

# Financing Development

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Performances Group

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II Fórum Nacional de Transformação

CABO VERDE 2030

Cidade da Praia

14 a 16 de Maio de 2014

# The Context

- ✓ **Major progress after the 1<sup>st</sup> Forum on Economic Transformation in 2003:**
  - *Cabo Verde graduated as a Middle Income Country (MIC)*
  
- ✓ **New ambitions for 2030:**
  - *“Build an Inclusive Nation that is fair, prosperous, with opportunities for all”*
  - *Reach Upper MIC*
  
- ✓ **An Agenda articulated around the development of Clusters:**
  - *Maritime*
  - *Tourism*
  - *Cultural Economy*
  - *Agro-business*
  - *Air Transportation*
  - *ICT*
  - *Finance*
  
- ✓ **The issue of financing for development is central to this economic transformation and requires a comprehensive approach to improve development financing.**
  - *Private sector investment and operation*
  - *Government investment and support (Infrastructure, Education, Research, Private sector support)*

## New challenges emerge at the beginning of the second transformation phase.

- ✓ **How to undertake an important investment program with an already high debt level ?**
  - *Increase tax revenues*
  - *Improve project selection with greater attention to economic impact and debt sustainability*
  - *Delegate more to the private sector / Attract FDI*
  
- ✓ **How to improve public finance capacities while access to concessionary loans is decreasing ?**
  - *Optimize ODA*
  - *Diversify partners*
  - *Develop structured financing*
  
- ✓ **How to improve private sector financing with a small and already highly leveraged banking sector ?**
  - *Strengthen the banking system*
  - *Set up support instruments for SME financing*
  - *Support securitization and financial market development*

# Public Finance Reforms

*Reforms shall be aimed at ensuring debt sustainability*

## ❖ Improve the efficiency of tax collection

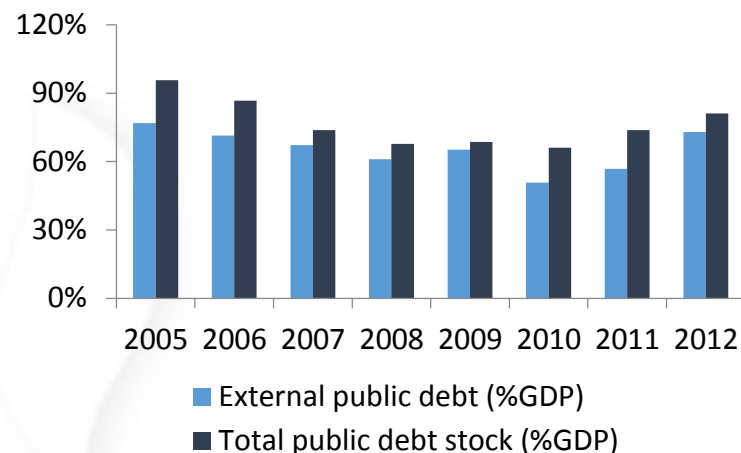
- ✓ Simplify formalities (pre-filled form, e-declaration and treatment)
- ✓ Hire and train more tax inspectors
- ✓ Increase controls
- ✓ Promote citizen behavior

## ❖ Enlarge the tax basis

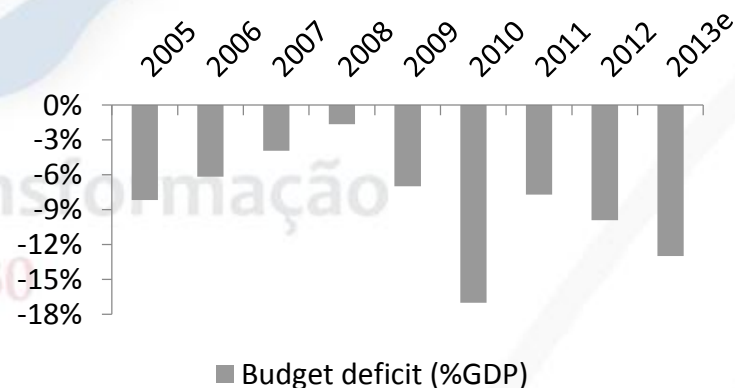
- ✓ New taxes rates
- ✓ Establish higher excise duties on certain goods
- ✓ Develop financing based on fees to be paid by users of the service

## ❖ Reform State Owned Enterprises

- ✓ Restructure the Electricity and Air Transportation sectors
- ✓ Accelerate the reform of remaining State Owned Enterprises (SOEs)



Source:WB



Source:WB

**Expected outcome: Better risk rating and future borrowing and debt service capacities**

# Optimize Official Development Assistance

*Maintain a significant contribution from technical and financial partners to its funding in the medium term*

## ❖ Optimize project planning

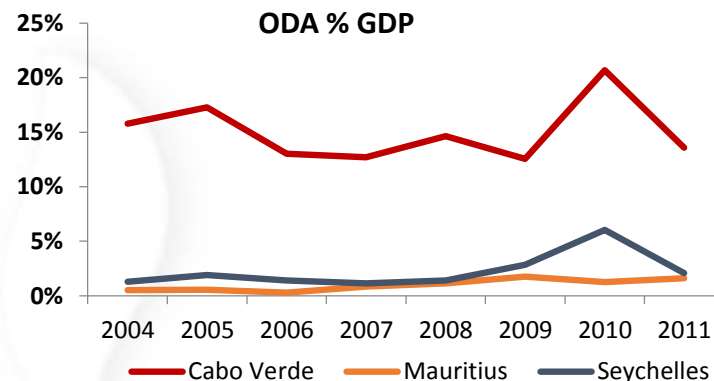
- ✓ Strengthen the capacity of departments in charge of the preparation and selection of projects

## ❖ Optimize existing bilateral relationships

- ✓ Improve the process of project selection and allocation between donors

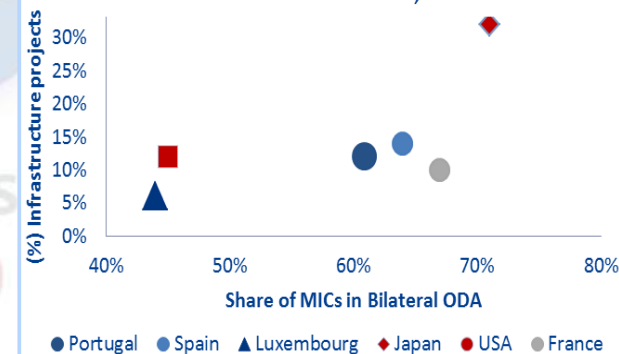
## ❖ Diversify financial cooperation

- ✓ Develop financial cooperation with major Emerging Countries



Source: OECD

A risk on the financial conditions, not the amounts



Sources: OCDE, PG

**Expected outcome: Better borrowing terms and conditions in the medium term and improved debt sustainability; in the long run, ODA contribution should be limited.**

# Develop Public Private Partnerships

*Provide technical and financial resources to assist in structuring, promoting projects to the private sector and implementing them.*

## ❖ Set an adequate legal and regulatory framework

- ✓ Establish a suitable legal and regulatory environment

## ❖ Make operational the PPP unit

- ✓ Provide Human and financial resources to the Unit in charge of selecting operators, negotiating and managing contracts
- ✓ Define a PPP policy to channel investments in priority sectors

### Expected outcomes:

- Involve the private sector in the financing of all income generating projects: energy, water, sanitation, maritime transport, air transport;
- develop a national expertise that will help to attract and facilitate private investments

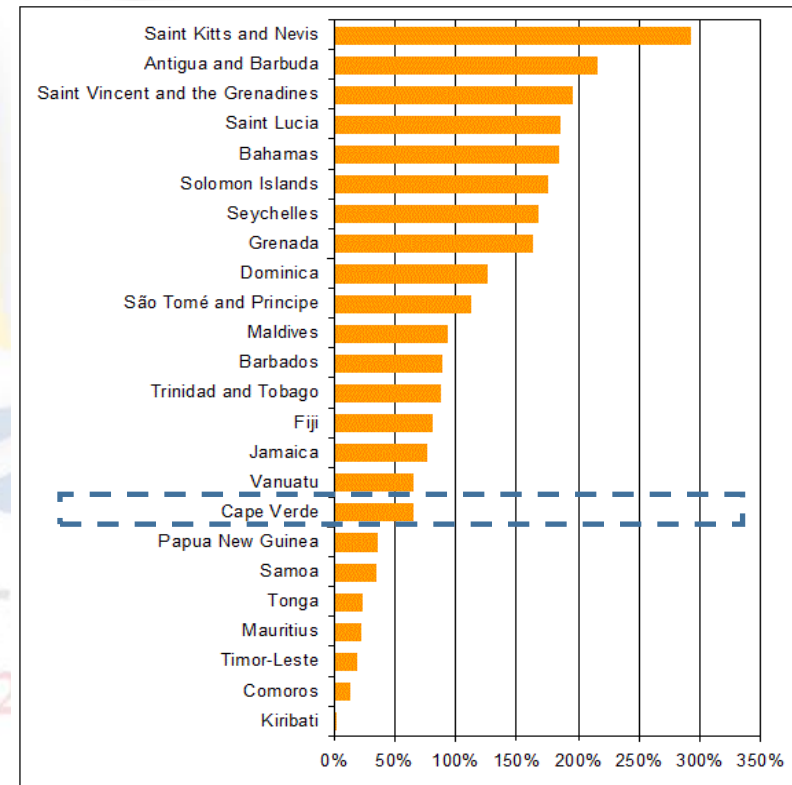


# Attract more diverse Foreign Direct Investment

*Set the conditions for a strong involvement of foreign investors in financing the development of the clusters.*

- ✓ Accelerate Doing Business Reforms
- ✓ Strengthen and empower keys agencies and institutions (CV Investment, ADEI, Chambers of Com.)
- ✓ Sustain the development of Competitiveness areas (Business Parks, SEZ, Offshoring...)
- ✓ Institute a permanent Public Private Dialogue / Partnership
- ✓ Bilateral agreements with host countries of targeted investors (Investment Promotion and Protection Agreements: IPPA, Non Double Taxation Agreements: NDTA)

**Ratios of FDI stock to GDP of SIDS, 2011**



Source: UNCTAD, World Investment Report 2013.

## Expected outcomes:

- Private sector and PPP development;
- +50-80% of GDP increase in FDIs.

# Strengthen Banking System

*Promote a resilient banking system with adapted financing solutions.*

## ❖ Promote the development of a strong banking system

- ✓ Adopt the Basic Banking Law and the Law on Financial Institutions
- ✓ Incorporate progressively the Basel III rules
- ✓ **Establish a Credit Information Bureau**
- ✓ **Undertake annually a financial stability assessment**

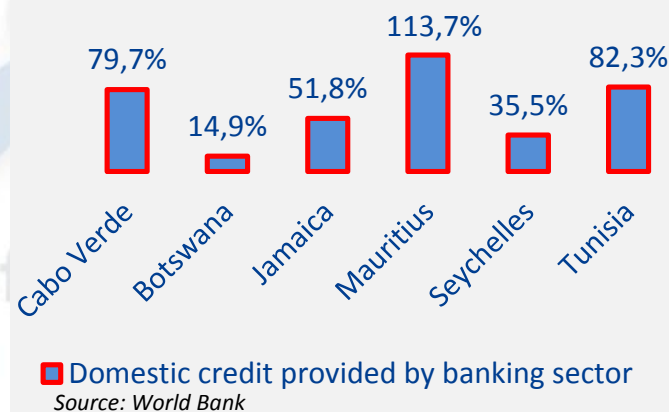
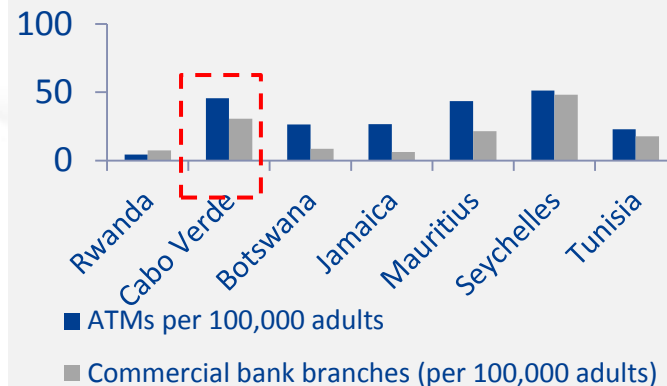
## ❖ Targeted support to promote SME financing

- ✓ **Provide technical and financial support to the Guarantee funds, Specific credit facilities, Venture Capital funds**
- ✓ **Review the regulatory framework for the development and expansion of microfinance activities**
- ✓ **Promote the establishment of a recognized microfinance institution**
- ✓ Promote the setting of microfinance rating agencies
- ✓ Review the legal and tax frameworks to support the development of leasing and factoring services

## ❖ Develop refinancing options

- ✓ Mortgage refinancing on financial market

### Good access to financial services...



### ... But several weaknesses:

- High concentration of banks, sectors, debtors;
- Vulnerability to external factors



# Creation of Credit Bureau

## Credit Bureau in Morocco – before and after

### Before

- **Lack of information on credit exposure**
- Lack of efficient IT support (manually managed work)
- **Significant periods of time taken for credit decision (sometimes longer than 60 days)**
- **Requests for important collateral coverage**
- **Significant and constant increase of NPL**
- **Increasing credit costs**

### After

- **Shorter decision time required for loan approval**
- **Efficient credit risk management**
- **Decrease in NPL and credit costs**
- **Significant decrease of high indebtedness**
- **Decrease in interest rates costs**

### Expected outcomes in the banking system:

- A banking sector, able to support SMEs and large enterprises in financing their investment projects and operations;
- An active and innovative sector, offering competitive solutions for each type of client;
- A cluster contributing significantly to GDP with greater resilience to systemic shocks;
- +30% increase of the Bank credit/GDP ratio.



# Stimulate Capital Markets

Reach a critical mass to play an important role in financing the economy

## ❖ Stimulate financial and long-term savings

- ✓ Educational programs
- ✓ Develop and diversify financial instruments to increase access to market (mutual funds)
- ✓ Set tax incentives

## ❖ Develop securitization

- ✓ Establish a suitable legal and tax framework
- ✓ Develop capacities of the financial sector
- ✓ Develop credit rating agencies

## ❖ Set incentives for listing market transactions

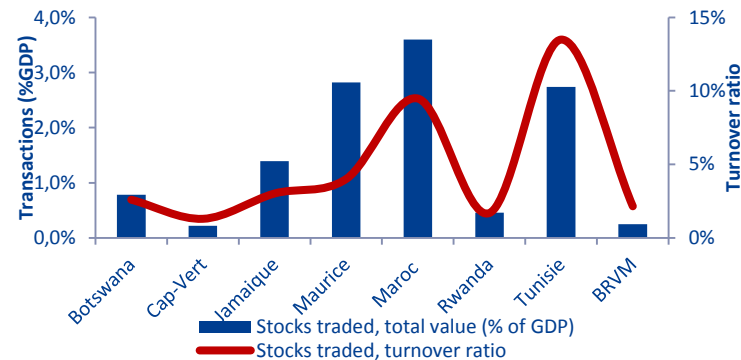
- ✓ Promote the listing of new companies by targeting and encouraging major sectors
- ✓ Open compartments for SMEs and foreign listed securities

## ❖ Enhance cooperation with international markets

A small capital market dominated by bond issues...



...With limited volumes of transactions



Source: BVC

## Expected outcomes:

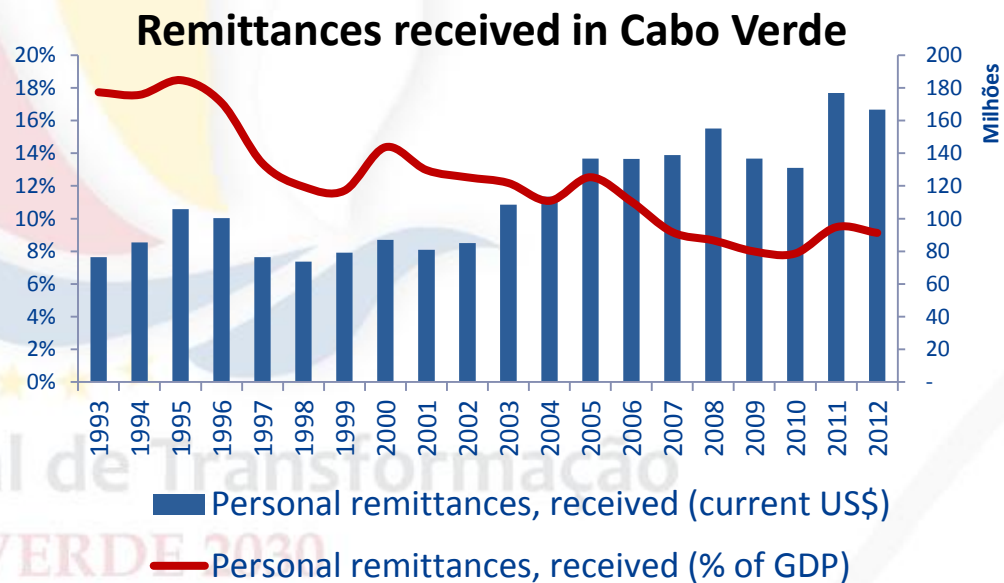
- Provide long-term financing to companies and the Government, and investment solutions to institutional and individual investors;
- +50 increase in Market capitalization/GDP.

# Channel Remittances for financing the economy

*Attract remittances and channel them more towards investment*

## ❖ Promote diaspora investments

- ✓ Facilitate housing ownership and real estate investment;
- ✓ Develop Mutual Funds;
- ✓ Provide tax incentives.



**Expected outcome: stabilize their savings and contribute to the increase of long-term financing of the economy.**

# Develop the enabling factors

## ❖ Legal environment

- ✓ Investor protection
- ✓ Resolving insolvency
- ✓ Enforcing contracts
- ✓ Registering property

## ❖ Support activities

- ✓ accountants, auditors, legal advisors, notaries, process servers, technical advisers, IT services, back office support, business services...

## ❖ Infrastructures

- ✓ Information, Communication & Technologies
- ✓ Electricity
- ✓ Air Transport
- ✓ ...

## ❖ Human resources

- ✓ professional financial education and training for banking, financial sector and support activities

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# Conclusions

## *Recommended Quick wins*

- ✓ **Make operational the PPP Unit**
- ✓ **Set a Credit Information Bureau**
- ✓ **Strengthen the microfinance institutions**
- ✓ **Improve the supply of leasing and factoring services**
- ✓ **Launch a housing mortgage refinancing project**

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