



CAPE VERDE: ALTERNATE GROWTH MODEL?

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Outline of the presentation



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4. **Lessons from Best Cases: Singapore & Mauritius**
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This Presentation is based on two studies prepared by the African Development Bank:

“Cape Verde: A Success Story” analyses the growth experience from 1975 to 2010.

“Cape Verde: The Road Ahead” considers the challenges ahead in the transition from lower to upper middle income status.

Cape Verde: A Success Story (1975-2009)

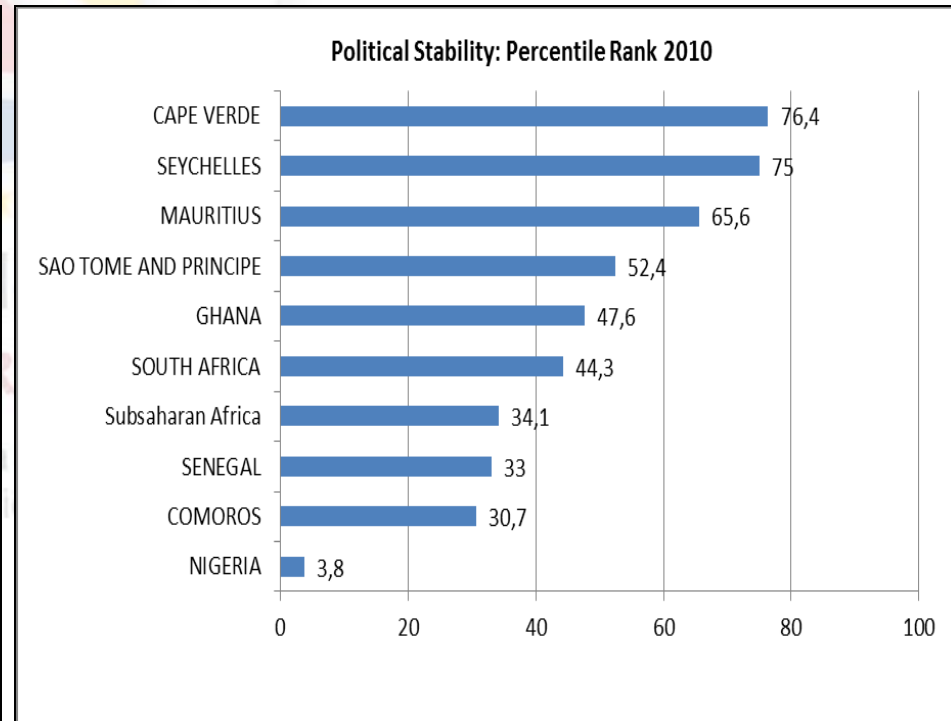
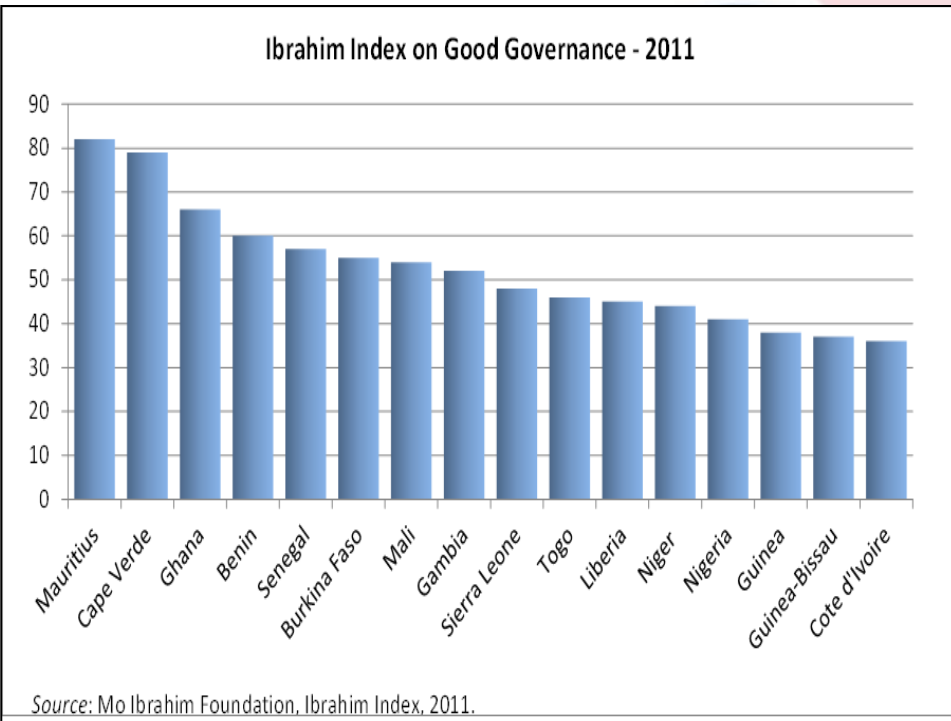
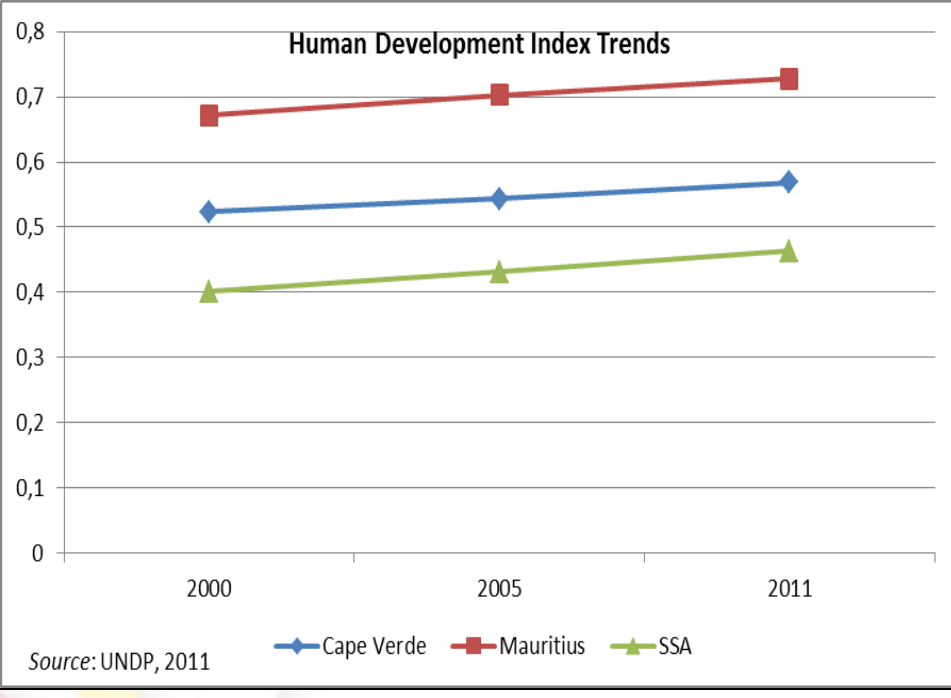
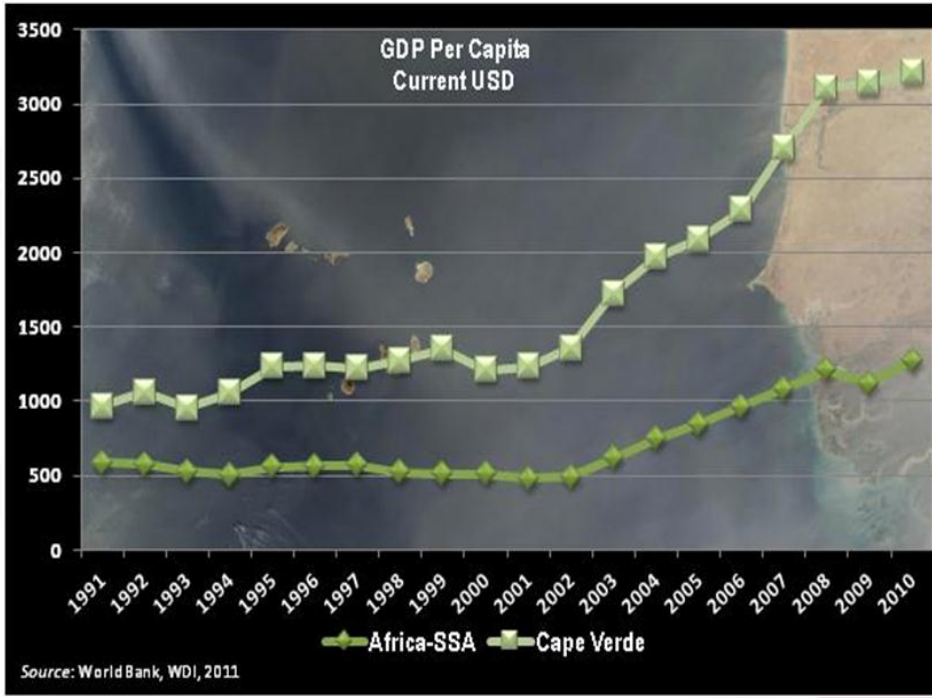


How does a micro-sized, resource poor island country, starting with nothing in 1975, achieve relative development success in the context of enduring structural vulnerabilities and a fast-moving, competitive global economy?

Success with and despite structural vulnerability

- High level of openness and external dependency
- Insularity, micro size, poor natural resources endowment, lack of unified domestic market, Sahel climate, limited agriculture, history of famine and droughts
- 2008 graduation based on 2 of 3 criteria, economic vulnerability remains concern

- Cape Verde – an economic, social, and political success story
- High growth, with social inclusion, political stability and social peace since 1975
- One of the most stable multiparty democracies in the world
- Peaceful transfers of political power, from colonial rule to independence (1974/75); from one-party rule to multiparty democracy (1991); and 5 presidential elections



The four main ingredients of success



- Consistent investment in human development
- Good governance and sound management of the state and economy
- Social-political stability since 1975
- Generosity of the international community as well as the strong ties its global Diaspora retains to the homeland

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The Growth Model

Growth strategy: factor (physical, human) accumulation (Public Investment)

- A services-based economy, fuelled by booming tourism sector (24% of GDP)
- Fastest growing tourism industry among all highly tourism based economies



Sustained, robust growth in all three phases of development path:

- Central Planning Era 1980-1990: 5.2%
- Liberalization Era 1991-2000: 5.8%
- Transformation Era 2001-2010: 5.9%

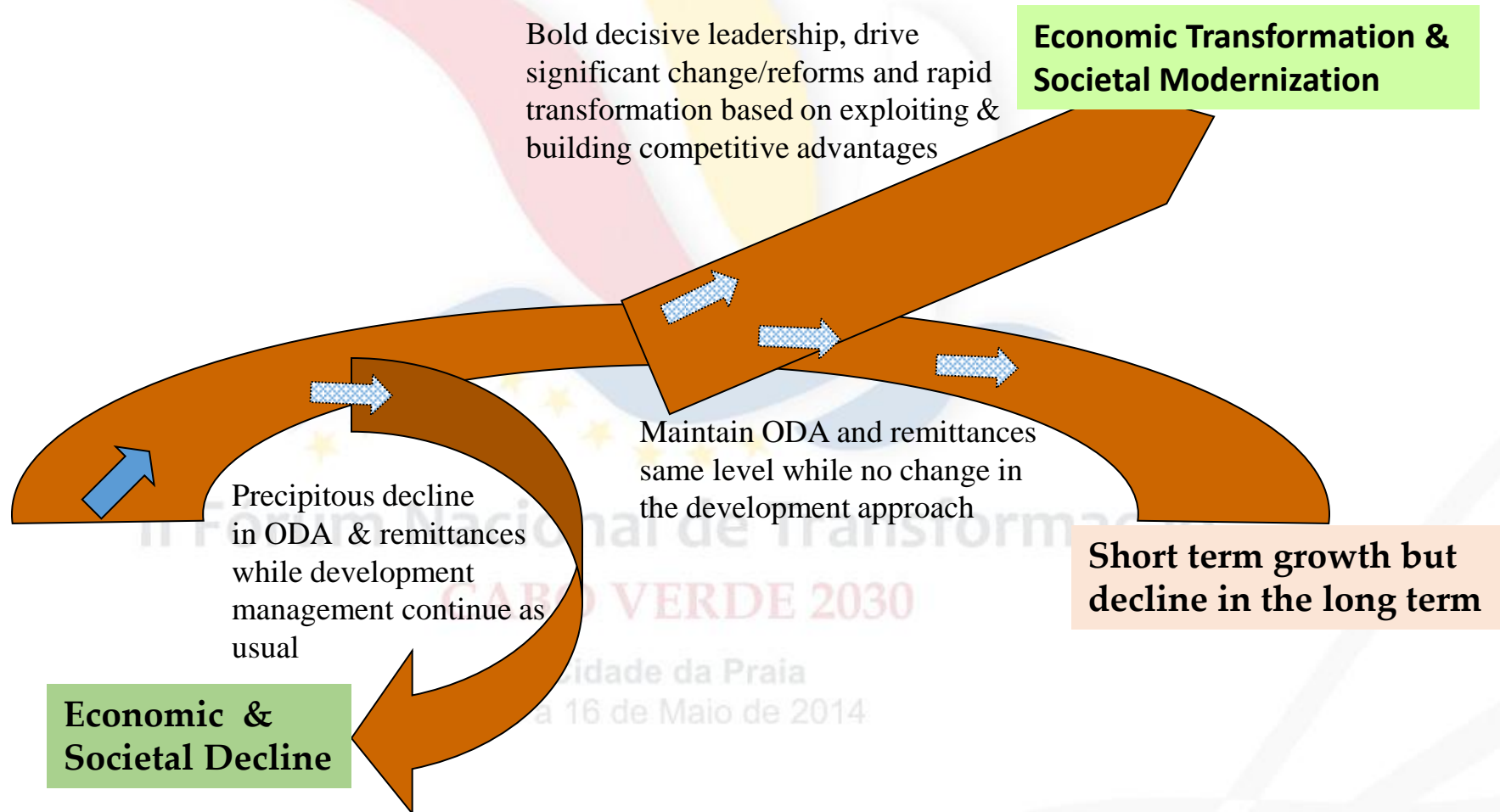


Financing Model: ODA, Concessional Resources, FDI, Remittances

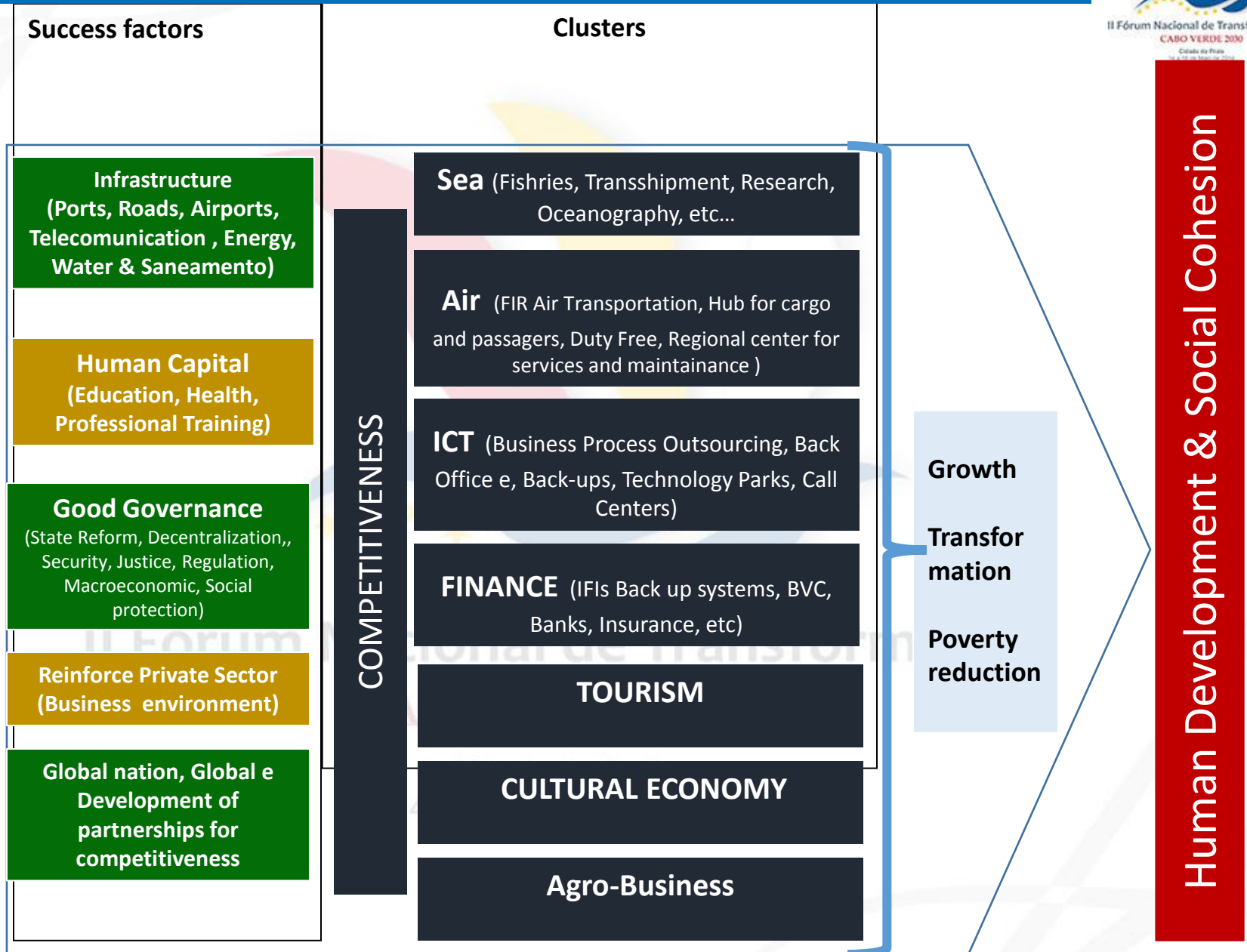
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The transformation agenda

Future scenarios as envisioned in 2002-2003



The transformation agenda

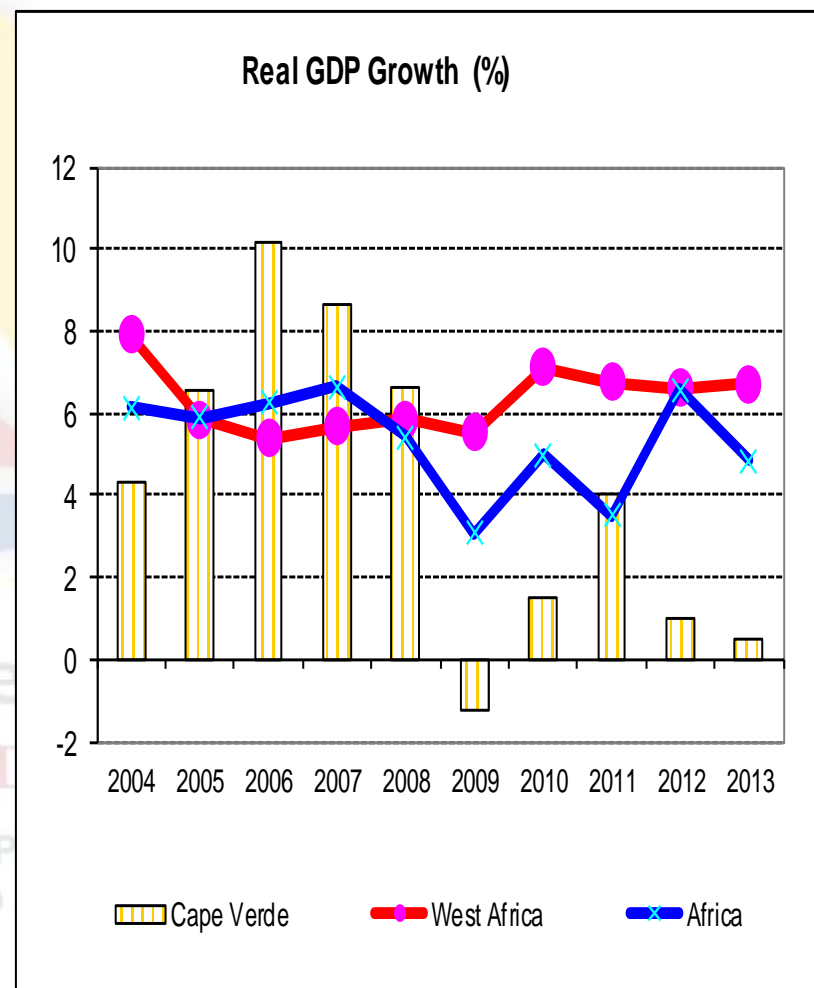


International Crises and New Challenges

-> Since 2009, Cape Verde economic performance has been severely affected by the global financial crisis and the European debt crisis, in particular through a steep fall in FDI and tourism exports—the country's major sources of growth—as well as in remittances, and official transfers.

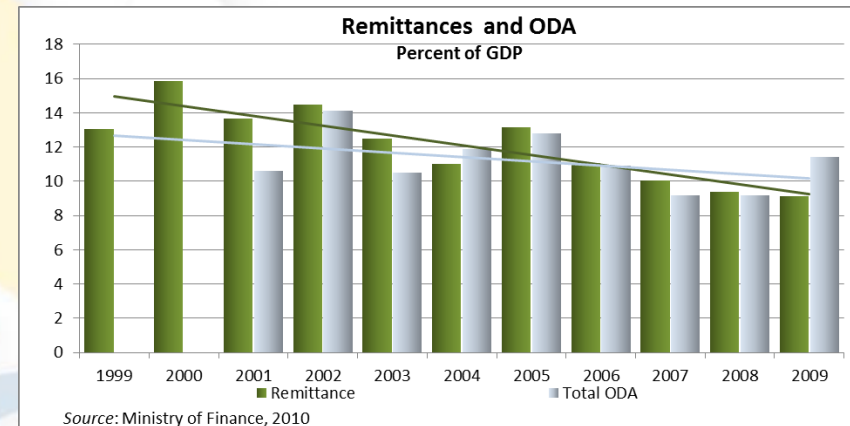
-> Cape Verde is at crossroads and has to address new challenges to make the transition to the upper-MIC category happen.

-> This requires establishing new bases of sustainable growth through boosting the private sector, improving infrastructure efficiency and institutional capacity to compete with success.



The Major Challenges and Constraints to Development

- Cape Verde is structurally, and irreducibly, vulnerable because of its micro scale, insularity and unfavorable natural endowments
- Reduction in ODA
- Remittances and Tourism is increasing the exposure and vulnerability to external shocks



The Major Challenges and Constraints to Development

Infrastructure

- Cape Verde has been making progress in infrastructure development.
- However, the cost, quality and reliability of infrastructure continues to make it a constraint
- This concerns all infrastructure – Power, telecom, water, transport, etc

Human Capital Resources

The quantitative strides made in education, however, mask serious problems with quality and relevance

- The existing curriculum at the secondary, medium, and tertiary levels is poorly or not at all aligned with the present needs or future direction of the economy.
- There is a disconnect between educational and workforce training institutions and businesses.
- The education sector in Cape Verde lacks effective quality control. The tertiary education sector is especially deficient in this regard.

The Major Challenges and Constraints to Development

Global Ranking: Ease of Doing Business

	2009	2010	2011	2012
Mauritius	24	17	21	23
Seychelles	105	111	109	103
Singapore	1	1	1	1
Senegal	152	157	157	154
Morocco	130	128	115	94
Ghana	92	87	60	63
Rwanda	143	67	50	45
South Africa	32	34	36	35
Cape Verde	147	146	132	119

- **Institutional capacity**
- **Enabling a Favorable Investment Climate**
- **Innovation-Promoting Institutions**

Macroeconomic risks, public debt and public expenditures management, including public utilities management.

Vulnerability to Climate Change.

Singapore model of economic development

Fifty years ago, the city-state of Singapore was an undeveloped country with a GDP per capita of less than US \$320.

Today, it is one of the world's fastest growing economies. Its GDP per capita has risen to an incredible US \$60,000, making it the sixth highest in the world.

For a country that lacks territory and natural resources, Singapore's economic ascension is nothing short of remarkable. By embracing globalization, free market capitalism, education, and strict pragmatic policies, the country has been able to overcome their geographic disadvantages and become a leader in global commerce.

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Singapore model of economic development

Singapore rely on an extended concept of intermediary trade to *Entrepôt* trade, by purchasing raw goods and refining them for re-export, such as in the wafer fabrication industry and oil refining.

Singapore also has a strategic port which makes it more competitive than many of its neighbours in carrying out such *entrepôt* activities. The Port of Singapore is the second-busiest in the world by cargo tonnage.

In addition, Singapore's port infrastructure and skilled workforce, which is due to the success of the country's education policy in producing skilled workers, is also fundamental in this aspect as they provide easier access to markets for both importing and exporting, and also provide the skill(s) needed to refine imports into exports.



Singapore model of economic development

To preserve its international standing and further its economic prosperity in the 21st century, Singapore has taken measures to promote innovation, encourage entrepreneurship, re-train her workforce, and even attract foreign talents.

These measures aim to boost Singapore's productivity, so that Singapore remains competitive and ready for the challenges of an information-driven global economy.

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The Emerging Economic Model of Mauritius

Since independence in 1968, Mauritius has developed from a low-income, agriculturally based economy to a middle-income diversified economy with growing industrial, financial, and tourist sectors. For most of the period, annual growth has been in the order of 5% to 6%.

Mauritius has followed a pragmatic development strategy in which liberalization process was sequenced and tailored to its competitive advantages and weaknesses.

The export-orientated approach has encouraged liberalization supported by strong state involvement as a facilitator (of the enabling environment for the private sector); as operator (to encourage competition); and as regulator (to protect the economy as well as vulnerable groups and sectors from shocks).

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The Emerging Economic Model of Mauritius

Strategies were evidence-based and adapted according to results. There has been consistency and stability, regardless of which political party is in power.

The government's development strategy centers on expanding local financial institutions and building a domestic information telecommunications industry. Mauritius has attracted more than 9,000 offshore entities, many aimed at commerce in India and South Africa, and investment in the banking sector alone has reached over \$1 billion.



The Emerging Economic Model of Mauritius



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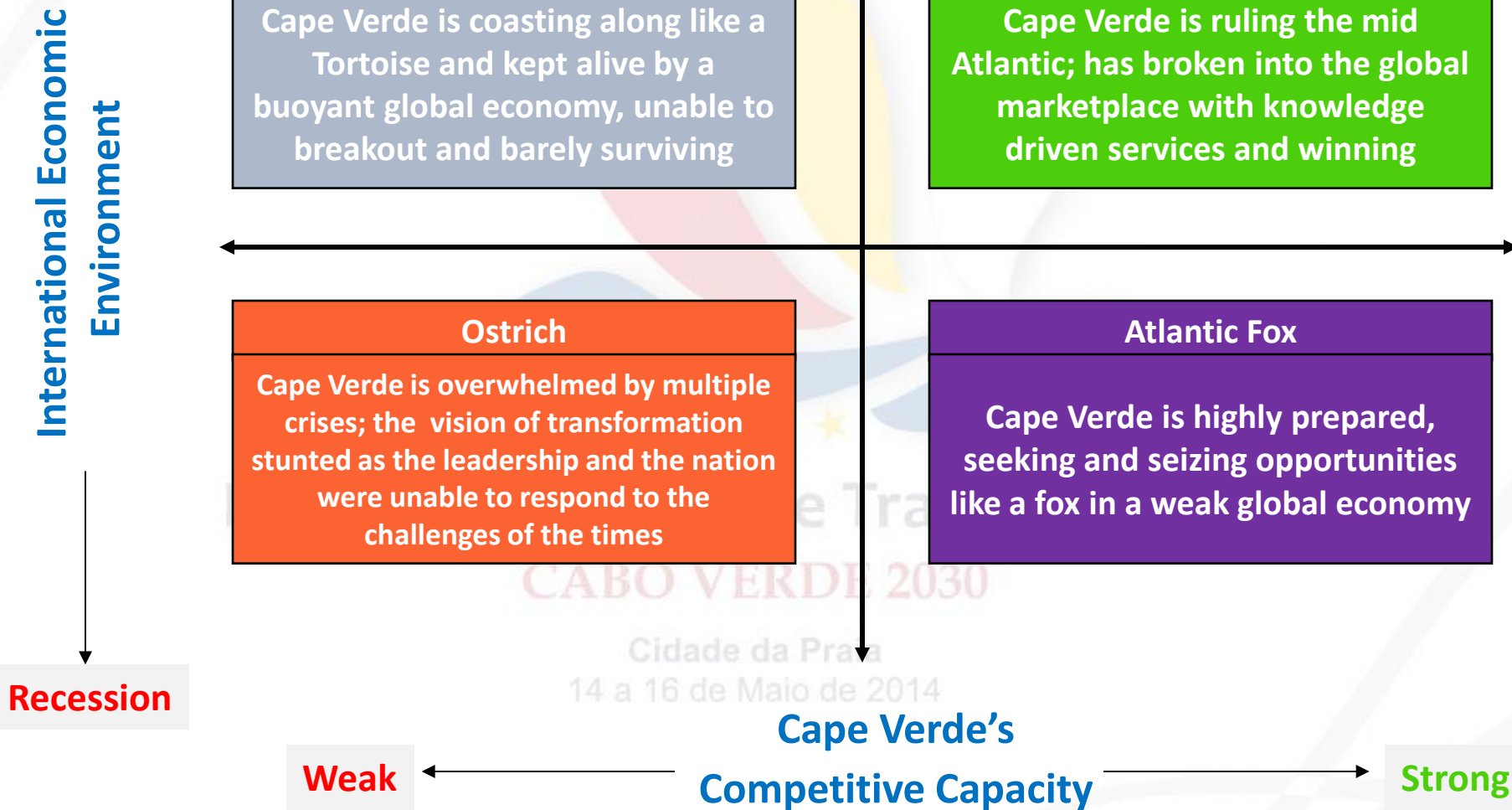
Macro Variables that will Shape the Future of Cape Verde

	Key Variables	Description	Uncertainty
1	External financing	This is an agglomeration of ODA, FDI, external public borrowing/sovereign debt financing and Remittances. ODA, which is made up of concessional loans and grants, is expected to remain about the same level for a few more years but will begin to decline in value and importance over the long term. Concessional loans as a share of ODA and external public borrowing have both become more important in recent years and could continue to rise. However, there is limited room to expand borrowing. Remittance is expected to decline in importance. FDI is highly dependent on the international economic environment.	Medium
2	Governance	This variable includes the issues of public administration, macroeconomic management, and property rights. These are areas where Cape Verde is ranked highly and continues to build on successes.	Low
3	Social Peace	Social peace has been a crucial capital for Cape Verde. Although there are emerging concerns about public safety and organized crime groups using the Islands as transit point. Laws have been enacted to target these challenges and international partnerships developed to tackle the issues before they become a major crisis.	Medium
4	Infrastructure	This includes social and economic infrastructure. Government have invested substantial amount of resources and undertaken various reforms to ensure access. The challenges that remain are regulatory in nature and also have to do with cost and quality. Expectation is that government will continue to invest in infrastructure development.	Low
5	Education and Skills	Cape Verde has made significant progress in ensuring access to education. Quantity is no longer a problem. But the challenge looking forward has to do with quality and relevance.	High
6	Efficiency and innovations	Cape Verde has no option but to compete based on efficiency and innovation. But the reality is that despite progress in reforms major issues remain, including the high levels of bureaucracy, weak public administration, weak innovation and competitiveness supporting institutions, and a very limited national system of innovation.	High
7	Finance and Banking sector	Reforms embarked upon over the last decade are changing the banking sector for the better. The opening of the sector is attracting new firms and should facilitate more competition and innovation in financial services.	Medium
8	Regional Stability	The trend over the last two decades has been increasing peace and stability in the region. Despite occasional flare ups or setbacks, expectations are that the march towards peace and democracy will continue in the region.	Low
9	Partnerships	Partnerships have been a key ingredient in the success of Cape Verde. The ability to manage its relationship with donors and to attract investors has been crucial. For example, it is the only country in SSA to have a special partnership with the European Union. The challenge moving forward is how to transform its traditional partnership to focus on enhancing the nation's capacity to compete in the global market place.	Medium
10	Climate change	The effect of climate change is already being felt in Cape Verde and it is going to continue for some time to come unless there is a complete reversal of behavior and policy change at the global level.	Medium
11	International economic environment	The inability of the US to strongly emerge from recession and the crisis in the Eurozone could drive the world into a deeper recession. A sustained crisis in the Eurozone will significantly impact Cape Verde.	High

Scenarios Matrix

	Cape Verde's Competitive Capacity	International Economic Environment
Ostrich	Weak	Recession
Tortoise	Weak	Boom
Atlantic Fox	Strong	Recession
Atlantic Tiger	Strong	Boom

Four divergent futures



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Comparing the Scenarios



Variables	Ostrich	Tortoise	Atlantic Fox	Atlantic Tiger
GDP	Contraction	Very low growth	Reasonable Growth	Substantial Growth
Per Capita GDP	Substantial decline	Slow decline	Growing	High growth
ODA	Swift decline	Slow decline	Unchanged/New forms of partnerships	Increased/New forms of partnerships
FDI	Substantial decline	Low levels of FDI	Growing FDI	Substantial increase in FDI
Budget deficit	Rapid rise	Increasing	Declining	Approaching balanced budget
External debt	External Debt/GDP ratio increase rapidly	Slow increase in Debt/GDP ratio	Slow reduction in Debt/GDP ratio	Substantial decline in Debt/GDP ratio
Domestic debt	Substantial increase in domestic debt/GDP ratio	Increased domestic debt/GDP ratio	Domestic debt/GDP ratio unchanged	Reduced domestic debt/GDP ratio
Remittances	Increasing	Remained about the same	Increased & harvested for productive investments	Increased & harvested for productive investments
Macroeconomic management	Worsening	Declining capacity	Strengthened	Strengthened
Business environment	End of reforms / worsening of the business environment	Slowed reforms	Conducive business environment	Conducive business environment
Private sector	Decline	Weak	Improved	Improved
Tourism	Major decline in tourism sector	Some reduction	Stable	Rapid Growth
Productivity	Declined	Stagnated	Increasing	Substantial rise
Unemployment	Very high unemployment	Increasing unemployment	Declining unemployment	Low levels of unemployment
Brain Drain	Everyone is leaving (skilled and unskilled)	Increasing brain drain of skilled people	Beginning of reverse immigration	Substantial number of Diaspora returnees
Innovation & efficiency	Worsening	Remains the same	Improving	Significant improvement
Crime/Public Safety	Worsens substantially	Worsening	Improving	Major improvement
Organized crime	Rapid rise & deepened	Worsening	Improving	Major improvement
Corruption	Rapid rise & deepened	Increasing	Unchanged	Declined
Inequality	Increased substantially	Increasing	Remains the same	Reduced significantly
Education (quality & relevance)	Declined	Maintain status quo	Significant improvement	Improved
Infrastructure (quality and cost)	Worsens Significantly	Begin to decline	Major improvement	Improved
People (Civil society)	Disengaged	Disengaged	Engaged	Engaged
Politics	Very Corrupt	Corrupt	Improved	Improved

Strengths and Opportunities

- A still significant tourism potential**
- An ingenious management of relations with the Diaspora estimated at about one million persons.**
- A geo-strategic position for international transport and a good integration into the global economy.**
- A potential for the development of renewable energy sources**

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Elements for a Strategic Agenda

- Implementing a new approach for development management
- Extending and deepening reforms
- Building human resources and skills
- Attract foreign high qualified skilled workforce
- Attract FDI
- Promoting Innovation and entrepreneurship
- Expanding Infrastructure and improving the quality
- Facilitating access to finance
- Ensuring social cohesion
- Integration to ECOWAS region

Defining the Critical Uncertainties

International Economic Environment

- Will sustained growth return or will it be a return to recession?
- Will the global economy continue to be characterized by increasing openness and competition or will crises lead to protectionism?
- Will the Euro Contagion grow and significantly impact on Cape Verde?
- How will the emerging power shift to the East affect Cape Verde?

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Defining the Critical Uncertainties – Cape Verde's Competitive Capacity

Education & Skills

- Will Cape Verde be able to ensure world class quality for its technical and university education?
- Can technical and university education in Cape Verde be refocused and made relevant for economic transformation?
- Will Cape Verde be able to ensure continuous skills and capability upgrading for its labor force?

Efficiency & Innovations

- Can Cape Verde build capable competitiveness supporting institutions for standards, quality control, certification, business development and investment promotion?
- Can Cape Verde generalize its reform agenda to end bureaucracy, reduce administrative burden, simplify processes and facilitate business growth?
- Can Cape Verde build a capable national system of innovation (including promoting S&T and R&D) for knowledge driven services?
- Can Cape Verde effectively facilitate knowledge remittances from its Diaspora?



Muito Obrigado!

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