of guaranteed MSME loans to the Fund Manager. Payouts are made on an individual basis (not on a portfolio basis). The Fund Manager will provide legal, operational, and commercial advice to PFIs in their effort to serve MSMEs.

Scalability and Long-term Sustainability

10. **The business model should allow for mass use of guarantees in an efficient manner.** The allocation of credit guarantees could be made through the approval of guarantee lines to each PFI, against which PFIs can grant credits to MSMEs that are automatically guaranteed. The allocation of guarantees quota will be determined based on criteria established by the Fund Manager (for example, total assets of the PFI, credit portfolio, risk, and so on).

11. **The PCG fund must be self-sustaining over time.** The fees for the use of the guarantee should be equal to or greater than the claims or risk of the PCG fund, especially when the fund is highly leveraged as the risk increases exponentially. The business plan and financial model should contemplate measures to promote adequate management of the operators and limit participation for those financial institutions that do not comply with the desired results. This could include higher fees and lower coverage levels for

PFIs with weaker credit risk management practices. The Fund Manager should have the ability to apply differentiated risk-based fees or limit/exclude access to the guarantee for financial institutions in breach of legal, regulatory, or contractual provisions.

12. **The Fund Manager will define strategies, operational policies, and action plans with the purpose of promoting the use of the resources of the PCG fund, including new regulatory and administrative changes, commercial dissemination, and training of PFIs, MSMEs, and others.** The business plan should contain the following chapters, or equivalent: (a) technical operations (fees, reporting, accounting, auditing, capital management, risk management, and so on); (b) administration (staff composition, management information system (MIS)/IT systems, policies and procedures, and bylaws); (c) governance structure (board) and responsibilities and regulatory requirements; (d) matrix of guarantees (by targeted segment, coverage, and fees); (e) financial plan (capital management, revenue generation strategy, funding plan, fee structure, and budgeting); (f) performance monitoring; (g) financial projections (long-term assessment of sustainability and viability); and (h) five-year roadmap.

Risk-based Management

13. **The Fund Manager will evaluate and measure the risk of guaranteed credits, exercise control actions on all operations arising from the administration of the PCG fund, and ensure compliance with the regulations governing the PCG fund.** Appropriate monitoring and control mechanisms will be established, including the appointment of an external auditor, internal comptroller, and compliance department and risk classification by external rating agencies, if available. Periodic reports should be prepared by the Fund Manager, and sent to the MOF as approved by the PSC. The PCG fund should have an MIS to facilitate the process of granting the guarantees and to manage and receive the information of the credit operations guaranteed and sent by the PFIs.

14. **The PCG fund covers a percentage of the outstanding loan balance at the moment of default.** The use of funds and debtor eligibility must be verified, either at the moment of granting the credit or when requiring the payment of the guarantee. An online information (or batch) system properly networked with PFIs is fundamental for the exchange of relevant information. The PCG fund will pay guarantees at request of the PFI, after commencement of judicial proceedings and notification of the debtor. The PCG fund's rights are subrogated, that is, if the PFI recovers all or part of the loan, the PCG fund will be entitled to a pro rata recovery. The creditor is normally allowed to deduct its collection costs and the interest on the debt. Surplus is distributed to pay the loan principal and guarantee.

15. **Fees will be risk-based and are not expected to exceed 4 percent of the guaranteed amount per year.** High fees will not be accepted by PFIs, except for small loans where rates tend to be higher to mitigate risks. The central scenario projects fees at 2.75 percent for loans with up to 50 percent of guarantee coverage and 3.5 percent for loans with up to 70 percent of guarantee coverage. Coverage levels could range from up to 50 percent for medium-size enterprises to 70 percent for micro and small enterprises. The fund will be responsible for differentiating PFIs by the level of risk.

16. **The PFI will screen loan applications for environment and social impacts and alignment with national policies and regulations.** The PFI will integrate PCG requirements of environmentally sustainable and socially sound development, in line with the ESMF that has been prepared. The Fund Manager will do a periodic control (quarterly, during the first year; every six months from thereon), by sampling, to confirm that the credit operations are in line with safeguards best practices.

Communication, Partnerships, and Training

17. **A marketing and communications strategy for the PCG fund will be developed.** Workshops will be held with lenders to raise awareness of the benefits and functions of the new PCG fund. The Fund Manager will conduct an assessment of the training needs of PFIs, and prepare training workshops on the new products, features, and policies and procedures, and a training plan.

Legal and Implementation Arrangements

18. **The PCG fund will be established under the applicable laws of Cabo Verde, namely Law 61/VIII/2014 and Law 62/VIII/2014, which set out the legal basis for the financial system and regulate financial institutions, respectively.** This institution—the PCG fund—will have separate legal personality as a Public Company (*Sociedade Anónima*), be licensed as a financial institution, and be supervised by the BCV. Upon being licensed to operate as a financial institution, the PCG fund will be allowed to issue PCGs. The GoCV is preparing the necessary legal instruments (a decree law and the articles of incorporation) to establish such an institution.

19. **The initial capital of the fund will be determined on the basis of the feasibility study conducted as part of the preparatory activities for the project.** Based on existing analytical work, the required initial capital amount is estimated to be around US$10 million for the fund to reach 10 percent of the MSME credit market. The proposed initial leverage maximum is five times the total capital, notwithstanding the provision for expected losses.

20. **The PCG fund will be administered by an independent Fund Manager, selected through an international competitive bidding process**. The Fund Manager will have a performance-based contract that will balance outreach and sustainability. The PSC will provide overall guidance and oversight of project implementation.

21. **The Fund Manager will manage the fiduciary aspects related to application of guarantees financed by the PCG fund.** The Fund Manager will be responsible for setting up FM systems that meet World Bank requirements, preparing financial statements and accounts, signing of contracts with PFIs, managing systems and operational risks (for example, cash flow), and payment of claims. The PCG fund will be legally established with fiduciary and operational responsibility for administering credit guarantees and will have to comply with all World Bank fiduciary requirements to administer the funds. Guarantee issuance will commence following the adoption of a legal framework and management structure capable of administering the operational and the fiduciary functions of the fund. The World Bank has provided recommendations to the Government on the legal, institutional, and financial structure of the PCG fund,

including on the need for it to be licensed by the central bank and have a corporate governance structure overseen by a board of directors. The PCG fund will be codified in a decree law being prepared by the MOF.[27] While maintaining sufficient liquidity to manage claim payouts, the PCG fund will also be responsible for investing its capital in a prudent manner in low risk and highly liquid assets. An investment policy will be prepared outlining the general rules for the Fund Manager. It will describe the general investment goals and objectives and outline the strategies employed to meet these objectives.

22. **Capitalization of the PCG fund will take place in two disbursements.** The first disbursement of US$5 million equivalent will take place upon the adoption of the following conditions:

(a) Establishment and licensing of the PCG fund, in a form and manner satisfactory to the World Bank, including in accordance with the applicable laws of Cabo Verde regulating the financial system and financial institutions

(b) Execution of a subsidiary agreement between the Government and the Fund Manager, in form and substance satisfactory to the World Bank

(c) Adoption by the recipient of corporate governance instruments and internal controls satisfactory to the World Bank

(d) Selection of an external auditor for the PCG fund, with qualifications and under terms of reference satisfactory to the World Bank

(e) Adoption by the PCG fund of operational guidelines, including a business model, and investment policy, in form and substance satisfactory to the World Bank

23. **The second disbursement of US$5 million equivalent will take place upon signature of the first framework contract between the Fund Manager and at least one PFI.**

24. **The PCG fund incorporates several differences from the existing mutual guarantee system provided by CVGarante.** See table 1.1.

Table 1.1. Comparison between CVGarante and New PCG Fund

Characteristic	CVGarante	PCG Fund
Eligibility criteria for loans and end-beneficiaries (MSMEs)	Private MSMEs, that is, businesses of up to 50 workers and up to CVE 150 million in annual revenues	Private MSMEs with up to CVE 150 million in annual revenues
Eligibility criteria for partner financial institutions (PFIs)	Inexistent	Licensed financial institutions that are supervised by the BCV and have internal systems that comply

[27] The PCG fund's mandate should be codified in legislation, including the target market and any other service delivered by the fund. This helps to ensure its credibility and reputation to market participants and related stakeholders. It also leads to the formulation of long-term strategies and plans for all relevant actors, aimed at achieving the defined objectives, without intervention of third parties.

Characteristic	CVGarante	PCG Fund
		with the national and World Bank's environment and social policies.
Visibility to the end-beneficiary	Visible	Invisible.
Credit appraisal process	In addition to the PFI's credit appraisal, CVGarante conducts its own credit appraisal. CVGarante can also initiate the credit appraisal process	Credit appraisal is solely conducted by PFI
Coverage ratio	Typically, 50% (but could go up to 90% for start-ups)	Up to 70% and based on size (to be defined in the regulations)
Guarantee price	End-beneficiary pays a guarantee fee to CVGarante of up to 2.5%. In addition, the end-beneficiary is required to buy shares in CVGarante of at least 3% of the guarantee amount (after the guarantee is extinguished, the end-beneficiary can sell the shares at the nominal value)	Commission fee to be defined by the Fund Manager in negotiation with PFIs and based on actuarial principles (current and past level of defaults) but not higher than 4%. Fee is paid by the PFI (which is likely to charge it to the end beneficiary)
Maximum loan amount covered by a guarantee	CVE 5 million	CVE 40 million
Maximum exposure per MSME	Inexistent	CVE 40 million
Maximum tenor for the guarantee	7 years	10 years
Initial capital	CVE 100 million	Equivalent to US$10 million (~ CVE 920 million)
Maximum leverage	Undefined	5:1

Component 2: Technical Assistance for MSMEs (SDR2.2 million equivalent to US$3.1 million)

25. **The project is expected to provide TA to MSMEs in their loan applications to financial institutions.** The project will finance the costs of consulting services to improve MSMEs' ability to generate and share loan applications as well as business and financial information with financial institutions in a clear and complete manner.[28] This will be achieved by (a) information systems that provide data for credit assessment (for example, electronic invoicing systems, incentives for firms to make transactions through deposit accounts to help financial institutions monitor cash flows);[29] (b) preparation and/or improvement of quality of financial statements; and (c) preparation and/or improvement of business plans/models and feasibility studies for new ventures. Grant support should not exceed US$5,000 per beneficiary and should be matched by at least the same amount from the beneficiary.

26. **Business consulting services will be open to all registered and privately owned MSMEs that do not have credit from a licensed financial institution.**[30] If appropriate, eligibility for financing of business

[28] Group-based training is not optimal for preparing MSMEs for applying for and managing a new loan commitment.
[29] New electronic invoicing providers such as Invoicely or Tradeshift allow MSME suppliers to issue and exchange electronic invoices with their buyers for free and without the need for supporting paper trails.
[30] MSMEs defined as those with annual revenues below CVE 150 million (US$1.6 million) will be required to present their records at the credit registry/bureau to confirm they have not received credit from a formal financial institution.

plans, financial plans, and feasibility studies could require the MSME to have its financial statements certified by a licensed accountant or by an external auditor, in cases of loan applications of more than CVE 15 million (US$160,000).

27. **Selection will be based on a first-come, first-served basis.** Alternatively, in case the existing supply of consulting services cannot meet the demand on time, the selection could be done through time-bound application windows.[31] Women-led businesses will be given priority. The project will provide incentives for equity partnerships among entrepreneurs to ensure business capitalization meets the standards of financial institutions in Cabo Verde.

28. **This component will be supported by an outreach and marketing strategy to encourage applications to TA and raise awareness about the importance of good credit repayment history, to induce better standards of credit repayment in the population.** The project will partner with local organizations such as rural associations and cooperatives to increase outreach. The aim is to make it easy for firms that meet the eligibility criteria to find out about the funds, apply without undue burden, and promptly receive the financial support. To improve transparency, the selection results will be displayed online.

29. **The recipient, through the PIU, will issue an international tender to recruit a specialized entity to manage the TA component and ensure it is professionally managed (the Business Service Provider).** The Business Service Provider will have a track record in delivering this type of TA to the private sector to ensure quality of service providers and that prices are in line with market realities. The Business Service Provider will report to the PSC. The operating costs of managing the component are not expected to exceed 10–15 percent of the total funding, including any success fee based on how many MSMEs that received TA were able to access credit from a licensed financial institution. The Business Service Provider will partner with Government agencies with a mandate to support MSMEs and private sector stakeholders, including the chambers of commerce, and professional associations with relevant knowledge and experience in this area.

30. **The Business Service Provider will prepare a manual for processes and forms/templates used for funding application, disbursement, FM, procurement, and audit.** The Business Service Provider will have procedures in place to monitor and evaluate each aspect of this component. This includes criteria for assessment of the competencies of consulting service providers; large-scale studies and continuous research on MSME needs and trends; and rigorous impact assessment of the use of public funds.[32] The Business Service Provider will request feedback from financial institutions regarding the loan applications and share information with the PCG Fund Manager that will provide TA to PFIs.

[31] In case of more demand than the project can fund in each round, beneficiaries could be randomly selected to provide a fair and equitable way of ensuring that all eligible firms receive an equal chance of benefitting from these public funds.
[32] This type of program based on rounds and oversubscription is amenable to a randomized evaluation. Other impact evaluation techniques such as propensity-score matching or regression discontinuity design using a score threshold are more amenable to a competitive selection modality.

31. **This component will also finance activities to strengthen the accounting and auditing professions in Cabo Verde.** This could entail support in the provision of innovative financial solutions (financial technology) to companies that want to experiment with digital financial services.

Component 3. Improve Credit Information Systems (SDR0.35million equivalent to US$0.5 million)

32. **This component will finance goods and services to upgrade and expand the coverage and depth of the PCR.** The BCV, in line with the General Principles for Credit Reporting, has undertaken an initial diagnostic to enhance its oversight of credit reporting systems, including of a system where a credit registry operates in cooperation with credit bureaus. The project will finance a detailed gap assessment of measures needed to produce better data to inform credit decisions, support supervisory efforts, and tailor policy interventions to support access to finance by MSMEs.

33. **Based on a 2015 in-house diagnostic, the BCV has adopted a plan for implementation of necessary enhancements to the regulatory framework that supports the credit registry and to improve the IT architecture and software.** The diagnostic and implementation plan are expected to benefit from suggestions and comments by an international expert in credit registries financed under the proposed project. The BCV is also recruiting a full-time IT staff for its credit registry, which currently does not have any full-time IT staff (only contractors). In addition to commercial banks, the BCV aims to expand the credit registry to other licensed financial institutions, such as microfinance institutions. Amendments to the regulations on the credit registry are expected to provide incentives for timely submission of data by all financial institutions.

34. **The BCV aims to establish protocols for exchange of credit information with other entities.** Potential data providers include the tax administration, the social security administration, the customs administration, the statistics authorities, and the Bank of Portugal, among others. The registry will support the BCV in the implementation of its 'forward-looking approach' as supervisor to prevent systemic risks in credit markets (for example, by producing information about levels of credit concentration, credit reclassification, and dynamics in asset quality). Basel II and Basel III, plus all other requirements that a central bank must fulfill cannot be accomplished without a fully automated, complete PCR that shifts from 'damage control' through on-site supervision to 'prevention' via off-site supervision utilizing the data contained in a modern PCR.

35. **The GoCV is introducing a new system for identification of borrowers.** This will involve standardized, generalized, and unequivocal identification system for citizens of Cabo Verde, through the Citizen Card (*Cartão do Cidadão*). The Ministry of Justice indicated it was starting delivery of the first citizen cards in June 2017. The cards include biometrics features and will help avoid problems of double identity currently faced by the credit registry and that require human intervention and is therefore subject to errors.

36. **The project will also support the design of an electronic database for collection and processing of economic and financial data of non-financial corporations (*Central de Balanços*).** This support will be

based on a detailed feasibility study, conducted as part of the project, and will enable a more efficient collection of financial statements to be used by the tax and statistical authorities.

Component 4: Project Implementation Support (SDR0.15 equivalent to US$0.2 million)

37. This component will cover the project implementation costs (that is, coordination, procurement, FM, and M&E).

ANNEX 2: IMPLEMENTATION ARRANGEMENTS

Project Institutional and Implementation Arrangements

1. **The MOF is the implementing agency for this project.** A PIU known as the UGPE, within the MOF, will be responsible for implementing the project with overall fiduciary responsibility. The UGPE will coordinate, implement, supervise, finalize, and document all the activities related to the project.

2. **The responsibilities of the PIU will include,** among others, (a) managing the implementation of project activities; (b) managing the procurement, FM, disbursements, and safeguards aspects; (c) coordinating the preparation, adjustments, and use of the project management tools, including the PIM, annual working plan, PP, and disbursement projections; (d) coordinating with key stakeholders on the technical aspects of all the components; (e) monitoring the progress of the PDO and intermediate results indicators of the Results Framework; (f) preparing project reports; and (g) acting as the main point of contact for the World Bank. The PIM shall be prepared by the borrower and agreed with the World Bank before the project effectiveness date. The adoption of a satisfactory PIM will be an effectiveness condition of the proposed credit.

3. **The PIU is staffed with qualified personnel for the implementation of the project.** The current team comprises one coordinator, two accountants, one procurement officer, one project assistant, one administrative officer, and one FM specialist. In addition, the PIU will recruit an additional full-time procurement officer (or procurement assistant) to increase procurement capacity. A technical team from MOF and other key stakeholders, such as the BCV and the MOEE will provide technical support to the PIU, including the review and approval of relevant goods and services delivered as part of the activities financed by the project.

4. **Members of the Financial Reforms Committee chaired by the Minister of Finance will serve as the PSC and will provide strategic direction to the PIU on project implementation.** The PSC will meet periodically to track and monitor the progress of the project. It is integrated by representatives of the MOF, MOEE, and BCV and will be described in detail in the PIM.

PCG Fund Management

5. **The project will finance the selection of an independent firm to manage the PCG fund (Fund Manager).** The Fund Manager will comprise specialized professionals with experience in commercial banking and MSME financing and other skills, diverse enough to fully cover activities undertaken by the PCG fund (relationship with PFIs, credit risk evaluation, IT systems, control, management and operations, marketing, communications, comptroller, legal, and so on). The Fund Manager will also be responsible for noncommercial functions (for example, accounting, finance, legal, environmental and social safeguards, and so on).

6. **The Fund Manager will have the authority to choose the skills mix and staffing it requires.** The Fund Manager will be responsible for proposing to the PCG fund's governing body an efficient

organizational structure. In general terms, the Fund Manager team will comprise an administrator and a group of professionals who perform the most important tasks and are essential in the PCG fund business model (for example, credit risk evaluation, relations with commercial banks, etc.).

7. **The main functions to be developed by the Fund Manager are:**

- Design the operational framework (regulations) for the PCG fund, which should specify all operational rules and requirements for the fund to perform its functions and meet its objectives;
- Submit a complete application for a license to operate from the BCV, and any related tasks required to ensure issuance of a license by the BCV;
- Establish appropriate monitoring and control mechanisms, including the appointment of an external auditor, internal comptroller, and compliance unit;
- Manage the PCG fund and represent it legally;
- Select eligible financial institutions and determine the conditions of operation with them;
- Define information requirements and support systems for the PFIs that operate with the PCG fund;
- Set up an MIS to facilitate the process of granting the guarantees and to manage and receive (in near real-time) the information sent by the PFIs about the credit operations guaranteed by the PCG fund;
- Coordinate actions with institutions that relate to the PCG fund;
- Develop actions to evaluate and measure the risk of guaranteed credits;
- Exercise control actions on all operations arising from the administration of the PCG fund, including verification of eligibility of claim and use of funds;
- Ensure compliance with the regulations governing the PCG fund;
- Study and propose regulatory and administrative changes that help optimize the use of the PCG fund;
- Develop commercial dissemination functions and train PFIs and others;
- Provide operational and commercial advice to PFIs in their effort to use guarantees for MSME loans;

- Prepare semiannual operational and financial reports for submission to the MOF; and
- Design and implement a knowledge transfer program to any future manager of the PCG fund on key aspects of the PCG fund's operations.

8. **The operations will be based in Cabo Verde, that is, key experts will be based in Cabo Verde for the duration of the assignment.** The assignment will be for three years from the start date, expected to be in the second quarter of 2018, with a provision for annual assessment of the Fund Manager's performance by the PCG fund's governing body. If the Fund Manager's performance is found unsatisfactory, the contract will be discontinued. The Fund Manager will receive an advance payment of 15 percent of the contract to support expenditures related to the establishment of the PCG fund. From thereon, the Fund Manager will receive monthly lump sum contract payments, upon submission of monthly reports.

Financial Management

9. **The UGPE's FM arrangements in place satisfy the World Bank's minimum requirements.** The Government will rely on the existing FM system for the implementation of the project. The UGPE has FM staff comprising an experienced FM specialist and two accountants familiar with World Bank fiduciary procedures. To accommodate the project in the existing FM system and ensure an adequate segregation of duties, the following measures should be taken three months after effectiveness: (a) update of the existing PIM of the UGPE including FM procedures; (b) customization of the existing accounting software to include the bookkeeping of the project and generating IUFRs and financial statements; (c) appointment of an additional accountant; and (d) recruitment of an external auditor.

10. **A Fund Manager recruited on an internationally competitive basis will manage the PCG fund and has the fiduciary responsibility of the first component.** The Fund Manager will (a) elaborate and adopt operational lending guidelines for the PCG fund and (b) establish corporate governance mechanisms including an oversight mechanism, a manual of administrative and financial procedures, and an accounting software for proper bookkeeping and financial reporting before the disbursement of the first tranche to the PCG fund. The Fund Manager will also submit to the World Bank the audited financial statements of the fund not later than six months after the end of each fiscal year.

Budgeting

11. **A budget for the entire life of the project (master budget) will be prepared by the UGPE, in consultation with other technical agencies.** Annual budgets will be derived from this master budget and will be updated as needed to reflect implementation progress. The UGPE will prepare a detailed annual work plan and a budget, which should be approved by the Financial Reform Committee. The UGPE will submit the approved annual work plan and budget to the World Bank, for no-objection, before the end of the previous calendar year.

Internal Controls

12. **The daily operations of the project will be guided by the PIM, which will incorporate the FM procedures and the specificities of the project including the management of the PCG fund.** The manual will be updated throughout the life of the project as needed to reflect the current procedures. The UGPE has a well-established control environment and has adequate processes and procedures in place to implement project activities.

Financial Reporting and Monitoring

13. **Unaudited financial reports and annual financial statements will be required during project implementation.** The MOF will be required to prepare consolidated IUFRs, which will cover each calendar quarter and will be due within 45 days of each quarter end. The UGPE will be responsible for the timely preparation of annual project financial statements. It will produce annual project financial statements, which will comply with Cabo Verde accounting standards and World Bank requirements. Financial statements may comprise:

- Project presentation and project developments and progress during the year, to provide context to (or other explanations of) financial information reported;
- Statement of sources and uses of funds which recognizes all cash receipts, cash payments, and cash balances;
- A statement of commitments;
- Accounting policies adopted and explanatory notes; and
- A management assertion that project funds have been expended for the intended purposes as specified in the relevant financing agreements.

Auditing

14. **The UGPE will submit audited project financial statements satisfactory to the World Bank every year within six months after closure of the fiscal year.** A single opinion on the audited financial statements in compliance with the International Federation of Accountants will be required. In addition, a Management Letter will be required. The Management Letter will contain auditor observations and comments and recommendations for improvements in accounting records, systems, controls, and compliance with financial covenants in the Financial Agreement. The UGPE should recruit a technically competent and independent auditor by six months after the project effective date. The audited financial statements and the Management Letter of the PCG fund once established and effective will be submitted to the World Bank no later than three months after the end of each fiscal year.

Table 2.1. Audit Report Requirements

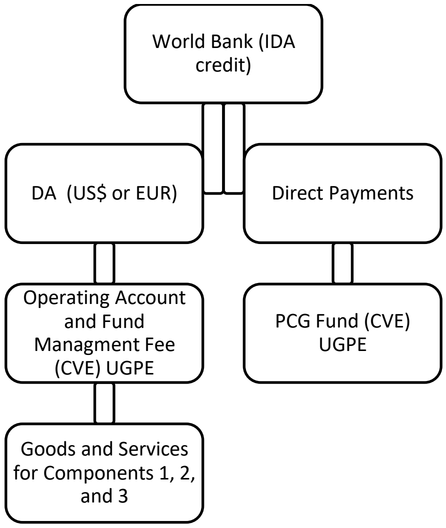
Auditing	Deadline	Responsible
Audited financial statements including audit report and Management Letter of the project	6 months after the end of the year	UGPE
Audited financial statements and Management Letter of the PCG fund	6 months after the end of the year	Fund Manager

Disbursements

15. **The following disbursement methods will be available: advance, reimbursement, and direct payment.** Disbursements will be primarily based on the use of advances. The World Bank will disburse loan proceeds to the MOF into a Designated Account (DA), denominated in U.S. dollars or Euros, maintained at the BCV. Direct payments will be used for the capitalization of the PCG fund once the disbursement conditions are met and banking details are provided for the PCG fund bank account in accordance with the signed contract between the MOF and the PCG Fund Manager and the procedures established in the operational guidelines. The first disbursement, equivalent to US$5 million, will take place upon completion of the operational manuals and guidelines required to initiate operations of the fund. Provision of this initial capital is necessary for the PCG fund to negotiate framework agreements with PFIs. Past experience has shown that private commercial banks are reluctant to negotiate PFI framework agreements with PCG funds until the initial capital is contributed. The second disbursement, equivalent to an additional US$5 million, will take place upon signature of the first PFI framework agreement and will complete the capitalization of the PCG fund. These are necessary conditions for the fund to commence operations and, cumulatively, represent two-thirds of total resources available for this operation. Implementation of the project components designed to provide TA to MSMEs and improve the functioning of credit information systems are necessary to generate a pipeline of viable credit applications for PFIs to consider for financing with partial guarantees. As a result, the project will begin disbursing funds to support implementation of those components while the conditions for capitalization of the PCG fund are being met.

16. **Funds will be transferred from the DA to a correspondent local currency project account in the name of the UGPE established at a bank.** Reporting on the transfers from the DAs and use of funds must be done in the same currency as that of the DA. The exchange rate in effect on the date funds were transferred out of the DA to the UGPE account should be used for all reporting purposes. Any foreign exchange losses arising from such transfers to accounts in other currencies are not eligible to be financed. The financing agreement ensures that after project completion, the resources will continue to be utilized for their intended purpose.

Figure 2.1. Fund Flow Arrangements



17. **Disbursements will be report-based.** Advances will be provided to the DA based on six-months forecast and subsequently, quarterly IUFRs will be used for documentation of eligible expenditures. Direct payments to the World Bank account of the PCG fund will be submitted by the UGPE once the disbursement conditions are met for each disbursement. The direct payments will be deposited in a bank account identified by the PCG fund. The funds can only be used to pay out guarantees or to generate returns according to the PCG fund's investment policy, which will be prepared outlining the general rules for the Fund Manager and will describe the general investment goals and objectives and outline the strategies employed to meet these objectives. Overall disbursement arrangements will follow standard disbursement policies and procedures established in the Disbursement Guidelines for Investment Project Financing dated February 2017, and in the Disbursement Letter of the project.

18. **The project will comply with the World Bank disclosure policy of audit reports and place the information provided on the official website within one month of the report being accepted as final by the team.**

Procurement

19. **The borrower will carry out procurement under the proposed project in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers'** (Procurement Regulations) dated July 2016 under the NPF, and the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006 and revised in January 2011, and other provisions stipulated in the Financing Agreement.

20. **The procuring entity, the bidders, and service providers (that is, suppliers, contractors, and consultants) shall observe the highest standard of ethics during the procurement and execution of contracts financed under the project in accordance with paragraph 3.32 and Annex IV of the Procurement Regulations.**

21. **The borrower shall prepare and submit to the World Bank a General Procurement Notice (GPN) and the World Bank will arrange for publication of the GPN in United Nations Development Business (UNDB) online and on the World Bank's external website.** The borrowers may also publish it in at least one national newspaper.

22. **The borrower shall publish the Specific Procurement Notices (SPNs) for all goods, non-consulting services, and the Requests for Expressions of Interest on their free-access websites, if available, and in at least one newspaper of national circulation in the borrower's country, and in the official gazette.** For open international procurement selection of consultants using an international shortlist, the borrower shall also publish the SPN in UNDB online and, if possible, in an international newspaper of wide circulation; the World Bank arranges for the simultaneous publication of the SPN on its external website.

Institutional Arrangements for Procurement

23. **Procurement Risk Assessment.** An assessment was realized in August 2017 by the procurement specialist. The UGPE has implemented several development projects since being established in 1999. It is implementing the ongoing IDA credit for Competitiveness for Tourism Development Project (P146666), the IBRD loan for Recovery and Reform of the Electricity Sector Project (P115464), and the SIDS DOCK Grant for Distributed Solar Energy System Project (P151979), with adequate fiduciary arrangements. The staff has acceptable background in World Bank procedures and the use of the World Bank's Standard Bidding Documents. However, this operation will be implemented under the new Procurement Regulations. The project will also bring an additional workload that needs to be managed. There are risks of delays in project implementation and improper procurement that delivers poor results. The overall procurement risk without mitigation measures has been assessed to be Moderate.

24. **Mitigation measures.** The following measures are proposed to mitigate these risks and reduce their classification from Moderate to Low: (a) recruitment of a second procurement specialist who will share the workload; (b) update the existing PIM to include the new provisions of the World Bank regulations; and (c) have an acceptable procurement filing system in place during project implementation.

25. **Procurement Manual.** Procurement arrangements, roles and responsibilities, methods, and requirements for carrying out procurement shall be elaborated in detail in the Procurement Manual which may be a section of the PIM.

26. **Procurement methods.** The borrower will use the procurement methods and market approach in accordance with the Procurement Regulations.

27. **The Open National Market Approach is a competitive bidding procedure normally used for public procurement in the country of the borrower** and may be used to procure goods, works, or non-consultant services, provided it meets the requirements of paragraphs 5.3 to 5.6 of the Procurement Regulations.

28. **Operational costs financed by the project, if any, would be incremental expenses, including office supplies, communication costs, rental expenses, utilities expenses, consumables, transport and accommodation, per diem, supervision costs, and salaries of locally contracted support staff.** Such service needs will be procured using the procurement procedures specified in the PIM accepted and approved by the World Bank.

29. **PPSD.** As part of project preparation, the borrower (with support from the World Bank) prepared its PPSD which describes how fit-for-purpose procurement activities will support project operations for the achievement of the PDO and deliver value for money. The procurement strategy is linked to project implementation. It considers institutional arrangements for procurement; roles and responsibilities; thresholds, procurement methods, and prior review; and the requirements for carrying out procurement. It also includes a detailed assessment and description of state government capacity for carrying out procurement and managing contract implementation, within an acceptable governance structure and accountability framework. It is informed by a market analysis, that is, the behaviors, trends, and capabilities of the market. The activities of this project comprise consulting services to support the preparation and development of the operational features for a new PCG fund to improve access to finance for MSMEs, to design and manage a TA program, credit registry diagnostics, and software development. The market in Cabo Verde, with a population of around 500,000 inhabitants is of a modest size. The local operators are dependent on imports from Europe to satisfy demand. The international approach will be privileged and open competition used.

30. **PP.** The PP covering the first 18 months of project implementation was prepared and submitted to the World Bank. It has been discussed and approved by the World Bank during project negotiation. The PP will be updated by the procuring entity on an annual or as-needed basis to reflect actual project implementation needs. Updates of the PP will be submitted to the World Bank for 'no-objection' and the PPSD updated accordingly.

Table 2.2. Procurement Plan

	2	3	4	5	6	7
Ref. No.	**Description of Assignment/Expenditure**	**Estimated Cost (US$)**	**Selection Method**	**Review by World Bank (Prior/Post)**	**Expected Proposals Submission Date**	**Comments**
Component 1: Partial Credit Guarantee Fund to Enhance MSME Finance						
1	MSME financing study (PPA-financed)	60,000	CQS Open international	Post	December 2017	—
2	Management firm for PCG Scheme (3 years)	1,050,000	QCBS Open international	Prior	January 2018	—
3	Communication and outreach	30,000	Shopping	Post	n.a.	—
4	Training (logistics)	60,000	Shopping	Post	n.a.	—
Component 2: Technical Assistance for MSMEs						

	2	3	4	5	6	7
Ref. No.	**Description of Assignment/Expenditure**	**Estimated Cost (US$)**	**Selection Method**	**Review by World Bank (Prior/Post)**	**Expected Proposals Submission Date**	**Comments**
5	Management firm for TA program (3 years)	300,000	QCBS Open international	Prior	March 2018	—
6	Communication and outreach	30,000	Shopping	Post	n.a.	—
7	Training (logistics)	60,000	Shopping	Post	n.a.	
Component 3: Improve Credit Information Systems						
8	Credit registry gap assessment and diagnostics (PPA-financed)	125,000	Individual consultant (open international)	Post	December 2017	—
9	Software	160,000	QCBS Open international	Post	2019	—
10	Hardware	80,000	Shopping	—	—	—
11	Communication and outreach	30,000	Shopping	Post	n.a.	—
12	Training (logistics)	75,000	Shopping	Post	n.a.	—
Component 4: Project Implementation Support						
13	Financial audit	90,000	Shopping	Prior	n.a.	5 audits. Prior review is done by FM expert
14	Transportation	40,000	Shopping	Post	n.a.	—
15	Operational costs	20,000	—	—	—	—

Note: Short lists composed entirely of national consultants; Short lists of consultants for services estimated to cost less than US$200,000 equivalent per contract may be composed entirely of national consultants; CQS = Selection based on Consultants' Qualifications; PPA = Public Procurement Act; QCBS = Quality- and Cost-based Selection.

Environmental and Social (including safeguards)

31. **Although the project is not expected to have significant nor irreversible direct environmental or social impacts, it could have potential direct and indirect adverse impacts of moderate to low magnitude.** To address these potential concerns an ESMF was prepared and shared for consultation. Because of the mechanism of funding (PCG) and since the activities will be implemented by third parties (MSMEs awarded credit by the PFIs), the ESMF includes an exclusion list which will serve to inform the criterion ‘’eligible expenditure’.

32. **To ensure that OP 4.12 (Involuntary Resettlement) is not triggered, OP 4.12 will be included in the exclusion list in the ESMF and PIM and potential subprojects will undergo a rigorous screening process.** These restrictions will be the subject of a framework contract which will be signed by the parties at the time of commitment to obtain the credits. Gender considerations will be an integral aspect of

project activities. Gender indicators will be used to monitor support to women-led enterprises. Stakeholder engagement and involvement will be supported by communication activities to inform and sensitize stakeholders on issues related to the provision of the funds and consider their concerns and any proposals to improve the process of loan selection, granting, and repayment. This consultation should be deepened with all stakeholders, including at the national, local, and community levels (for example, financial institutions, professional associations, civil society, nongovernmental organizations, and youth and women's groups). The establishment of a complaints mechanism can ensure transparency and fairness in the project.

33. **PFIs are required to develop and maintain, in the form of an Environmental and Social Management System (ESMS), effective environmental and social systems, procedures, and capacity for assessing, managing, and monitoring risks and impacts of subprojects, as well as managing overall portfolio risk in a responsible manner.** Where the PFI can demonstrate that it already has an ESMS in place, it will provide adequate documented evidence of such an ESMS, indicating which elements (if any) will be enhanced or modified to meet the World Bank Group standards. The PFI will review and adjust, in a manner acceptable to the World Bank, its ESMS from time to time, including when the environmental and social risk profile of its portfolio changes significantly.

34. **The PFIs' ESMS will include the following elements:** (a) environmental and social policy; (b) clearly defined procedures for the identification, assessment, and management of the environmental and social risks and impacts of subprojects; (c) organizational capacity and competency; (d) monitoring and review of environmental and social risks of subprojects and the portfolio; and (e) external communications mechanism.

35. **OP/BP 4.11 (Physical Cultural Resources) has been triggered because of the prevalence of ecotourism-related MSMEs in Cabo Verde, which can negatively affect national heritage sites.** The ESMF includes chance find guidelines for PFIs, in case any chance finds occur during subproject implementation.

36. **Although MSMEs that benefit from credit guarantees could invest in agriculture, the project will exclude subprojects intended to finance the purchase of hazardous pesticides.** If the subprojects include new land-use development or changed cultivation practices in an area, significant expansion into new areas, diversification into new crops in agriculture, or intensification of existing low-technology systems, any ESIAs/ESMPs should include ecologically based Integrated Pest Management measures.

37. **The project will not finance activities involving dams.** In Cabo Verde, it would be possible to imagine loans for SMEs to undertake activities involving dams. For example, sand is required and some dams are experiencing sedimentation problems. However, the subloans tend to be small and subprojects could require complex studies and safety measures.

38. **The PCG will not guarantee activities that can lead to conversion or degradation of natural habitats.** There are farming and livestock activities inside protected areas, but these are done in designated areas only and there are guards in the parks. The ESMF includes preventive measures for avoiding encroachment or negative leakage on natural habitats. It is not expected that the guaranteed

MSMEs will invest physically in forest ecosystem. However, their agricultural activities may induce indirect deforestation. The ESMF provides guidance to prevent such risks.

39. **OP 4.12 (Involuntary Resettlement) will not be triggered.** The project will not finance investments under this project or in the future involving (a) involuntary taking of land, resulting in relocation or loss of shelter, loss of assets or access to assets, or loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (b) involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the displaced persons. For Component 1, any subproject to be financed as part of this project or at a later stage will be on MSME private-owned land or land purchased through a willing-seller willing-buyer approach. For land purchases through a willing-seller willing-buyer approach, land acquisition must occur by mutual agreement in exchange for a notarized purchase contract based on the market price at the date of acquisition. To ensure OP 4.12 is not triggered, OP 4.12 will be part of the exclusion list in the ESMF and PIM and excluded through a rigorous screening process of potential investments.

Monitoring and Evaluation

40. **The PIU will monitor and evaluate progress toward achieving the PDO.** The PIU will be responsible for M&E of the PDO-level and intermediate results indicators for the project described in the Results Framework. The PIU will work in close coordination with a technical support team from the MOF and other key stakeholders to periodically collect relevant information. The entities responsible for managing the main activities of the project, namely the PCG Fund Manager, will use MIS to collect and maintain reliable and updated databases with relevant information including number of beneficiaries and the volume of funds provided to them, desegregated by type of support, type and size of MSME, or segment of the population, gender, age, geographical region, among others. Every year, the PIU will prepare an M&E strategy that will be part of the annual working plan. The M&E activities will be financed under Component 4. The PIU will provide on a semiannual basis, through project progress reports, the results of its M&E activities.

Role of Partners (if applicable)

41. Not applicable.

ANNEX 3: IMPLEMENTATION SUPPORT PLAN

Strategy and Approach for Implementation Support

1. The implementation support strategy is as follows.

- **Technical support.** A team of financial sector specialists will provide technical support and guidance to the implementation agency and key stakeholders. The technical team will review and comment on the terms of reference and other technical documents. Technical advice will also be provided during implementation support missions.

- **Procurement.** A procurement specialist will provide ongoing guidance to the implementation agency with regard to procurement processes and will participate in project implementation support missions, post review assessments, and site visits. In addition, the World Bank will review selection processes defined as prior review.

- **FM.** An FM Specialist will provide support to the implementation agency. The World Bank will supervise the project's FM arrangements by reviewing the semiannual project reports as well as the annual audited financial statements. In addition, during implementation support missions, the World Bank will review the FM and disbursement arrangements.

- **Operations.** During project implementation, the World Bank will provide implementation support to the team members of the PIU to prepare, update, and use the project management tools, including the PIM, annual work plan, PP, and disbursement projections.

- **Safeguards.** The Environmental Specialist will provide support and ongoing guidance to the implementation agency with regard to environmental safeguards aspects, including the application of the ESMF. In addition, the specialist will participate in project implementation support missions and site visits.

2. The Implementation Support Plan will be reviewed periodically to ensure that it continues meeting the implementation support needs of the project.

Implementation Support Plan and Resource Requirements

3. The Implementation Support Plan will be reviewed periodically to ensure that it continues meeting the implementation support needs of the project.

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First year	Task management	TTL/financial sector specialist	12	
	Procurement	Procurement specialist	6	
	Financial Management	FM specialist	6	
	Safeguards	Environmental specialist	6	
	Operations support	Operations officer	6	
	Technical support	Financial sector specialist (PCG)	12	
12–60 months	Task management	TTL/financial sector specialist	40	
	Procurement	Procurement specialist	24	
	Financial Management	FM specialist	24	
	Safeguards	Environmental specialist	24	
	Operations support	Operations officer	24	
	Technical support	Financial sector specialist (PCG Fund)	48	

Skills Mix Required

Skills	Number of Staff Weeks	Number of Trips	Comments
TTL/financial sector specialist	52	15	
Procurement specialist	30	10	
FM specialist	30	10	
Environmental and social specialist	30	10	
Operations officer	30	10	
Financial sector specialist	20	10	

ANNEX 4: FINANCIAL SECTOR BACKGROUND

1. **Cabo Verde has made progress in developing the basic pillars of a financial sector.** This includes proper regulation, commercial banks with a wide presence across all islands, primary markets for Government securities and corporate bonds, insurance companies for life and nonlife insurance, and a credit registry. The central bank, BCV, acts as supervisor of banks, insurance companies, capital markets, and other financial institutions. Access to basic savings and payment services is limited but better than peers: in a recent central bank survey, 43 percent of the respondents between ages 20 and 65 years reported not having a bank account.[33] There are about 3,000 adults for each commercial bank branch. Long-term finance is available for housing mortgages and for large corporations. Cabo Verde compares well with regional and income group comparators as well as other small island states (see table 4.1).

Table 4.1 Cross-country Comparison in Financial Intermediation (2016)

	GNI Per Capita (US$, Atlas Method)	Broad Money (% of GDP)	Domestic Credit Provided by the Financial Sector (% of GDP)	Domestic Credit to Private Sector (% of GDP)	Depositors with Commercial Banks (per 1,000 Adults)
Cabo Verde	**2,970**	**105.5**	**86.1**	**63.0**	**1,847**
Lower-middle-income countries	2,079	65.4	66.9	43.6	518
Sub-Saharan Africa	1,505	37.6	59.7	45.8	164
Maldives	7,430	55.1	83.8	37.3	1,178
Micronesia, Fed. Sts.	3,680	67.6	n.a.	23.4	n.a.
Seychelles	15,410	71.7	40.2	26.9	1,754
Timor Leste	2,180	44.5	n.a.	14.7	548
Pacific Island small states	3,723	69.7	87.6	74.2	n.a.
Caribbean small states	8,542	74.8	60.3	45.4	n.a.

Source: Finstats 2017 (January 2017); World Development Indicators (WDIs) (accessed November 8, 2017).

2. **Banks struggle with low asset quality, low profitability, and limited capital buffers (see table 4.2).** The most recent stress tests of the largest four banks (that represent more than 80 percent of assets) show a high vulnerability to credit risk, particularly to their largest exposures.

Table 4.2. Banking Sector in Cabo Verde

	2011	2012	2013	2014	2015	2016
Banking sector assets (% of GDP)	87.2	96.2	107.5	110.0	113.0	119.9
Banking sector loan portfolio (% of GDP)	77.8	77.1	79.0	82.2	82.9	85.3
Banking sector deposits (% of GDP)	76.3	81.4	95.5	104.0	108.0	115.7
Reserves with central bank (% of assets)	13.3	16.6	18.3	21.7	20.7	24.0
Bank capital (% of total assets)	10.0	9.1	8.8	8.6	8.7	7.7

[33] *Banco de Cabo Verde*. 2016. *1º Inquérito à Literacia Financeira da População Adulta Activa Cabo Verde*. The WDIs suggest that there are 1,847 depositors per 1,000 adults (2016), but this is likely to include emigrant deposit accounts.

	2011	2012	2013	2014	2015	2016
Regulatory capital (% of RWA)	13.9	14.2	15.1	15.6	16.1	15.5
Lending rate (%, average end of period)	9.8	9.9	10.5	10.9	10.4	9.6
Interest rate spread (%)	6.5	6.1	6.3	7.4	7.5	7.0
Return on assets (%)	0.4	0.2	0.3	0.2	0.4	0.2
Cost-to-income ratio (%)	61.3	68.3	68.4	72.5	66.9	67.7
Domestic credit growth (%, at year end)	11.7	4.6	3.7	2.4	2.2	3.7
NPLs (% of gross loans)	11.8	14.1	16.4	18.7	16.5	15.5
Loan loss provisions/NPLs (%)	19.0	53.5	53.9	52.4	59.5	60.5
Concentration of credit with the two largest banks[a]	0.72	0.70	0.69	0.69	0.69	0.68

Source: BCV; WDI; staff calculations.
Note: a. Using the Herfindahl-Hirshman Index.

3. **Banks' cash and reserves at the central bank reached 24 percent of their assets in 2016 (about US$500 million), much higher than the minimum reserve requirements.** Limited interbank lending is another sign of risk aversion in a context of high NPL rates and an impediment to a more efficient use of funds. The absence of a developed interbank market and a secondary market for trading of short-term debt instruments reduces the effectiveness of monetary policy interventions in stimulating credit to businesses. The high levels of concentration in the banking sector indicate that the two largest banks have a significant role in defining interest rates. Deposit rates have recently declined: funding costs (interest paid versus total deposits) in December 2016 stood at 2.6 percent against 2.9 percent in December 2015.[34]

4. **Bank credit to the private sector has been evenly divided between nonfinancial businesses and households.** In the last five years, mortgage loans for housing represented over a third of total loans, with maturities that are often longer than ten years. Lending to construction activity has been declining and in 2015 represented only 4.6 percent of loans (see table 4.3). Total bank credit to nonfinancial businesses is estimated at about US$600 million.

Table 4.3. Bank Loans by Sector of Activity (% of total)

	2011	2012	2013	2014	2015	2016
Nonfinancial businesses	**48.3**	**49.5**	**50.1**	**49.5**	**49.9**	**50.3**
Agriculture, fisheries, and extractive industries	0.2	0.2	0.2	0.3	0.3	n.a.
Manufacturing	3.6	4.0	3.7	3.0	3.3	n.a.
Electricity, gas, and water supply	2.9	2.6	2.3	2.3	1.9	n.a.
Construction	7.6	7.6	6.8	5.1	4.6	n.a.
Trade, food services, and accommodation	11.0	11.4	11.8	12.3	12.2	n.a.
Transportation and storage	6.4	6.6	8.6	7.9	9.2	n.a.
Social and personal services	10.6	10.1	9.6	9.0	9.1	n.a.
Other services	6.1	6.9	7.0	9.6	9.4	n.a.
Credit to households (including emigrants)	**51.7**	**50.5**	**49.9**	**50.5**	**50.1**	**49.7**
Housing	32.9	34.4	34.8	35.3	35.1	34.0
Other purposes	18.8	16.2	15.1	15.1	14.9	15.6

Source: BCV.

[34] BCV. *Indicadores Económicos e Financeiros*.

Access to Finance for MSMEs

5. **Micro and small enterprises face significant constraints.** Total domestic bank credit to MSMEs in Cabo Verde is estimated to be about US$320 million. BCV data shows that in 2016 these enterprises (a) received only 58 percent of the number of loans, despite representing 90 percent of the number of firms in the economy; and (b) received only 24 percent of credit. This is in line with a 2014 survey that showed that only 26.5 percent of total bank credit to enterprises went to micro and small enterprises, and that banks' main reasons for restricting credit to such enterprises were poor business prospects, limited collateral, lack of proper accounting, and the general macroeconomic environment.[35]

6. **The microfinance sector is very small with mostly nonprofit institutions that have other social objectives, rely on donor funding, and therefore are not financially sustainable.** In 2015, the Government approved a new legal regime for microfinance institutions that requires institutions with microfinance operations to professionalize and separate their microcredit business from their other (social) activities by December 31, 2018. BCV supervises the microfinance sector and has licensed five microfinance institutions to date.

Financial Infrastructure

7. **The central bank's credit registry is used only by banks and has significant shortcomings.** Microfinance institutions do not report to the registry and banks do not provide information in real time (most banks provide information on a daily basis, although some provide information only once a month). The credit registry does not produce a credit score to standardize credit risk analysis, which is a missed opportunity for financial institutions to enhance their capacity for credit risk management. Borrowers can only receive a paper report of their credit history, which can be requested by phone, letter, or in person.

8. **Credit allocation in Cabo Verde is therefore constrained by information asymmetry.** Given the challenge and cost associated with determining the creditworthiness of small businesses, banks in Cabo Verde require small firms to provide higher levels of collateral (an average of 201 percent of the loan, against an average of 176 percent for all firms).[36] Banks rely on real estate, cash deposits, and third-party guarantees (*aval*) as collateral for loans, since these receive a reduced risk weight for the purposes of calculating regulatory solvency ratios.[37] Banks do not tend to lend against inventory or make use of cash flow-based financing. There is no movable collateral registry and no leasing industry, although some banks engage in sporadic leasing activities.

9. **Cash is still the most popular payment instrument in Cabo Verde.** In 2016, cash in circulation represented 6.9 percent of GDP and 6.0 percent of bank deposits. However, payments using bank accounts are gradually catching up, particularly bank transfers and payments through cards (see table 4.4). In 2016, the amount of payment transactions using bank accounts totaled 469 percent of GDP.

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[35] Mata, V. 2016. *Financiamento Bancário às Pequenas e Médias Empresas em Cabo Verde.* Unpublished.
[36] Enterprise Surveys, 2009. http://www.enterprisesurveys.org/data/exploreeconomies/2009/cabo-verde#finance
[37] Guarantors are typically civil servants that can guarantee payment in case of arrears.

Table 4.4. Payment Transactions using Bank Accounts in Cabo Verde

	2014		2015		2016	
	Number	Value (CVE, millions)	Number	Value (CVE, millions)	Number	Value (CVE, millions)
Bank transfers	3,077,048	376,713.8	2,537,293	459,286.5	2,701,792	503,588.6
Cards	12,493,001	54,304.5	14,959,047	62,512.5	17,906,997	71,847.8
Checks	1,566,472	185,759.7	1,581,572	200,727.1	1,533,916	190,871.9
Total	**17,136,521**	**616,778.0**	**19,077,912**	**722,526.1**	**22,142,705**	**766,335.2**
(% of GDP)	n.a.	399.4	n.a.	455.3	n.a.	469.0
Bank transfers (%)	18.0	61.1	13.3	63.6	12.2	65.7
Cards (%)	72.9	8.8	78.4	8.6	80.9	9.4
Checks (%)	9.1	30.1	8.3	27.8	6.9	24.9

Source: BCV.

10. **Payments using bank accounts can be done through two distinct systems provided by the BCV: the real-time gross settlement system and the retail clearing and settlement system.** The latter is divided in three subsystems: the retail electronic transfer system; the card payment system ('Rede Vinti4'), based on the unified communication network provided by the Interbanking Corporation and Payment Systems (*Sociedade Interbancária e Sistema de Pagamentos* [SISP]) where most banks participate;[38] and the check clearance system. Banks use the SWIFT network for international payments. Clients of financial institutions have access to several instruments to order payments from their bank accounts, including Internet banking, mobile banking, debit and credit cards, and checks. There are more than 200,000 payment cards in the country (or about 1 card for every 1.8 adults) that can be used in 171 automated teller machines and more than 6,000 point-of-service terminals. The importance of payments through checks has been declining, and in 2015 represented only 24.9 percent of the total amount and 6.9 percent in number of transactions (against 40 percent of transactions in 2005).[39] Since 2016, at least one mobile money platform (Wari) has been operating in Cabo Verde through a partner bank and an agent network, offering bill payments, money transfers, and air time purchases. The cost of remittances through money transfer operators from the two largest migrant destinations (the United States and Portugal) is expensive, with an average cost of around 6–7 percent of the amount for a transfer of US$500.[40]

11. **Banks perceive contract enforcement as unreliable and time consuming, and cite the lack of an adequate judicial infrastructure for executing collateral guarantees and lack of depth in the market for real estate as additional problems.** There is no specialized commercial court within the justice system, which is clogged by thousands of pending cases. General strength of legal rights in Cabo Verde is weak, with a score of 2 out of 12. Resolving insolvency in Cabo Verde is problematic: the country ranks 168th out of 190 economies.[41] Anecdotal evidence from banks suggests that court cases for insolvency and repossession of collateral can take up to two years. Anecdotal evidence from banks also suggests that the proceeds from the repossession and sale of collateral has been about 75 percent of the original credit for

[38] SISP's main shareholders are the Government, BCV, the four largest commercial banks, and Cabo Verde Telecom.
[39] *Banco de Cabo Verde*. 2017. *Sistema de Pagamentos. Relatório 2016*. Cidade da Praia.
[40] World Bank Group, Remittance Prices Worldwide. http://remittanceprices.worldbank.org/en
[41] See: http://www.doingbusiness.org/data/exploreeconomies/cabo-verde

mortgages and less than 50 percent of the original credit for other loans. Therefore, banks reflect this economic cost in their pricing structure.

12. **The Insolvency and Recovery Code introduced in September 2016 is still not fully operational.** The code introduces for the first time a dedicated insolvency legal regime in Cabo Verde, replacing provisions in the Civil Process Code that were restricted to the liquidation of assets in favor of the creditors. The code introduces the figures of the mediator and the recovery administrator for extrajudicial and judicial recovery, and the figure of the insolvency administrator for the insolvency process. The current challenge is to disseminate the code among stakeholders: the new code is lengthy (354 articles), complex, and requires training for judiciary officers (especially magistrates that will enforce it) and insolvency administrators. So far, the code has not been applied in any insolvency case.

13. **The Competitiveness for Tourism Development Project is financing reforms to the legal framework for insolvency and secured transactions.**[42] The project became effective in November 2016 and is supporting efforts to implement the Insolvency and Recovery Code that came into effect on September 2016 and the introduction of a legal framework for secured transactions and movable collateral registry, which will help with NPL resolution and help expand the range of assets eligible for collateral. The Ministry of Justice and the Ministry of Economy and Employment have formed a working group to advance implementation of the new insolvency law, including through drafting regulations for the statutes of the insolvency administrator that detail the required recruiting procedures and credentials to join the list of official insolvency administrators. In November 2017, a delegation from Cabo Verde participated in an insolvency workshop focused on implementation of recently passed insolvency laws—the Africa Round Table—which brings together international experts and leading practitioners. Following this workshop, the working group will decide on the next steps and timetable including priorities for support from the Competitiveness for Tourism Development Project. The tendering process for the legal framework on secured transactions and collateral registry is expected to start over the next few months.

Capital Markets

14. **Primary markets for Government securities are active.** At end-2016, outstanding Government securities totaled 31.1 percent of GDP. In 2015, the national pension fund held about 43 percent of public domestic debt and the rest was held by the banking system. The primary market for corporate bonds is also in place but has limited depth: outstanding corporate bonds totaled only 6.2 percent of GDP.[43] Secondary markets for Government and corporate bonds are illiquid. Two insurance companies currently have subscribed more than 75,000 insurance policies; in 2016, their investment assets were 2.0 percent of GDP and insurance premiums were 1.4 percent of GDP. The national pension fund has CVE 41 billion (US$506 million) in investment assets, which makes it the largest source of long-term capital and the third-largest financial institution in Cabo Verde. The stock market is very small—with only four listed companies with a total capitalization of just over 4 percent of GDP—and illiquid.

[42] World Bank. 2016. *Competitiveness for Tourism Development Project*.
[43] *Source:* BVC.

ANNEX 5: ECONOMIC AND FINANCIAL ANALYSIS

1. **The project's development impact is expected to be a higher number of MSMEs that can access formal credit to invest in the growth of their business.** Micro and small enterprises receive only 58 percent of the number of loans, despite representing 90 percent of the number of firms in the economy. This situation has been stable in the last five years and is unlikely to change without intervention.

2. **The improved PCG scheme and credit reporting system, complemented with TA to improve MSMEs' ability to share information about their creditworthiness, can help promote access to finance.** The central forecast in the financial model for the PCG scheme to be financed under this project (Section D) foresees that a cumulative 1,800 MSME loans could benefit from credit guarantees by year 3. The project also assumes that 500 MSMEs will benefit from TA in their loan applications to financial institutions. An upgraded credit registry at the BCV is expected to provide indirect benefits to MSMEs and other borrowers in Cabo Verde, as a more accurate credit history translates into better credit provisioning by financial institutions.

A. Development Impact

3. **The estimated project costs of US$15 million are those necessary to capitalize the PCG scheme with a minimum size, provide TA to MSMEs to improve their loan applications, and strengthen the credit reporting system.** The project's intended benefits are expected to outweigh its cost. The benefits include not only the expected revenues from the PCG scheme (which can be translated into monetary terms), but mainly the higher opportunities for growth that MSME borrowers will encounter (which are more difficult to monetize or even to quantify).

4. **Role of PCGs.** PCGs play an important role, especially in countries with weak institutional environments for lending, by improving the information available and reducing collateral requirements. PCGs are generally cost effective and market friendly, as financial institutions maintain a primary role in the screening of borrowers and lending decisions. Well-designed PCGs facilitate financing to creditworthy borrowers who would otherwise have been denied credit and can contribute to improved loan terms and conditions for existing borrowers.[44]

5. **Improvements to the existing system of credit guarantees.** The project will introduce improvements to the mutual system designed in 2010 to provide PCGs to MSMEs and that has been ineffective. The system is based on private mutual guarantee companies that provide guarantees directly to MSMEs and benefit from a counter-guarantee from a public fund. However, CVGarante—the only private mutual guarantee company since established—has not been able to secure the necessary

[44] A recent (unpublished) impact evaluation of the Government of Chile's fund for guarantees to SMEs (FOGAPE) has shown positive impacts in the level of credit to MSMEs that benefited from the program. The evaluation is based on a regression discontinuity design (fuzzy discontinuity design) that allows for some confidence in assessing the degree of causality. Ono et al (2016) used a propensity score matching estimation technique to show that the Government of Japan's Emergency Credit Guarantee program significantly improved credit availability for firms using the program. Ono, A., Uesugi, I., Yasuda, Y. 2016.*Are Lending Relationships Beneficial or Harmful for Public Credit Guarantees? Evidence from Japan's Emergency Credit Guarantee Program*. Journal of Financial Stability.

credibility and lacks institutional capacity to carry out its operation.[45] Its governance, business model, and operational procedures have rendered it unattractive for banks as a risk-sharing mechanism. CVGarante has only three employees and not all are full-time employees. Guarantee approvals are unnecessarily cumbersome and redundant; the process is paper-based and much of the information required by CVGarante is unnecessary to decide on guarantees. Since inception, CVGarante has issued only seven guarantees on loans equivalent to US$250,000. Of these, banks have disbursed the funds from only two guaranteed loans. Given its limited capital (US$1 million) and volume of business, the operation is not financially sustainable. The public counter guarantee fund has not been capitalized by the Government and its payout process is based on discretionary decisions made by its management, rather than by well-defined criteria. This has reduced the credibility of the system.

6. **Other alternatives.** The project recognizes the existence of other ongoing Government interventions to improve the legal framework for insolvency and secured transactions, which should help reduce the level of NPLs in the banking sector, expand the range of assets eligible for collateral, and reduce moral hazard in loan repayment. Other possible interventions—such as accelerating the resolution of the high volume of NPLs through capitalization of a special fund—could release capital for banks, but the high level of liquidity in the banking system suggests that this is not a major constraint to lending to MSMEs.

B. Public Rationale

7. **Financial development is typically constrained by market failures, particularly information asymmetry, costly enforcement, and restricted risk pooling and participation.** In addition, credit markets in Africa are particularly prone to a moral hazard problem in the form of strategic loan defaults: some loan applicants may apply for loans with no intention of ever repaying them.[46] Credit market conditions for MSMEs in Cabo Verde justify public interventions to encourage lending to this segment, considering the high levels of asymmetric information, high-risk perception, and lack of collateral.

8. **A primarily private credit guarantee scheme in Cabo Verde based on a mutual system has not been successful, although the reasons for failure rest beyond the private nature of its ownership.** The new PCG scheme will be administered by an independent and professional management company responsible for developing the business plan, financial model, operational policies and procedures, and development of criteria for the selection of PFIs. The management company will be selected through an international competitive bidding process.

9. **The existence of publicly available information about credit history favors creditor's better understanding of borrowers, particularly for new borrowers.** This link is especially strong for positive information. This allows for credit conditions with lower risk premium, which has been demonstrated in several empirical studies.[47] As explained by McIntosh and Wydick (2004), credit information systems

[45] CVGarante was established in 2013 by four of the largest banks and with the support of a few Government institutions.
[46] Andrianova, S., Baltagi, B., Demetriades, P., and Fielding, D. 2011. "Why do African Banks Lend So Little?" University of Leicester Working Paper No. 11/19.
[47] McIntosh, Craig, and Bruce Wydick. 2005. "Competition and Microfinance." *Journal of Development Economics* 78 (2): 271–298.

create a screening effect that improves risk assessment of loan applicants, thereby raising the portfolio quality, which in turn reduces rates of arrears. In addition, they create an incentive effect that may deter negligent borrower behavior as information about borrower behavior is shared among creditors.

C. World Bank Value-Added

10. **The World Bank's expertise in developing financial sectors can help the Government better design their planned interventions.** The design of project components reflects good practices identified by the World Bank.[48] The design of the PCG scheme for Cabo Verde relies on the experience of similar schemes, particularly in Chile, Jamaica, Madagascar, Morocco, and Mozambique. The World Bank will support the Government in recruiting a professional and independent management company to run the PCG scheme.

11. **For Component 2, the project will follow the findings of a 2016 IEG evaluation that highlighted the positive impacts of a World Bank Project that supported a 50-50 matching grant facility for TA services in Cabo Verde, which helped enhance the capacity of private operators (especially small- and medium-size enterprises) to acquire new technology and managerial expertise.**[49] The World Bank will also support the Government in recruiting a professional and independent management company to run the TA program.

D. Financial Analysis of the PCG Scheme

12. **Assumptions.** It is estimated that the number of guarantees will be reduced at the beginning (US$2.8 million of guarantees in Year 1), but eventually will reach about US$28.8 million in guarantees in Year 5 and onwards. Fees are projected at 2.75 percent for loans with up to 50 percent of guarantee coverage (medium-sized enterprises) and 3.5 percent for loans with up to 70 percent of guarantee coverage (micro and small enterprises). Returns of the investment portfolio are projected at a constant 3.2 percent per year. Payment of guarantees are estimated at 4 percent of the guarantee portfolio per year.

13. **Central scenario.** The PCG scheme is likely to be financially sustainable in the next ten years, albeit with almost no profitability. The internal rate of return (IRR) is estimated at close to zero. In Year 5, the PCG scheme is expected to guarantee about US$32 million in MSME loans, which is close to 10 percent of the current MSME loan market, in line with global average.

[48] World Bank Group. 2015. *Principles for public credit guarantee schemes for SMEs*. Washington, DC; World Bank. 2011. *General Principles for Credit Reporting*. Washington, DC.
[49] World Bank Independent Evaluation Group. 2016. *World Bank Group Engagement in Small States*. Washington, DC.

Table 5.1. Financial Projections for the PCG Scheme (Central Scenario, US$, millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Guarantees approved in the year	2.8	7.0	15.1	22.6	28.8	28.8
Outstanding volume of approved guarantees (year-end)	2.3	6.6	14.5	23.1	30.5	32.3
Underlying MSME loans (year-end)	3.4	9.0	17.9	26.9	32.2	32.2
Equity	9.9	9.7	9.2	8.6	8.3	10.2
Leverage	0.2	0.7	1.6	2.7	3.7	3.2
Provisions	0.3	0.7	1.5	2.3	3.0	3.2
Revenues	0.3	0.6	1.1	1.4	1.7	1.9
Expenditures	0.1	0.4	0.7	1.1	1.4	1.5

Source: Staff calculations.

14. **Fiscal impact**. The PCG scheme's impact on the Government budget is likely to be minimal during this period. In addition to the revenues collected by the PCG scheme, the higher opportunities for growth that MSME borrowers will encounter will translate into higher tax revenues. However, international experience suggests the existence of trade-offs between outreach and sustainability of PCG schemes. The Government will likely require new equity contributions if it decides to increase support to MSMEs with higher levels of risk.

15. **Risks and sensitivity analysis.** The scenarios are particularly sensitive to the default rate. An increase of the default rate from 4 percent to 6 percent would reduce the IRR to a negative value of −12.1 percent, and reduce the equity position in Year 10 to only US$8.7 million and increase the leverage to a very high level (6.0). Equity contributions from the state would likely be necessary.

16. **The macroeconomic risk to the project is High.** The latest debt sustainability analysis found Cabo Verde to be at a high risk of debt distress, although baseline debt service indicators remain at comfortable levels. While most of this debt is concessional, gross financing needs are increasing, limiting the ability of the Government to use fiscal policy to absorb shocks. If risks materialize, confidence levels could be affected and bring shocks to the economy, including through the financial system, particularly given the limited monetary and fiscal space available to the Government. Weak economic growth could limit the demand for MSME credit as firms postpone investment decisions. Government and SOE's reliance on bank credit to finance the already high level of public and public-guaranteed debt could crowd-out MSME financing, through credit rationing and higher interest rates. Macroeconomic imbalances could further reduce the risk appetite of financial institutions, which already face difficulties in managing credit risks and a legacy of asset quality issues. The World Bank should continue closely monitoring Government borrowing levels and interest rates.

ANNEX 6: PCG DESIGN CHARACTERISTICS

1. **The World Bank and FIRST principles for the design, implementation, and evaluation of public credit guarantees for MSMEs identify four key areas for the success.** These are: (a) legal and regulatory framework; (b) corporate governance and risk management; (c) operational framework; and (d) monitoring and evaluation.

Legal and Regulatory Framework

2. **PCGs should exist as an independent legal entity with a clearly defined legal and regulatory framework governing its operations.** An adequate legal and regulatory framework provides the institutional foundations of the PCG, enhancing its credibility and reputation. The legal and regulatory framework should (a) encourage private sector participation in the scheme, (b) clarify the ownership policy of the Government, and (c) separate Government control from day-to-day operations to enhance the PCG's independence and accountability. Direct involvement of the Government in the management of day-to-day operations, credit decision-making, claim payout, and loss recovery is not common. Independent and professional management reduces moral hazard and increases long-term sustainability. A sound legal and regulatory framework facilitates the formulation and implementation of an appropriate strategy to achieve the objectives. The legal framework should specify the sources of funding of the PCG, which should be mainly equity. There should be limits on budget appropriations and subsidies specified in the legislation. Supervision of the PCG should be conducted by the relevant financial sector authority, typically the central bank, on a risk-adjusted basis based on the type of products it provides.

Corporate Governance and Risk Management

3. **PCGs should have a clearly defined mandate, strong internal controls, and a solid risk management framework.** The mandate should be set in legislation, include the target market, and any other services in addition to the guarantees (such as TA). Based on the mandate, the PCG should develop strategies for different segments. The PCG should have a sound corporate governance structure, set in legislation, with an independent board of directors appointed in accordance with defined criteria, as political interference is one of the major challenges of PCGs. Effective PCGs have in place strong internal controls, and internal audit and compliance functions. An adequate risk management framework is also essential, with accurate information and timely reporting systems to enable adequate monitoring and management of risks, including credit, liquidity, market, and operational risks. A comprehensive MIS for loan tracking and guarantee issuance system facilitates risk identification, monitoring, and remedial action on time.

Operational Framework

4. **Eligibility criteria should be designed to target financially constrained MSMEs, while offering some flexibility to financial institutions.** Some of the criteria typically used include the number of employees in the enterprise, turnover, industry, geographic location, loan ceiling, and so on. Eligibility is designed to meet the objectives of the segment that is being targeted. In the absence of a national MSME

definition, the majority of the schemes have relied on number of employees, sales turnover, and loan size to determine eligibility.

5. **The coverage ratio, or percentage of the loan exposure by the PCG, should be on a risk-sharing basis to provide sufficient protection against the risk of default and moral hazard, while preserving incentives for effective loan origination and monitoring.** Higher coverage ratios can be provided to riskier types of borrowers, along with higher fees. Most PCGs offer no more than 50 percent except for specific segments, such as agriculture and start-up ventures, for which coverage ratios have increased to 65–70 percent (see table 6.1).

Table 6.1. Coverage Ratio

Country	Coverage Ratio			Links to Risk Exposure
	Minimum	Maximum	Median	
Korea, Rep.	50	90	70	Depends on borrower's credit score: eligible borrowers with lowest credit score: 90%; borrowers with highest credit score: 50%
France	40	70	55	40% to 50% in general, 60% innovation, 70% start-ups
Canada	85	85	85	No scalability
Malaysia	30	100	65	Depends on type of loan/borrower
United States	75	85	80	75% on loans > US$150,000 85% on loans ≤ US$150,000
Chile	50	80	65	80% small firms (maximum sales US$750,000; loan US$100,000; 50% medium firms (maximum sales US$3 million, loan US$400,000)
Netherlands	50	80	65	50% in general, 60% innovative businesses, 80% start-ups
Taiwan, China	50	80	65	Depends on type of loan/borrower

Source: Cabo Verde: PCG Assessment, World Bank, 2016.

6. **A risk-based pricing policy should be adopted, with fees high enough to discourage banks from using guarantees for good borrowers, but not too excessive to avoid adverse selection.** The PCGs should charge fees based on the riskiness of the guarantee provided, according to the guarantee coverage ratio, exposure to default, and loss given default. Most PCGs charge an average rate of 2.5 percent, comprising a one-time upfront fee on the total amount of the loan and another fee on the average outstanding guaranteed portion of the loan charged quarterly (see table 6.2).

Table 6.2. Fee Structure in Select Countries

Country	Fees	Risk Basis
Korea, Rep.	0.5% to 3% per year.	Fees vary according to borrowers' credit worthiness/rating. Higher fees are charged to low-credit borrowers along with higher coverage ratio
France	0.6% to 0.9% per year of loan value	Fees linked to coverage ratio: 0.6% (40% coverage), 0.9% (70% coverage)
Canada	2% of loan amount + 1.25% per year on loan balance	No scalability
Malaysia	0.5% to 3.6% per year	Fees depend on borrowers' credit rating. Higher fees are charged to low-rated customers
United States	2% to 3.5% of loan amount + 0.55% per year on outstanding guaranteed balance	Higher fees for larger loans
Chile	1% to 2% per year	Higher fees for banks with higher defaults
Netherlands	2% to 3.6% one-off	Fees linked to coverage ratio
Taiwan, China	0.75% to 1.5% per year	Fees linked to borrower's risk rating

Source: World Bank, 2016, Cabo Verde: Partial Credit Guarantee Scoping Report by Julian Casal and John Khoury.

7. **The claim payout should be quick and predictable, to build the credibility of the guarantee scheme, while encouraging loan collection.** Triggers for payout should be clear and well-defined, and the process should be simple. Effective schemes pay out claims 180 days from the date of default, giving the lender adequate time to determine if the delay in repayment is a temporary cash flow issue which needs restructuring, or a more serious problem. Claims are paid on the premise that the lender will continue its collection effort through all means, including legal action. Successful schemes do not require that legal action is completed before claims are paid out. Well-managed PCGs exhibit actual claim payouts of under 4 percent, with the majority under 2 percent. Efficient processing for approvals and claims significantly enhances the credibility of the scheme.

8. **Guarantee schemes should be allowed to require whatever collateral is available, up to reasonable limits.** This commits the borrower to an obligation to repay the loan. In many countries, PCGs take personal guarantees, or guarantors, to increase incentives for repayment. After establishing some repayment history, banks are typically satisfied with personal guarantees in the absence of hard collateral.

Monitoring and Evaluation

9. **PCGs should also have rigorous financial reporting requirements, have the financial statements externally audited, and undertake reviews to assess, in particular, additionality, outreach, and financial sustainability.** Accurate and audited financial statements are important to hold management accountable and to increase the credibility of the scheme. Periodic reviews are important to provide the checks and balances to evaluate operations and refine procedures, concerning operational efficiency, claim payout, design features, performance, client satisfaction, additionality, sustainability, outreach, new products, and others.

Other Success Factors

10. **There are also some other success factors for effective PCGs.** These include (a) working closely with PFIs, (b) providing training to lenders to strengthen core competencies and enhance the outreach to reach MSMEs, (c) non-disclosure of guarantees to reduce moral hazard and reduce undue influence in claim payouts, and (d) incentive programs to promote continued interest and commitment from lenders and additional opportunities to grow and maintain operations.

Credit Guarantee Types

11. **There are several types of credit guarantees ranging from individual guarantees where each loan application is reviewed, to portfolio and hybrid guarantees.** Portfolio guarantees cover the entire portfolio of a lending institution for a designated client segment (in this case, MSMEs) while a hybrid scheme combines individual and portfolio loans. In most countries, PCGs start with individual guarantees and advance to a hybrid or portfolio approach as participating financial institutions gain experience. Where hybrid schemes exist, the guarantee procedures have been based on loan size, that is, loans below a certain threshold are included under a portfolio guarantee. For larger loans, specialized institutions and experienced financial institutions typically receive portfolio guarantee (see table 6.3).

Table 6.3. Credit Guarantee Types

Country	Type
Korea, Rep.	Hybrid: 95% of guarantees are issued under the Direct approach (borrowers directly get a guarantee certificate from the PCG scheme)
France	Hybrid: individual in general, guarantee decisions are delegated to banks for loans < US$140,000 (only for approved/certified lenders)
Canada	Portfolio
Malaysia	Hybrid: a new approach called 'iGuarantee' was introduced. The borrower applies online and after application is reviewed by the PCG scheme, lenders are invited to bid online on the application
United States	Hybrid: individual in general. 'Certified Lenders' have faster process. Delegation of guarantees to 'preferred lenders'
Chile	Portfolio: FOGAPE auctions available guarantee amounts, with lenders bidding on coverage ratio
Netherlands	Portfolio
Taiwan, China	Hybrid: authorized approach (delegation) or Direct guarantee (borrowers get a guarantee certificate directly from the PCG scheme)

Source: World Bank, 2016, Cabo Verde: Partial Credit Guarantee Scoping Report by Julian Casal and John Khoury.