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Common Title:

**ANALYZING POLICY OPTIONS FOR PROMOTING DIVERSIFICATION OF
THE TOURISM SECTOR IN CABO VERDE AND FOSTERING RESILIENCE
IN A POST-PANDEMIC ENVIRONMENT**

Individual Title:

**UNLOCKING FISCAL SPACE:
LEVERAGING OPPORTUNITIES TO EMPOWER PROGRESS IN
DEVELOPING COUNTRIES**

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ABSTRACT

This study examines policy options to promote the diversification of the tourism sector in Cabo Verde and increase its resilience in the post-pandemic context. We conducted qualitative research on Sal Island, engaging with stakeholders from the government, the tourism industry, and local communities. Our findings shed light on various initiatives, such as improvements in basic education, digitalization, and the diversification of tourism products. However, we also uncovered significant challenges related to connectivity (both within and between islands, as well as international), infrastructures, socioeconomic inclusion, the development of specialized human capital, and community engagement. Based on our findings, we describe several policy options. These policies include undertaking strategic investments in infrastructure, creating fiscal space for development initiatives, expanding the range of tourism experiences, enhancing human capital through education and training in tourism-related services, promoting the formalization of small businesses, and encouraging responsible tourism practices through Corporate Social Responsibility certification schemes. This work provides valuable insights that can support the development of sustainable and inclusive tourism policies in Cabo Verde.

The individual research by Tobias Derr, investigates the challenges faced by small developing countries like Cabo Verde in expanding their fiscal space. It emphasizes the significance of fiscal space in achieving sustainable development goals and explores the role of taxation and informal sector formalization in this context. Drawing on insights from the Maldives, the study suggests policy options for Cabo Verde, including tax policy reforms, strengthening an independent tax authority, capacity building within the administration, and addressing challenges in the informal sector. These strategies are

essential for enhancing fiscal space and supporting future development in Cabo Verde and similar nations.

Keywords: Tourism Diversification, Socioeconomics, Public Policy, Fiscal Space

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List of acronyms and abbreviations

CV	Cabo Verde
BCV	Banco de Cabo Verde
CSR	Corporate Social Responsibility
FDI	Foreign Direct Investment
FSST	<i>Fundo de Sustentabilidade Social para o Turismo</i> / Tourism Fund for Social Sustainability
GOPEDS	<i>Grandes Opções do Plano Estratégico de Desenvolvimento do Turismo Sustentável</i> / Grand Strategic Plan Options for Sustainable Tourism development 2018-2030 -
GDP	Gross Domestic Product
GSTC	Global Sustainable Tourism Council
ICT	Information and Communication Technology
IGQPI	Institute of Quality and Intellectual Property Management
ILO	International Labour Organization
IMF	International Monetary Fund
INE	<i>Instituto Nacional de Estatística</i> / National Institute of Statistics
MVI	Multidimensional Vulnerability Index
NGOs	Non-Governmental / Non-Profit Organizations
PEDS II	<i>Plano Estratégico de Desenvolvimento Sustentável</i> / Strategic Sustainable Development Plan 2022-2026
POT	<i>Programa Operacional do Turismo</i> / Operational Program for Tourism
SDGs	Sustainable Development Goals
SIDS	Small Island Developing State
SMEs	Small and Medium Enterprises
TVET	Technical and Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development
UNWTO	United Nations World Trade Organization
VSEs	Very Small Enterprises
WTTC	World Tourism and Travel Council

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Executive Summary

The economy of Cabo Verde is highly reliant on the tourism sector, making it vulnerable to external shocks. The tourism sector's diversification is therefore essential to enhance competitiveness, sustainability, and resilience. As in other Small Island Developing States, tourism constitutes nearly one-fourth of Cabo Verde's GDP, and it has mainly focused on offering one product -“sun and sea” tourism-, concentrating its activities in only two of the country's nine inhabited islands -Sal and Boa Vista- as destinations, and relied only on a few source markets -primarily the United Kingdom, Germany, and France. Recently, the convergence of climate-related events, the severe impact of the COVID-19 pandemic, and the Russia-Ukraine conflict have generated a triple crisis in the archipelago, exacerbating existing structural challenges and highlighting the need for alternatives to overcome present and future adversities.

The main objective of this work project is to examine in detail policy options that can support the ongoing efforts of the government and international organizations to diversify the tourism sector in Cabo Verde, with the overall goal of building a more sustainable, inclusive, resilient, and socially responsible industry.

To achieve its objectives, this project undertook detailed qualitative data collection and analysis. Structured and unstructured interviews were conducted during an on-site visit to Sal Island, engaging with the main stakeholders in the tourism sector at three levels: 1) professionals & government representatives; 2) tourism industry representatives; 3) residents and neighbors in Santa Maria. This comprehensive approach provided an overview of the sector's dynamics and challenges. The information gathered was analyzed by the project team. In particular, software tools were used to categorize the main topics, as well as to identify

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patterns across the different views of stakeholders (in the first and second levels) related to tourism diversification efforts and challenges.

In addition, an extensive literature review was carried out, including relevant academic papers, reports from international organizations, and official documents. This exercise had two main goals: first, to compile evidence that can inform policymakers; and second, to provide an overview of the ongoing initiatives carried out in the country by national and international actors. Moreover, the project team incorporated insights from lessons learned from a variety of experiences in small island countries and other relevant contexts around the world, and also examined Cabo Verdean legislation related to the topic at hand. The variety of sources facilitates the provision of relevant, evidence-based, and context-driven recommendations.

We first developed an overview of Cabo Verde's context, focusing on different aspects: the country's socio-economic context, human capital, banking sector, pandemic impact and recovery, its special relations with the European Union, and the Government's strategic priorities. We also analyzed the general tourism ecosystem. This broad spectrum of topics served as a foundation for the findings obtained during the on-site visit.

The qualitative research in Sal Island emphasized significant efforts in education and digitalization, as well as diversification of the tourism destinations and products, especially at the Government level. Nevertheless, the interviews also revealed a range of complex challenges. These challenges are mainly related to connectivity (intra, and inter-island, as well as international), formalization of small businesses, interactions between hotels and local communities, sustainability and climate change concerns, human capital development and professionalization, the enhancement of tourism infrastructure and strengthening of the local supply chain.

Following the analysis pursued in this work project, we summarize the main policy options and recommendations in the following paragraphs.

1. Fostering Diversification: Promoting diversification means helping small entrepreneurs to achieve certain standards, such as quality and safety norms, which allow them to establish contacts with the major players in the tourism sector. Jamaican “Linkages Network” and Maldives/New Zealand examples show the success of training, support, and regulation in promoting local partnerships and industry formalization.

2. Investments and Infrastructure: Enhancing investments in infrastructure can maximize tourism industry advantages and promote diversification. Transportation improvements: the enhancement of the digital ecosystem, and the promotion of entrepreneurship through incubators are potential steps.

3. Fiscal Space for Development: Reshaping the taxation policy and administration could generate greater fiscal space for development, benefiting society. Simplifying tax regulations, ensuring transparency, establishing decentralized tax departments; providing training to young professionals; and increasing law enforcement to encourage formalization are essential strategies.

4. Widened Range of Tourism Products: Expanding tourism offerings leads to increased visitors seeking diverse experiences, enhancing tourist engagement, and benefiting destination growth, as well as attracting new investments and engaging the local community to the development of these new offerings.

5. Human Capital and Specialized Skills: Incorporating mentoring strategies in specialized skills, and integrating them into Corporate Social Responsibility programs, can enhance

human capital development of the tourism industry. In addition, implementing cash transfer programs could encourage training' completion.

6. Responsible Tourism, Private Sector and Local Communities: Developing a CSR certification scheme led by the Government could bring tourism enterprises and local communities closer. A special focus should be placed on including impact assessments on both firms' performance and the community's well-being, as well as ensuring community participation.

The insights obtained through our on-site research provide a comprehensive understanding of the dynamics, challenges, and opportunities of the tourism sector, especially in Sal Island. However, the generalizability of our findings to other islands or countries might be limited. Moreover, while on-site qualitative research offers valuable insights, complementing it with quantitative analyses is necessary to enhance robustness. Furthermore, despite concerted efforts, difficulties in reaching out to some of the main stakeholders in the tourism industry, namely international hotel chains, limit our conclusions.

As we navigate the path of tourism diversification in Cabo Verde, attention must be paid to different key areas: specialized human capital development, business formalization, strategic infrastructure investments, fiscal space unlocking, and the strengthening of responsible tourism practices. While these initiatives might not be sufficient for the country to successfully face future external shocks, they certainly provide elements to help the country in overcoming current and future social and economic challenges, by building a foundation for a more sustainable and inclusive tourism industry in the islands.

1. Introduction

The following section opens with a thorough description of fieldwork. We will describe the basic motivation that served as the project's incentive for beginning. Also further in the section, we will clarify the research question and look at the approach to successfully address and resolve it.

The underlying motivation of the project is aimed at creating policy options that could differentiate the economy of Cabo Verde. Establishing a separate economic path is necessary, with a special emphasis on the crucial role of the tourist sector, which currently makes up close to one-third of the nation's economy. The goal is to lessen reliance on a single type of tourism by investigating other opportunities within the tourism industry, thus minimizing the vulnerability caused by such dependency. By offering a larger variety of domestic economic opportunities and minimizing the effect of global trends on the country's internal adjustments, this strategic approach aims to improve the nation's economic prospects. The thesis' ultimate goal is to help Cabo Verde develop an economic landscape that is more robust and self-sufficient.

Gaining a solid knowledge of the available policy options to promote tourism diversification in Cabo Verde is the main contribution of the current study. The focus of the research is on developing and analyzing workable strategies designed to achieve this goal. The research team visited the location in person and engaged in an exhaustive method of qualitative data collecting in order to help with this investigation. Through a series of in-person and online interviews with important tourist industry stakeholders, crucial insights were obtained to tackle the research question.

2. Cabo Verde Country Portrait

2.1 Socio-Economic Context

2.1.1. Geography and Demography Overview

Cabo Verde is an African country, consisting of ten volcanic islands in the Central Atlantic Ocean, of which nine are inhabited. The archipelago is situated 570 km west of the West African coast of Senegal, and the country's capital Praia, is located on the Island of Santiago (United Nations. 2022). The islands are divided into the Barlavento group (Santo Antão, São Vicente, Santa Luzia, São Nicolau, Sal, and Boa Vista) to the north and the Sotavento group to the south (Maio, Santiago, Fogo, and Brava), making up a total land area of 4 033 km². However, Cabo Verde stands out for having a vast Exclusive Economic Maritime Zone that reaches about 734,000 km² (African Development Bank, 2012).

The climate of Cabo Verde is considered moderate and has stable temperatures, however, its proximity to the Sahara makes most of the islands of this archipelago dry and arid. In fact, the country's average annual rainfall is less than 350 mm, making the per capita availability of fresh water the second lowest in Africa (United Nations. 2022). Only about 10% of the land is considered arable, and natural and mineral resources are scarce, and the country is quite vulnerable to several climatic hazards that include droughts, rising sea levels, and volcanic eruptions. Despite having a short arable area, agriculture still has some economic weight, employing about 10% of the population. Some products are destined for exports, such as coffee, bananas, and wine, but the main exports of Cabo Verde consist of marine products (fish and seafood) (PEDS 2022).

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However, geographically Cabo Verde also has several important advantages that we must highlight. The natural beauty, the constant attractive climate all year round, and the proximity to Europe allow Cabo Verde to exploit the tourism industry which is the most important sector of its economy. On the other hand, the fact of being isolated from the African continent helps Cabo Verde to be more protected from problems such as insecurity, political instability, and communicable diseases (African Development Bank, 2012).

The geographic characteristics of Cabo Verde, composed of a small and fragmented archipelago, make it a country of strong regional asymmetries felt both at the economic and demographic levels. The country's population is spread over nine islands that are up to 300 km apart, and 88% of the population currently lives on four islands: Santiago (56%), São Vicente (15%), Santo Antão (9%) and Fogo (8%). Santiago is the largest island in size and where many of the main governmental institutions and infrastructure are located. Overall Cabo Verde has a population of 491,233 according to the 2021 Census, of which about 50.8% are male and 49.2% female. The Cabo Verdean population is young and growing, with 64 out of every 100 individuals under the age of 35, and the average population growth rate is 1.1% per year (PEDS 2022).

Since its independence, Cabo Verde has experienced high levels of emigration, especially during the 1980s and between 2003 and 2007, with most of these emigrants leaving for Portugal, France, and the United States of America. More recently, between 2009 and 2014, about one-third of the emigrants who left Cabo Verde left to study and it is not yet clear whether they return after completing their studies. Thus, Cabo Verde is a nation very marked by the diaspora and it is estimated that only 25% of its total population lives in the national territory. The importance of the direct and indirect economic contributions of this emigration

is remarkable, being between 25% of the national gross domestic product (GDP), which exceeds both the official development assistance and the total foreign direct investment. We can thus say that also by its geographical position Cabo Verde has become a nation open to the world, with its culture to integrate by force of this diaspora, influences from Africa as well as from Europe and America. (World Bank, 2018).

This initial geographic and demographic characterization, rather than intending to point to the challenges inherent in the context described, intends to demonstrate how both in levels of development and economic growth, Cabo Verde managed to overcome a set of initial constraints. In this sense, it is worth remembering the sentence uttered by Donald Kaberuka, President of the African Development Bank Group (AfDB), during his visit to Cabo Verde in 2010: “Never has a country in the continent taken up the many challenges facing Cabo Verde. Natural resource poor, with an arid Sahelian climate and little arable land, the country is poised to achieve most of the Millennium Development Goals” (African Development Bank. 2012). Indeed, and despite the fact that Cabo Verde remains a country with many constraints and challenges, it has been able to achieve important economic and social progress since 1990.

2.1.2. Cabo Verde's Economy Characterization

The economic growth of Cabo Verde has been boosted by the development of the tourism sector, which reached 29% of the national GDP in 2019, and the promotion of various social policies that have been sustaining considerable social development (“Cabo Verde Aspetos Gerais”, World Bank 2023). In this context, it's crucial to emphasize that the tourism industry contributes to 25% of the GDP and fuels approximately 40% of the total economic activity. From the point of view of economic growth, Cabo Verde has attained remarkable achievements, such as a substantial increase in per capita income and a remarkable growth in

GDP from \$975 to \$3,633 between 1991 and 2017. These developments have led to Cabo Verde being re-categorized as a middle-income nation by the World Bank in 2018, and to it being considered, by 2019, as one of the champions among Sub-Saharan African countries in terms of poverty reduction (World Bank, 2018).

Regarding the general framework of the economy of Cabo Verde, it should be highlighted, in addition to the heavy reliance on tourism and imports, the existence of a large sector of small and medium enterprises that operate within an informality. In this context, about 14.5 % of the active population is unemployed, and the heavy dependence on tourism means that about 77,500 are out of work from their education and training (Pacheco et al. 2022).

A sizeable percentage of private sector economic activities in Cabo Verde are conducted by small businesses, and in 2016 there were 9,444 active companies, all of them with more than 55,000 jobs (Pacheco et al. 2022). The existence of an informal market is a reality that is evident in Cabo Verde, and in 2015 Informal Production Units represented 78% of the market share in the country. These micro-entrepreneurs, who are often self-employed, prefer to remain in informality to avoid formal and bureaucratic systems. This makes these workers more vulnerable, as was evidenced during the pandemic, and prevents the government from being able to regulate and supervise these activities in a convenient manner (Pacheco et al. 2022). This informal market is marked by low productivity and low investment, and the Cabo Verdean government has been trying to motivate these entrepreneurs to formalize their businesses by promoting programs such as Pro-Enterprise. In this context, the COVID-19 pandemic, which left many of these informal workers without support, can be an important step in the transition of these businesses to formality. Indeed, by 2020, 103,613 workers were

already enrolled as active insurers, making the rate of insured workers within the employed population 55.3 percent (Pacheco et al. 2022).

The heavy dependence on the tourism sector and the inability to produce domestically makes this country, as we have seen in recent times, very vulnerable to external shocks. As with many Small Island Developing States (SIDS), Cabo Verde was severely affected by the COVID-19 pandemic, with the recession reaching 14.8 % in 2020 and the elimination of 9% of all jobs.

This led to an increase in poverty and caused Cabo Verde's public debt to reach historic numbers by reaching 157% of GDP in 2020, one of the highest levels in the world. (“Cabo Verde Aspetos Gerais”, World Bank 2023). On the question of the country's economic recovery, economic activity is estimated to have increased by 15% by 2022 and per capita incomes have surpassed pre-pandemic levels (2019). This strong economic performance, coupled with increased tax revenues, has caused public debt to decrease from 142.7 to 126.2% of GDP. Although this economic growth has been accompanied by a reduction in poverty (0.8% to reach 19.3% in 2022), Cabo Verde has been suffering from inflation caused by the disruptions arising from the conflict in Ukraine. (“Cabo Verde Aspetos Gerais”, World Bank 2023)

2.1.3. Cabo Verde's Challenges and Constraints

Although Cabo Verde's economy has made significant progress since its independence, which was powered by the development of tourism, its stability continues to be threatened by a lack of economic diversification and vulnerability to negative external shocks. In this sense, Cabo Verde's condition as a SIDS implies a series of structural constraints that result in vulnerability

to exogenous socio-economic and environmental shocks, well above the average of other countries. These constraints are measured by the Multidimensional Vulnerability Index (MVI), which in the case of Cabo Verde mainly highlights the existence of three different types of problems: Structural constraints (scarcity of water and arable land, high cost of infrastructure), Socio-economic constraints (lack of economic diversification, little trade openness and dependence on foreign income and imports) and Environmental constraints (PEDS 2022).

The existence of these vulnerabilities makes SIDS, and Cabo Verde in particular, one of the countries most affected by the crises that have been taking place. In this sense, the effort to build and work towards sustainable development and a resilient economy is one of the great challenges for the future of Cabo Verde. To achieve this path toward sustainable development, Cabo Verde must invest in sectors like human capital, smart agriculture, health, and the diversification of the economy through the promotion of the blue economy and the digital economy (“Cabo Verde Aspetos Gerais”, World Bank 2023). These Sustainable Development Goals (SDGs) were made an operational reality through the Strategic Sustainable Development Plan, also known by the Portuguese acronym PEDS (Plano Estratégico do Desenvolvimento Sustentável). This program and other complementary documents (which will be examined in more detail later in this work), more than only stipulating the main commitments and goals for the development of Cabo Verde, also draw attention to the main challenges and gaps that the country currently faces. In this attempt to draw the socio-economic context of Cabo Verde, it seems useful to highlight some of these issues.

According to data from the Cabo Verdean National Institute of Statistics INE (Instituto Nacional de Estadística), in 2020, 72,874 poor people lived in Cabo Verde, that is, with less

than US\$ 1.90 per day, which is equivalent to 13.1% of the population. Although most of the poor population lives in urban areas, poverty is more evident in rural areas, where 44.9% of the population is poor. Poverty is linked to other problems such as hunger and food insecurity that tend to manifest themselves in Cabo Verde due to the fact that the country does not have the structural conditions to produce basic foodstuffs to feed the population. Although the government of Cabo Verde invested in agriculture between 2000 and 2015 (about 28 million per year), during this same period it was found that about 40,000 people left this sector to go to tourist islands (Sal and Boa Vista) (PEDS 2022). The issue of poverty and inequality is also reflected in terms of regional asymmetries between the islands. In fact, Boa Vista's GDP per capita is 2.4 times higher than that of Fogo island, and the islands of Sal, Santiago, and São Vicente are where the vast majority of companies, businesses, and active population are located. The islands of Santiago and São Vicente are also stronger in terms of health and education infrastructure, and we can say that these asymmetries contribute to an inequality in economic and social opportunities (PEDS 2022).

Another of Cabo Verde's main challenges has to do with the ability to promote public infrastructure related to health, education, and housing. On the issue of health, greater capacity to access these services has promoted a reduction in the mortality rate and an increase in average life expectancy, which is currently the highest in the context of sub-Saharan Africa. These improvements have also been leveraged by investments in public infrastructure, particularly in the water and sanitation sectors, and in improving housing conditions. Cabo Verde has made several advances on the issue of water supply and sanitation, with the proportion of the population obtaining drinking water from a safe source growing slightly to reach 85.5%, about 0.4 percentage points above 2015 levels, while, even more importantly,

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69 out of every 100 individuals have the public water network as their main source of supply, about 4.9 percentage points above 2015 levels (PEDS 2022).

Related to the housing issue, it's worth mentioning that approximately 67.0% of the population has access to home Internet, while 71.7% of Cabo Verdeans aged 10 or older possess at least one cell phone. Furthermore, within the same age group, 61.9% use the Internet, with notably high percentages among young individuals, where 75.4% of those aged 15-24 and 90.2% of those aged 25-34 are active users of this global network (PEDS 2022).

The issue of education has been one of the main investments of the State of Cabo Verde since its independence, and currently the literacy rate for the 15-and-older population is approximately 88.5%. The Education System is endowed with an important network of public establishments, comprising 398 primary schools, and 44 secondary schools, distributed throughout the country, and 10 higher education institutions, based on the islands of Santiago and São Vicente (PEDS 2022).

The promotion of education, with a focus on decreasing dropout rates, has been prioritized through educational policies such as free education. Thus, it has been possible to reduce the dropout rate in primary education to 2.7% and in secondary education to 1.6%, having reached a graduation rate in higher education of 23.5% (PEDS 2022).

2.1.4. Cabo Verde's Political Situation

To finish this contextualization of Cabo Verde, it is important to highlight another area where Cabo Verde has stood out as an example to its African peers. Cabo Verde has also been praised for the political stability of its democracy. Elections have been held regularly, and the peaceful alternation of power between the two main parties stands out. The African Party for the

Independence of Cabo Verde (PAICV), with its origins in the colonial struggle, has a leftist ideology, and governed for two 15-year periods (1975-1991 and 2001-2016) (“Cabo Verde Aspetos Gerais”, World Bank 2023). The Movement for Democracy (MpD) can be characterized as a liberal and right-wing party and is currently the governing party. In this sense, we can say that Cabo Verde has a stable democracy that enjoys a degree of economic and political freedom which is quite unique in the region. This stability is protected by the existence of strong political institutions and the promotion and protection of civil rights and social policies (“Cabo Verde Aspetos Gerais”, World Bank 2023). This stability makes Cabo Verde a good performer, with the country ranked 39 out of 180 in Transparency International's 2021 Corruption Perception Index (CPI), making it one of the least corrupt African countries (Pacheco et al. 2022).

2.2. Cabo Verde's Human Capital Context

Towards a sustainable development and a diversified economy, Cabo Verde must invest in superior education and training. In Cabo Verde, there are still possibilities for evolution and development in terms of diversifying and decentralizing the economy beyond tourism. The population, with the help of its leaders, would benefit from a professional curriculum appropriate to global needs, ensuring the requirements for internal economic dynamics and value chains, and promoting competitiveness, which positively benefits the GDP of Cabo Verde.

When we consider education quality rather than just overall attainment, the impact is considerably greater. Improved productivity from human capital has a direct influence on the economy. The capability of a country to adopt as well as absorb new technology in addition to its capacity to innovate, can be affected by human capital. High levels of educational

attainment are also linked to a variety of individuals benefit from favorable socioeconomic results, including increased incomes, greater employment rates, and better health. (Resende-Santos 2021).

Cabo Verde's socioeconomic performance, particularly in education, has been continuously positive since 1975. Education consumes over 20% of the country's annual budget. It boasts one of the continent's highest literacy rates. It has a good performance in relation to the average total years of education from primary to tertiary levels, which was estimated at 12 years in 2009, putting it among the leading African countries. There are about 500 preschools, 427 primary schools, and 69 secondary institutions. The country has made significant investments in technical and vocational education during the previous decade. A network of 10 technical employment and training facilities encompassing nearly all the islands has been constructed. (Governo de Cabo Verde 2017)

According to the most recent statistics, Cabo Verde has a significant public network of institutions, which includes 398 elementary schools, 44 secondary schools scattered throughout the country, and 10 higher education institutions concentrated on the islands of Santiago and São Vicente. The country has attained a literacy rate of almost 90%, with a net enrolment percentage of 92.3% in obligatory basic education and 53.7% in secondary education, which is now also mandatory. Most primary and secondary schools (78.7%) are connected to the public electrical network, facilitating access to and usage of Information and Communication Technology (ICT). (PEDS 2022).

The curriculum at the secondary, middle, and upper levels is either insufficient or not appropriately aligned with the current demands or future direction of the economy, as indicated at the outset, in order to achieve sustainable growth across islands. There is a schism

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between educational and worker training institutions and enterprises, and the education sector in Cabo Verde lacks adequate quality control measures, particularly in higher education. The vocational training and employment sector is critical to Cabo Verde's socioeconomic growth since it oversees training and qualifying the national workforce to suit the needs of the productive sector.

During the previous decade, the country has made significant investments in vocational-technical education. On practically every island, a network of 10 technical training institutes (Centros de Emprego e Formação) has been established, including a newly opened School of Hospitality and Tourism in Praia, the main city. This state funded technical training centers join the many similar centers and ad hoc institutions maintained by non-governmental organizations.

Tertiary education opportunities are also expanding rapidly. Prior to 2001, when the first university was formed, Cabo Verde lacked a postsecondary education institution. Its young people studied in foreign universities, which has major consequences for human resources due to brain drain. Today, the country has nine universities, and since 2009, more of its young people have attended university in the country than overseas. The country must have qualified human resources to employ, manage, and lead the enterprises and organizations that will populate the value chains of new industries and segments such as financial services, business process outsourcing, and transportation services.

Human capital must be trained and nurtured in relevant areas and subjects, with investments prioritized based on the strategic sectors being developed. Furthermore, the prospective markets for the services that Cabo Verde wishes to sell are global. (“Cabo Verde the Road Ahead Regional-West 2 Department (ORWB)” 2012)

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Additionally, as part of the country's human capital strategy development objective, Cabo Verde intends to leverage its diaspora to transfer knowledge, skills, and aptitudes, which will lead to new skills to produce specialized services for the country. Not only should curricula or specialized training be developed for the Cabo Verdean population, but this community of immigrants can also foster social status mindsets and actions that promote integral development, such as critical thinking and demanding inclusive governance from their leaders.

Based on quick research about the facilities in terms of higher education, specialized course, and trainings we found the following offer in Cabo Verde:

University	Location	Offer	Website
ISCEE - Pólo Universitário de São Vicente & Praia	Santiago & de São Vicente Island	BA - 5 Masters – 2 PhD – 2 Other - 3	https://www.iscee.edu.cv/
Instituto Universitário de Educação	Santiago Island	BA – 8 Masters - 1	https://www.iue.edu.cv/
Universidade de Cabo Verde	Santiago Island	PdD - 1 Masters - 14 BA - 41 Other - 4	https://www.unicv.edu.cv/pt/
Universidade de Santiago	Santiago Island		https://us.edu.cv/index.html
Universidade do Mindelo	São Vicente Island	BA – 13 Masters – 5 PhD - 1	https://um.edu.cv/#
Universidade Intercontinental de Cabo Verde	Santiago Island	BA - 5	https://unicauniversidade.com/
Universidade Jean Piaget de Cabo Verde - Pólo Universitário da Praia & Mindelo	Santiago & de São Vicente Island	BA – 17 Masters – 9 PhD – 1	http://www.unipiaget.cv/?r=site/formacao

Universidade Lusófona de Cabo Verde	Santiago & de São Vicente Island	BA – 7 Masters - 1	https://www.ulusofona.edu.cv/
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Table 1: Universities in Cabo Verde

Specialized Training Centers	Location	Website
Escola de Hotelaria e Turismo de Cabo Verde	Santiago Island	https://Www.Ehtcv.Edu.Cv/
Pró-Sucesso	Santiago Island	https://Www.Prosucesso.Cv/
Centro Competencias Cabo Verde	Santiago Island	https://Cdc3c.Com/
Centro de Emprego e Formação Profissional	Sal, Fogo, Boa Vista, São Nicolau & Santiago Island	https://Iefp.Cv/2018/07/03/Sal/ https://Iefp.Cv/2023/06/12/Of_Fogo2023-3/ https://Iefp.Cv/2020/07/09/Boavista-3/ https://Iefp.Cv/2022/01/05/Cefpsn-2/ https://Iefp.Cv/2020/07/03/Stacruz-2/

Table 2: Specialized Trainings Centers in Cabo Verde

As we have seen, ensuring access to quality higher education in a geographically remote archipelago like Cabo Verde has always been an exceptionally difficult development task. Providing higher education and vocational education on each of the nine inhabited islands, the great majority of which have small populations, is neither practicable nor a priority. At the same time, families on distant smaller islands that recognize the value of such training are unable to participate.

However, the country needs to take measures aside from superior education to guarantee economic growth. For evolution to have an increasing effect on human development, it must be accompanied by human condition reinforcement, i.e., healthcare.

This has been an overview of one of the elements of human capital, in this case, education.

In the following sections, we will analyze the tourism ecosystem in Cabo Verde, explore the country's special relation with the European Union, and approach the main strategic priorities of the Government and international organizations, and the subsequent sections will concentrate on the findings during the team's on-site visit to Cabo Verde.

2.3. Tourism Ecosystem

In recent years, tourism in the Cabo Verde archipelago has experienced significant growth, driven by increasing international demand and the global geopolitical situation. As a result, tourism has expanded substantially and has emerged as a vital sector in the Cabo Verdean economy. Over a span of twenty years, the number of individuals employed in the tourism sector has increased tenfold, rising from approximately 3,000 in 1995 to 35,000 in 2016. Projections from the World Tourism and Travel Council (WTTC) suggest that this trend will continue, with the number of employees expected to surpass 50,000 in 2022. This surge in employment will have a significant impact, exceeding 20% of total employment and solidifying the sector's importance. Simultaneously, the economic influence of the tourism industry has also grown. The share of tourism in the country's GDP has risen from 3.2% in 1995 to 17.2% in 2016. It is anticipated that this share may surpass 20%, mirroring the projected growth in employment.

The growth of the tourism sector can be attributed to a significant increase in tourist arrivals. In 2000, there were slightly over 145,000 arrivals, whereas in 2016, the number exceeded 644,000, and in 2018, the country attracted more than 760,000 tourists (INE, 2018). The duration of stays also increased, resulting in a total presence of over 4 million visitors.

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However, it is important to note that the expansion of tourism has been limited to the eastern islands of the Cabo Verde archipelago. Sal and Boa Vista attract more than 77% of the total tourist flow, accounting for over 90% of tourism presence. These two islands have predominantly received foreign direct investments, leading to a tourism industry focused on seaside resorts located along the coastline.

Unfortunately, the rapid and uncontrolled development of tourism poses a threat to the delicate environmental balance of Sal and Boa Vista. These islands are entirely dependent on external sources of water and food, as the soil and climate conditions do not support agricultural activities. The construction of resorts has covered the coasts with concrete, and settlements built for tourism workers lack proper planning and adequate infrastructure. Only a restricted influx of tourists explores the remaining seven islands. Aside from Santiago, Sal, and Boa Vista, these islands are still in the process of establishing substantial hotel accommodations, tourist-centric amenities, and efficient transportation networks. This delayed progress can be attributed to insufficient investments from both the public and private sectors, hindering the advancement of the tourism industry. Furthermore, the remaining islands offer a distinct and contrasting experience as a tourist destination, focusing more on nature and cultural tourism.

In terms of tourist composition, the majority of foreign tourists come from the European Union, with a significant share from the United Kingdom (covering over 30% of total tourism presence). German and French visitors also contribute significantly. Overall, European tourists are diversified, reflecting a characteristic of Cabo Verdean tourism.

Currently, the tourism image of the Cabo Verde archipelago is primarily centered around the sun and sea. Despite the potential for development and guidance from the government, recent investments indicate a reinforcement of this positioning. There has been little incorporation

of Cabo Verdean culture and soul in the tourism product, as highlighted by Monteiro and Ferro (2017). Furthermore, the local community seems unaware of the risks associated with an externally driven development model and shows limited awareness of environmental and cultural concerns. Even in areas heavily reliant on tourism, there is a sense of euphoria, albeit cautious, regarding the benefits derived from tourism development (Sánchez Cañizares et al., 2014).

In 2019, Cabo Verde witnessed a significant increase in tourist arrivals, with nearly 820,000 visitors, a substantial rise from the 145,000 recorded in the year 2000. Prior to the COVID-19 pandemic, the government had set its sights on welcoming one million tourists in 2021. However, the pandemic disrupted these plans, and now the expectation is for tourism to gradually return to its pre-pandemic levels by the year 2023. The pandemic has underscored the susceptibility of Cabo Verde's economy to external shocks due to its heavy reliance on tourism. The halt in Cabo Verde's tourism industry during the pandemic highlights its overreliance on international operators and its concentration on the two islands of Sal and Boa Vista, known for their offerings of sun, sea, and sand attractions.

To reduce this vulnerability, the government is actively working on diversifying the tourism sector and drawing increased private sector investment. This endeavor involves promoting alternative attractions such as sea turtle nesting sites, big game fishing, various water sports (like sailing, yachting, wind and kite surfing), hiking, volcano exploration, birdwatching, canyoning, cultural experiences (music, festivals, and heritage), cruise ships, and retirement options for seniors. However, achieving successful diversification hinges on effectively packaging and marketing these offerings, bolstering medical facilities, and enhancing both inter-island and international transportation.

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Despite the challenges posed by the pandemic, tourism is projected to remain the dominant economic sector. In line with this, the government has unveiled its tourism operational plan for the period 2022-2026, with a primary objective of drawing in 1.2 million tourists by 2026. This commitment to the tourism sector has attracted substantial investment, reflecting significant investor confidence, including interest from U.S. investors who are keen to contribute to Cabo Verde's post-pandemic recovery.

While some rural islands do receive tourists with an interest in ecotourism, this sector remains relatively undeveloped but presents a promising niche market. Certain less explored islands offer distinctive experiences that seamlessly blend sun and sand with activities like mountain trekking (including on an active volcano), observing turtle nesting sites, scuba diving, and birdwatching.

As for Cruise Services, this encompasses both onshore activities for cruise ship passengers and bunkering services. Despite the sector's rapid growth prior to the pandemic, small and medium sized businesses in Cabo Verde have yet to tap into this specific market niche.

As mentioned before, Cabo Verde is well positioned and already has some infrastructure for sporting events or national tourism, such as kite surfing, windsurfing, sailing, volleyball, international beach games, and other aquatic activities. However, it is still a sector that has the potential to develop more and attract international investment.

The historical narrative of Cabo Verde, including its involvement in the transatlantic slave trade, coupled with its unique cultural heritage, presents a compelling appeal to niche segments of tourists. However, this potential remains largely unexplored. The majority of resorts and hotels within the country, particularly the large resorts under European ownership,

depend heavily on imports from Europe for sustenance, including food, beverages, and essential provisions. This practice represents an obstacle to local Cabo Verdean farmers and fishermen who face different challenges in supplying their agricultural and fisheries goods to these establishments. The challenges they face include logistical issues linked to transportation, inadequate packaging and refrigeration facilities, the seasonality of specific products, and the complexities surrounding the acquisition of necessary certifications.

Cabo Verde has earned a positive reputation among its European visitors. The government places great importance on advancing and broadening the scope of the tourism industry. The nation has already established substantial tourism infrastructure and attractive incentives, including four international airports, domestic air terminals, ports, and advantageous tax regulations tailored for investments within the tourism sector. Given the widespread impact of this industry and the demands of the market, there are ample opportunities available. Allocating investments towards areas such as healthcare, agribusiness, specific market niches, as well as sustainable energy and ICT solutions, would not only enhance Cabo Verde's position as an international tourist hub but also gather mutual benefits for its overall progress.

However, being an archipelago nation, the country faces significant challenges in terms of accessibility and inter-island connectivity, obstructing its economic development and social progress. These challenges are rooted in geographical, infrastructural, and economic factors, which require innovative solutions to foster greater connectivity and accessibility for both residents and tourists. Cabo Verde's geography presents a unique challenge to accessibility, the dispersion of the islands makes it difficult to establish efficient transportation links between them. Nowadays inter-island travel primarily relies on domestic flights and maritime transport, but the data reveals that the frequency and reliability of domestic flights can be

problematic. Nine airlines currently fly to the country: Tui Fly, Royal Air Maroc, Binter Canarias, TAP Air Portugal, Neos, Luxair, TAAG Angola Airlines, and ASL Airlines France, in addition to TACV, which is from Cabo Verde, but flight schedules are subject to weather conditions, resulting in cancellations and delays. Additionally, the capacity of these flights is often limited, leading to booking constraints and potential isolation for residents of more remote islands and also most of the time overpriced.

Maritime transport faces its own set of challenges. The lack of reliable, safe, and regular ferry services can impede the movement of goods and people between islands. Inconvenient schedules and limited capacities exacerbate these challenges, impacting trade and inter-island social interactions. The issues of accessibility and inter-island connectivity have profound economic implications, in fact, the limited and unreliable transportation options delay trade, tourism, and investment, industries like agriculture and fisheries struggle to transport their products to markets, obstructing economic growth. Tourists seeking to explore multiple islands may find it difficult and time-consuming to travel between them, potentially stopping them from fully experiencing all that Cabo Verde has to offer.

Cabo Verde has been working to establish itself as a prominent player in the global tourism market. As it competes with other attractive destinations in the Macaronesia region, such as the Azores, Madeira, and the Canary Islands, a comprehensive analysis of competitor performance becomes crucial to understand Cabo Verde's strengths, weaknesses, opportunities, and threats in this fiercely competitive landscape in the tourism sector (McIvor et al., 2022). Cabo Verde boasts a diverse range of attractions that contribute to its competitive edge. Its pristine beaches, vibrant culture, and historical sites have been drawing travelers seeking unique experiences.

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The archipelago's strategic location as a transatlantic hub has positioned it as a potential gateway between Africa, Europe, and the Americas. This accessibility can play a crucial role in boosting its tourism prospects. Compared to some of its competitors, Cabo Verde faces infrastructural limitations. While the Azores, Madeira, and the Canary Islands have invested extensively in modernizing their airports and transportation networks, as mentioned before Cabo Verde's inter-island connectivity and airport facilities require further enhancement to offer seamless travel experiences. This could hinder the archipelago's ability to attract tourists who prioritize convenience and ease of movement.

Cabo Verde's unique blend of African, European, and Brazilian cultural influences provides a strong foundation for niche tourism markets. By promoting cultural and heritage tourism, the nation can distinguish itself from its competitors. Additionally, there is an opportunity to develop sustainable and eco-tourism initiatives, capitalizing on the archipelago's natural beauty and marine biodiversity. This approach aligns with global trends towards responsible travel and could attract environmentally conscious visitors. If Cabo Verde fails to differentiate itself clearly, it risks being overshadowed by its competitors. The Azores, with their lush landscapes, geothermal wonders, and unique outdoor activities like whale watching, have positioned themselves as an eco-adventure destination. Madeira, known for its gardens, mild climate, and cultural festivals, has carved a niche as a romantic and leisurely getaway. The Canary Islands, with their diverse range of offerings including beaches, volcanoes, and water sports, cater to a broad spectrum of travelers. Cabo Verde, on the other hand, has an opportunity to leverage its cultural authenticity and emerging eco-tourism potential. By preserving and promoting local traditions, music, and cuisine, Cabo Verde can attract travelers seeking immersive cultural experiences. Furthermore, investment in sustainable tourism

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practices can highlight the archipelago's commitment to preserving its natural resources and unique ecosystems.

The analysis of Cabo Verde's tourism ecosystem reveals a complex interplay of factors that shape the nation's position as a unique and evolving destination. The archipelago's natural beauty, rich cultural heritage, and strategic location provide a strong foundation for its tourism industry. However, as with any ecosystem, a delicate balance must be maintained to ensure sustainable growth and positive outcomes for all stakeholders involved. Cabo Verde's tourism ecosystem displays both strengths and challenges. The pristine beaches, vibrant music and dance, and fusion of African, European, and Brazilian influences create a compelling attraction for travelers seeking authentic and diverse experiences. The potential to tap into niche markets, such as cultural and eco-tourism, further adds to the nation's competitive edge. Nevertheless, the ecosystem is not without its vulnerabilities mentioned before. To navigate these complexities, a holistic and sustainable approach is imperative. Collaboration between government bodies, local communities, private enterprises, and international partners is essential to foster responsible and inclusive growth. Investments in infrastructure improvements, eco-friendly practices, and capacity building can mitigate challenges and enhance the overall visitor experience.

Furthermore, technological innovation presents opportunities to streamline operations, enhance accessibility, and effectively market Cabo Verde to a global audience. Leveraging digital platforms, data analytics, and smart destination management can yield insights to tailor offerings, anticipate trends, and distribute benefits equitably.

In essence, Cabo Verde's tourism ecosystem is a dynamic and intricate web of interactions that requires careful fostering. Through a collaborative effort to balance economic gains with

environmental preservation, Cabo Verde can ensure the longevity of its tourism industry while preserving the very essence that makes it a captivating and desirable destination. By potentializing its strengths, addressing its challenges, and embracing a sustainable mindset, Cabo Verde has the potential to flourish as a model of a responsible and rewarding tourism destination.

2.4 General overview of Cabo Verde's banking sector

Cabo Verde's banking sector consists of both domestic and international banks, with the major domestic players being Banco Comercial do Atlântico (BCA), Caixa Económica de Cabo Verde (CECV), and Banco Caboverdiano de Negócios (BCN). These banks, along with other smaller financial institutions, form the backbone of the country's financial system. The banking market in Cabo Verde is characterized by seven commercial banks, primarily subsidiaries of Portuguese banks, operating in the country. The total domestic banking assets in 2021 are equivalent to 105.5% of GDP. The second country in the African continent, with an average of around 42% of GDP. BCA and CECV dominate the market, accounting for a significant portion of loans and deposits in 2021, indeed bank concentration index is around 75% (Globeconomy). BCA is one of the leading commercial banks in Cabo Verde, offering a wide range of services such as savings and current accounts, loans, mortgages, foreign exchange, and international banking. It operates an extensive branch network throughout the country, serving both individual and corporate clients. CECV, on the other hand, is a state-owned financial institution known as the Savings Bank of Cabo Verde. It plays a crucial role in promoting financial inclusion by providing accessible banking services, including savings accounts, microfinance services, and housing loans tailored to the needs of individuals and small businesses.

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Another prominent player in Cabo Verde's banking sector is BCN, which caters to a diverse range of customers. BCN offers retail and corporate banking services, including savings and checking accounts, loans, investment products, trade finance, and electronic banking solutions. The sector also includes other institutions such as Banco Interatlântico, Caixa Económica Montepio Geral de Cabo Verde, and Banco Espírito Santo Cabo Verde (BESCV), which contribute to the financial ecosystem with their unique size, market focus, and specialized services. The key players in Cabo Verde's banking sector play a crucial role in driving economic growth and stability by providing financial intermediation, credit facilities, and support for investment projects. Their efforts are essential for promoting economic development, facilitating business operations, and improving financial inclusion for the population (Making Finance Work for Africa). Additionally, Cabo Verde's banking sector relies significantly on remittances from the diaspora, representing CVE 3011,40 Million (BCV Report, 2022) or 16.2% of the GDP (World Bank Data, 2021). Moreover, in recent years, these deposits have witnessed a notable increase, representing a growing and significant share of the total deposits. (IFAD Report, 2022)

2.4.1 Regulatory Authority

Cabo Verde's banking sector is regulated by the Central Bank of Cabo Verde, BCV (Banco de Cabo Verde). The Central Bank oversees the sector by issuing licenses, supervising financial institutions, and ensuring compliance with banking regulations and prudential norms. The presence of international banks operating branches or representative offices in Cabo Verde further enhances the sector's capabilities by bringing additional expertise, global connectivity, and access to international financial services.

2.4.2 Financial inclusion

Private sector companies and households in Cabo Verde face limited access to financing due to risk aversion among banks. This risk aversion pushes banks to invest their liquidity with the central bank and in government securities, leaving fewer funds available for private sector lending. In 2016, despite accounting for over 90% of the domestic productive fabric, small- and medium-sized enterprises (SMEs) in Cabo Verde received only 58% of the loans granted. Out of the companies that were financed, 22% relied on banks, while 48% turned to informal and family investors, and 14% sought assistance from microfinance institutions.

Recognizing the importance of improving access to finance for SMEs and very small enterprises (VSEs), Cabo Verde's monetary and government authorities have introduced major structural reforms in recent years. One such reform was the establishment of a national credit guarantee system, CVGarante, in 2010. However, CVGarante has faced challenges due to weaknesses in its governance, scope of intervention, and the lack of credibility given to financial information published by local firms. These limitations have hindered its ability to effectively facilitate access to finance for SMEs and VSEs. Additionally, a public credit registry was established in 2010, but its coverage remained low, reaching only 20% in 2016, and it was limited to banks. Expanding the coverage of the credit registry and making it accessible to various types of lenders could improve the availability of credit information, reduce information asymmetry, and facilitate more informed lending decisions.

Another aspect of financial inclusion in Cabo Verde is the availability of financial infrastructure. In 2017, the number of Automated Teller Machines (ATMs) within a 1000 km² radius stood at 44.4, which was significantly lower compared to other island countries in Africa such as Mauritius (221.2) and Seychelles (121.3). Increasing the number of ATMs and

promoting the use of digital banking channels could enhance financial inclusion by providing convenient and accessible banking services to a larger population. In conclusion, although Cabo Verde has made progress in financial inclusion, there are still challenges to overcome. Limited access to financing for private sector companies and households due to risk aversion among banks has hindered economic growth and development. The introduction of structural reforms, such as strengthening the national credit guarantee system and expanding the coverage of the credit registry, along with investment in financial infrastructure, can contribute to enhancing financial inclusion in Cabo Verde.

2.4.3 The Microfinance Sector

In order to increase the poor population's financial inclusion and autonomy, microfinance first appeared in Cabo Verde in the 1990s. Microfinance was first developed by Cabo Verdean NGOs with the intention of assisting the poorest members of society by giving microcredit and tools for running businesses that generate revenue. In order to control the microfinance industry, Cabo Verde put in place a legal and institutional framework in 2015. This was done in response to the rising demand for microcredit. Microfinance has shown to be an essential building block for sustaining the economy, encouraging entrepreneurship, and generating job possibilities in developing countries. Based on management and microcredit activities, the microfinance sector in Cabo Verde is divided into three categories. Microbanks are included in Category A; they are not yet present but are predicted to do so. Seven microcredit institutions are registered with the Central Bank as belonging to Category B, which also includes cooperative and mutual societies for savings and credit. Subject to Central Bank permission, Category C includes businesses that facilitate money transfers through microfinance organizations (Tiago Barreto Rosa Gaspar et al., 2022). In Cabo Verde,

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microcredit institutions have had a substantial impact on stimulating economic activity, with favorable results in several communities. They are seen to have the ability to boost household incomes and reduce poverty. Organizations are working to grow Cabo Verde's microfinance industry and promote inclusive finance, enabling high-quality access for individuals who have been left out of traditional banks. With an average credit level of about USD 545, the total loan portfolio of microfinance institutions (MFIs) in 2017 was close to USD 6 million. The 3% of the adult population, or 11,000 clients, are served by the industry (Making Finance Work for Africa). Recent legislative changes have strengthened financial reporting and refinancing systems to increase the impact.

2.4.4 Digital Finance

Digital and mobile financial services have been made possible by the rapid expansion of mobile telephony in Cabo Verde. One of the highest rates in West Africa for mobile phone penetration was 69% in Cabo Verde in 2017. The mobile penetration rate in 2017 impressively reached 124% based on the actual number of mobile subscriptions in comparison to the entire population. The local market is dominated by Cabo Verde Telecom (CV Telecom) and Unitel + (TMais), two big mobile operators. Financial organizations like Cabo Verde GMT, which are not affiliated with cell operators, have been providing mobile money services since 2015 and are accessible online and among the diasporas (Making Finance Work for Africa). Being a small island emerging country, Cabo Verde has plenty of people living abroad, with remittances playing a crucial part in the economy. Remittances sent home totaled US\$312 million in the previous year, supporting Cabo Verdean families greatly by paying for necessities like food, healthcare, and education, and sponsoring income-generating activities. However, a sizeable percentage of remittances (up to 40%) are still transferred through

unofficial routes, including cash that visitors carry with them. The cost of sending money to Cabo Verde from the European Union, where two-thirds of remittances originate, is slightly higher than the worldwide average and was 6.84% in 2021, even though remittances considerably contribute to the nation's economy. This price is considerably more than the 3% target set under Sustainable Development Goal number 10, which aims to reduce inequality within and between nations, even if it is lower than the average fee in Sub-Saharan Africa. To improve financial accessibility and inclusivity in Cabo Verde, efforts must be made to further cut the expenses related to remittance transfers (IFAD, 2022).

2.5. Pandemic Impact and Recovery Context

2.5.1 Pandemic Impact in Cabo Verde

The COVID-19 pandemic caused significant disruption and challenged Cabo Verde's economy in a number of different sectors. This section explores the effects of the pandemic on the whole country, with a focus on the tourism industry, which has been hardest impacted. The shutdown of the tourism sector, a large contributor to GDP and a big engine of economic activity had an impact on the entire economy. In addition, the pandemic has worsened income inequality and poverty rates, disproportionately affecting urban regions and women. In the next section, the many effects of the pandemic on Cabo Verde are examined.

2.5.1.1. Real Sector

The COVID-19 pandemic has had a significant and extensive effect on Cabo Verde's economy, especially in the real sector, where the tourism industry has been heavily impacted. It is impractical to overstate the importance of the tourist industry, which generates almost 40% of all economic activity and accounts for a sizeable 25% of the nation's GDP. The tourist

sector not only has a significant and direct impact on the economy but also receives the majority of Foreign Direct Investment (FDI) coming into Cabo Verde, serving as a crucial source of outside funding. Unfortunately, the pandemic-induced shutdown forced the sector to remain closed for an extended period of nine months, resulting in severe repercussions for the entire economy. Multiple industries were affected by the prolonged closure of the tourism industry as negative spillover effects permeated the whole economy. Due to this, upstream industries that rely on tourism-related activity and demand suffered severe repercussions. The effect on Cabo Verde's economic performance was significant, resulting in an unparalleled decrease in GDP in the country's history of 14.8 percent in 2020 (15.7 percent in per-capita terms). The severity of the crisis and the consequences for the country's overall prosperity are highlighted by this drop in GDP, which is among the greatest drops seen in Africa in the same period. Let us examine the island of Sal as an example, which makes up about 60% of all the rooms that are available in the nation. It is noteworthy that, except for one family hotel called Odjo d'Agua, every one of the lodging facilities on Sal Island has closed during the pandemic crisis.

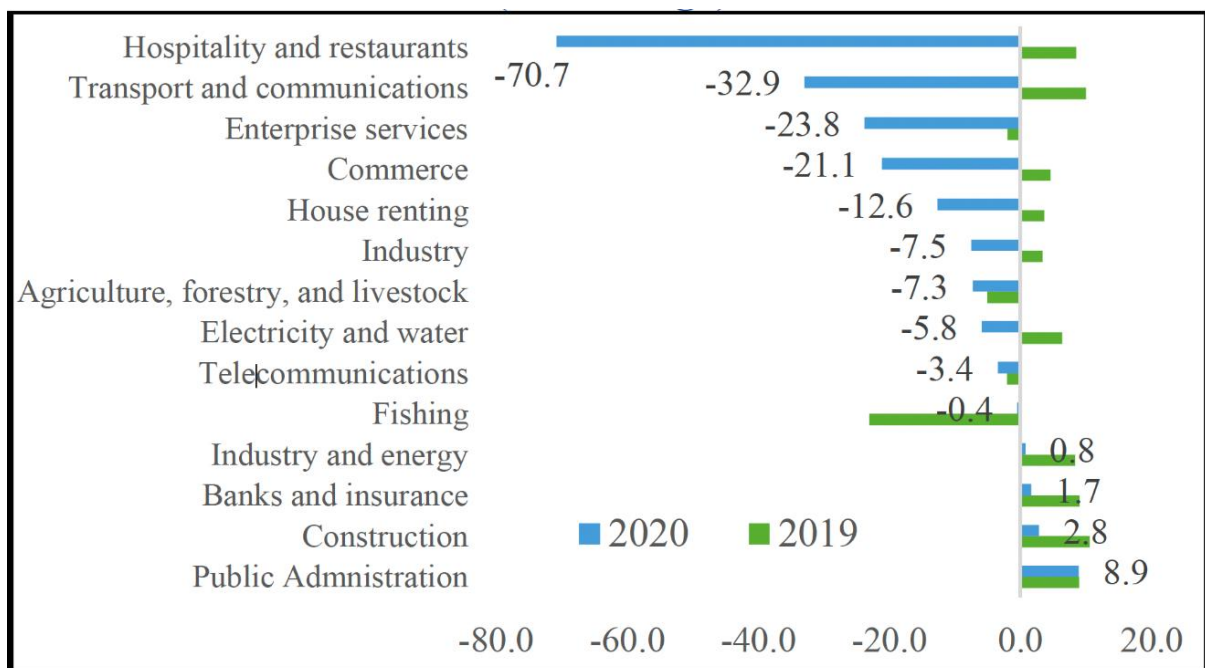


Figure 1: Annual Growth Rates 2019-2020¹

2.5.1.2. Fiscal and Debt Dynamics

The institutions implemented several grant tools in response to the crisis. An illustrative instance is the establishment of a government fund aimed at providing subsidies to employees, wherein the regular salaries were replaced with amounts ranging from 50 to 70 percent. However, the government did see a substantial drop in tax revenue, amounting to about 24% in nominal terms, because of the economic downturn. Consequently, the fiscal imbalance and financial needs in 2020 both drastically increased. Before the crisis, the estimated fiscal finance needs were approximately 4% of GDP (US\$88 million). But following the crisis, their demands increased to 10% of GDP. The administration obtained financial support from numerous institutions, including the World Bank, the African Development Bank, the International Monetary Fund, and nations like Portugal and Luxemburg to achieve these needs. In addition, broader support from the EU was requested. The possible risk highlighted here for a middle-income economy like Cabo Verde is the approaching possibility of falling into a debt trap context despite the inflow of capital. Due to these financial difficulties, the national debt increased to 151.3 percent of GDP in 2020, reversing the recent trend of debt reduction of the previous years.

2.5.1.3. Poverty and Social Inequality

As regards the social consequences, the recession has negatively impacted Cabo Verde's efforts to reduce poverty, reversing the improvements obtained since 2015. Prior to the pandemic, poverty rates were projected to fall to 26% in 2020; nevertheless, according to the World Bank, they rose to 45%. The impact over the rural areas is higher compared with the urban center, this latter is 10 percentage points less regarding the income fall. Regarding inequality, it is interesting to highlight that the problem is particularly for the metropolitan

areas of Cabo Verde. Indeed, an analysis of the highest and lowest income decline highlighted that for the first category, the drop was around 10-15% and for the second category the drop was at least 50% off the previous earnings. Due to that the Gini Coefficient increased with the urban regions experiencing a larger value than rural areas. Another important factor to consider is gender disparities, particularly considering the crisis's effects on the tourism industry, which disproportionately affect women. Women are especially susceptible to negative shocks due to their overrepresentation in the field and the lack of formalization, control, and protection. The main explanation is that women are almost always eliminated first during a negative trend and are thus left without a backup source of income due to the absence of formalization. This happened in 2020 despite the increase in demand for jobs where female labor was prevalent, such as the cleaning service.

2.5.2. Recovery Situation and Measures for Enhancing Growth

The recovery criteria and strategies for boosting growth have become crucial for Cabo Verde considering the COVID-19 shock. The epidemic has posed considerable challenges to the nation's economy, requiring a meticulous and systematic approach to recovery and the development of a more robust and sustainable economic structure necessary. The main areas of emphasis and suggested reforms to promote recovery and long-term growth are presented in this section. Cabo Verde intends to go through the post-pandemic environment and set foundations for a prosperous future by addressing issues including private investment mobilization, business environment improvement, and digital development.

2.5.2.1. Foreign Direct Investment

Three key components define the investment implementation strategy. Prioritizing industries or productive areas that have the potential to draw capital inflows and provide beneficial effects like job creation and economic diversification is the first step in this process. Finding the necessary policy changes to improve the long-term value of the specified sectors and segments constitutes the second part. The strategy also emphasizes the use of proactive and effective investor recruiting campaigns, adopting aggressive tactics to maximize their involvement. The use of databases and platforms to support flow matching emerges as a successful tactic in the final stage.

By using these tools, multiple stakeholders can be connected and coordinated effectively. To optimize the impact of investments, an example plan involves developing efficient communication links between the tourism sector and other industries. The potential benefits can be maximized, resulting in improved outcomes for the whole economy, by encouraging collaboration and synergies among sectors. The agriculture and fishery industries could act as drivers in this situation, advancing the overriding objective of development.

2.5.2.2. Improve the Landscape of the SMEs Firms

Simplifying the laws and norms governing licenses and permissions is a crucial step to take to improve the business environment. This program seeks to reduce the proportion of people without legal status while increasing their protection and rights. It is crucial to put in place policies addressing access to finance, education, and technology to enable a smooth transition from irregular to regular work. An entrepreneurial mindset can be encouraged by streamlining access to financial institutions and offering financial management training.

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Furthermore, the use of e-licenses is also extremely significant for accelerating administrative procedures.

2.5.2.3. Greater Competition

Modernizing the penalties system and maintaining its efficacy is essential to effectively deter anti-competitive activity. The creation of a competition authority that is independent of the executive arm of government should be prioritized. This authority should have a definite advocacy role as well as being the only authority to enforce competition laws in all industries. Advocacy encourages the incorporation of competition principles into important economic sectors, acting as a vital supplement to enforcement.

Through these policies, Cabo Verde can foster a more competitive environment that promotes investment, innovation, and economic expansion.

2.5.2.4 Digital Development

In a transversal way technology plays a fundamental role also for the other issues previously explained. Comparatively speaking to other nations in Africa, Cabo Verde has a pretty good digitalization status. The nation has made great progress in its connection, with internet access reaching 70% of the archipelago (DataReportal). In addition, the improvement of almost 10 percentage points from the prior year demonstrates the success of the pandemic response measures. These regulations have improved the nation's access to digital services and infrastructure. A holistic strategy is necessary to further Cabo Verde's digital advancement. The legislative framework for digital development, bolstering the digital foundations covering the data ecosystem and cybersecurity, and investing in human capital are priority areas for short- and medium-term policy interventions and changes. In terms of basic computer

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abilities, staff members in hotels typically have them. However, a sizable section of the populace is uninformed of the resources available for learning such skills, such as professional institutes or courses. Although schools have begun to offer classes to teach fundamental skills, the short school day presents an obstacle. To sustain both traditional educational institutions and the growth of specialized external institutes, it is necessary to invest in a stronger infrastructure. This would guarantee that people have access to thorough training opportunities, allowing them to be more connected and specialized for the evolving world.

2.6. Special Partnership with the European Union

Between 2007 and 2020, the European Commission allocated a cumulative amount of €240 million (equivalent to 26,463,600,000 Cabo Verdean Escudos) to Cabo Verde. This financial assistance encompassed various forms of support, including budget support, the promotion of public sector management, as well as multi-sector aid (Topliyski, et al. 2020).

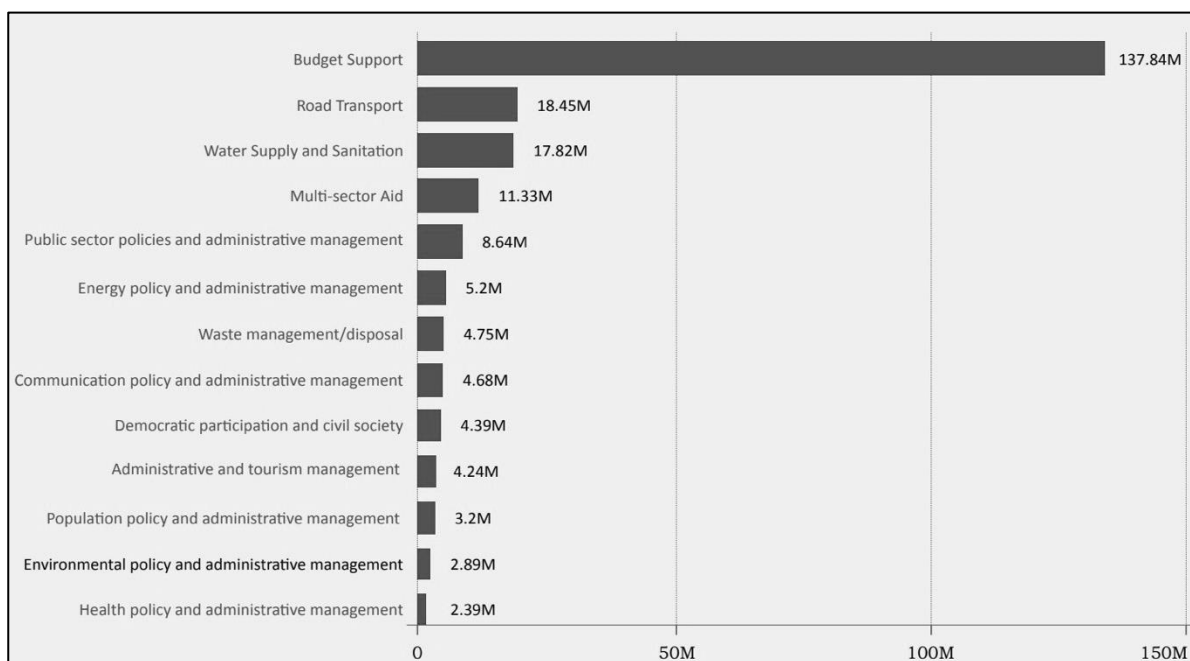


Figure 2: European Commission disbursement in Cabo Verde, between 2007 and 2009

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The Special Partnership between the European Union (The future of relations between the European Union and the Republic of Cape 2007) and an African country stands as a unique collaboration and is built upon six fundamental pillars: Good governance; Security and stability; Regional integration; Convergence of technical and standards policies; Knowledge-based Society; Fight against poverty and the promotion of sustainable development.

Since gaining independence in 1975, Cabo Verde has cultivated a close relationship with the European Union. The partnership was further solidified with the establishment of the EU-Cabo Verde Special Partnership in 2007 (European Commission, EU boosts its partnership with Cabo Verde 2019). Over the years, the partnership has evolved and strengthened, laying the foundation for comprehensive cooperation. The agreement is practically executed for instance in regular Joint Communiqué, such as the 12th Ministerial Meeting in Praia in January 2023 (EEAS 2021).

The EU is Cabo Verde's main trading partner, accounting for over 80% of the country's total trade (EEAS 2021). The EU-Cabo Verde Special Partnership promotes economic cooperation, investment, job creation, and sustainable growth. The General System of Preferences (GSP+) facilitates duty-free access to the EU market for Cabo Verdean products, supporting the country's economic development. The partnership also focuses on the blue economy, promoting sustainable management of ocean resources and fostering growth in sectors such as fisheries and maritime activities.

The EU's Green Deal aligns with Cabo Verde's efforts to promote sustainable development and transition to a green economy. The EU has been actively involved in supporting Cabo Verde's climate initiatives, energy transition, and ecosystem preservation. The partnership emphasizes further the Sustainable Development Goals promoting poverty reduction,

sustainable growth, environmental protection, and maritime safety. The EU's development cooperation and humanitarian aid programs, including the European Development Fund, greatly contribute to Cabo Verde's sustainable development goals. The 11th European Development Fund (EDF 2014) provided €55 million for the National Indicative Program from 2014 to 2020.

2.6.1. Multilateral Relations

Cabo Verde benefits from the EU's regional cooperation programs, such as the MAC-FEDER program which promotes collaboration between Cabo Verde and the outermost regions of Macaronesia. Cabo Verde actively participates in 42 projects within this program, which allocated a substantial budget of €112 million. Notably, this partnership stands as the most significant collaboration with third countries in the MAC region (EEAS 2021). The EU also supports cultural projects and cooperation through the PALOP-TL program, which strengthens relationships between Portuguese-speaking African countries, East Timor, and EU member states (EEAS 2021). Cabo Verde's commitment to human rights, democracy, and the rule of law has earned it the benefits of the EU's Generalized Scheme of Preferences Plus (GSP+) as the only African country, granting duty-free access to the EU market (Derogation from Regulation (EEC) 2011). Since January 2014, as a beneficiary of the GSP+ regime, Cabo Verde has successfully ratified all 27 UN human rights conventions associated with it. A considerable proportion of imports from Cabo Verde, specifically over 79%, receive preferential GSP+ duties (EEAS 2021).

2.6.2. Civil Society Dialogue and Science, Technology, and Digitalization

The EU actively engages with civil society organizations in Cabo Verde. The Mapping study by (Topliyski, et al. 2020) examines Cabo Verdean society dynamics to support a participatory EU Action Plan/Roadmap, fostering increased EU engagement with civil society organizations. It is funded under the Thematic Program for Civil Society Organizations and Local Authorities, aiming to provide an updated overview of the community for the development of specific actions within the EU Action Plan (Roadmap) for 2020-2025. This Roadmap seeks to establish structured dialogue and strategic cooperation with the citizens, enhancing the consistency and impact of EU initiatives. Further, Cabo Verdean students and institutions benefit from EU programs such as Erasmus+ (European Commission 2019) Horizon 2020, fostering knowledge exchange, research collaboration, and academic mobility.

2.6.3. Collaboration during COVID-19

In response to the COVID-19 pandemic, the EU has shown solidarity with Cabo Verde offering 565,050 vaccine donations and providing additional support via the COVAX mechanism (EEAS 2021). As of September 2022, the vaccination doses administered in Cabo Verde reached 859,940 doses for COVID-19 according to the World Health Organization (WHO 2022).

2.6.4. Potential Enlargement of the EU

Although a formal membership application is absent, noteworthy economic and international law case studies, along with limited political support and aspirations, are interesting factors in the context.

Some Cabo Verdean politicians (EUbusiness 2005) have expressed carefully informal aspirations for an EU membership in the long run, supported by calls from various stakeholders from the EU to initiate membership talks (afrol News 2006). Advocates such as the former Portuguese President Mário Soares (EU Business.com 2005) argue that Cabo Verde's strategic location as a bridge between Africa, and the EU, coupled with its political stability, economic potential, and commitment to democratic values, make it a potential candidate. Further, the empirical economic case study by (Loureiro, Martins and Riberio 2009) argues in favor of the euroization of Cabo Verde, as their business cycle aligns well with the European Monetary Union (EMU) and is ranked better than some EU and EMU countries. Additionally, they highlight that the euroization would secure the benefits already attained with the pegging of the Escudo to the Euro. Despite Cabo Verde's geographical location potentially hindering its EU membership aspirations under the Maastricht Treaty (Article 49), Cyprus provides a compelling counterexample. Cyprus, despite its proximity to the Middle East rather than Europe, successfully became an EU Member State in 2004 (Ker-Lindsay 2008). Cabo Verde's inclusion within the Macaronesia region, along with its geographic proximity to the constituent islands, could potentially justify its classification within the EU's geographical proximity if viewed from a similar perspective (Tittel-Mosser 2018). Lastly, there is no formal rejection of the membership application as in the case of Morocco in 1987 (European Parliament 1998) due to the absence of a formal application. However, it looks like Cabo Verde tries to position itself towards Europe in terms of its policies and trade as it does not mutually benefit economically from the ECOWAS membership (Pina 2010).

2.7. Becoming a “Platform Country”: Strategic Priorities for the Upcoming Years

Being a Small Island Developing State, Cabo Verde is not exempt from facing the challenges common to this group of countries¹. In fact, its reduced territory has hindered its diversification and economies of scale, leading to limited productive capacities; and its geographical remoteness has implied higher costs, as well as high environmental and climate vulnerabilities. Moreover, Cabo Verde has followed SIDS’ tendency to be commodity-dependent and over-reliant on a few export destinations (UNCTAD, “Development and Globalization: Facts and Figures 2021. Small Island Developing States.”, 9-12), as presented in Section 2.1. As a result, Cabo Verde’s archipelago is -almost inevitably- highly vulnerable to external shocks. These existing difficulties have been reinforced given the current “triple crisis” that the country is experiencing, due to climate reasons (four consecutive years of droughts), the impact of COVID-19, and the international conflict scenario due to the Russia–Ukraine war that has generated high inflation rates, particularly impacting gas and food prices. In addition, the country still faces several structural challenges, which include inter and intra-regional asymmetries, poverty and inequalities, public endowment, unemployment, and underemployment -especially among youth-, and poor housing conditions (Government of Cabo Verde, “PEDS II”, 21-25).

However, Cabo Verde has comparative advantages among SIDS, and taking them into account in the design of policies could help the country build resilience and recover faster from

¹ There is no universally agreed concept of what constitutes a SIDS. Multiple classifications have been used over time, causing confusion, and possibly undermining coordinated policy programming between these countries (UNCTAD, “Development and Globalization: Facts and Figures 2021. Small Island Developing States”, 13).

economic crises. As described in the previous sections, Cabo Verde is characterized by good governance practices (benefiting external credibility), stable democratic institutions and human capital, promising opportunities in terms of the ocean and blue economy, and cultural openness to the world, reinforced by a strong diaspora, mainly present in Europe and North America. It is worth noting that the country maintains “special ties” of friendship and cooperation with Cabo-Verdeans recipient countries, recognized the Constitution (“Constitution of the Republic of Cabo Verde”, article 11, 2010), as explained in Section 2.6. This section will first provide an overview of the main strategic priorities of Cabo Verde for the upcoming years, putting a special focus on tourism diversification, and it will finish by mapping the current initiatives with multilateral organizations related to the topic at hand.

2.7.1. Guidelines and Declared Priorities

Following the country’s Strategic Agenda for Sustainable Development, different strategic planning frameworks have been developed over recent years. These exercises have integrated the participation of various stakeholders, such as central and local administrations, civil society, the private sector, academia, and international partners (“United Nations Sustainable Development Cooperation Framework for Cabo Verde 2023-2027.”, 3). They include the Strategic Agenda for Sustainable Development, the Strategic Plan for Sustainable Development 2017-2021 (PEDS from its Portuguese initials) and its evaluation, PEDS II 2022-2026, and the SDG National Voluntary Report and SDG Local Voluntary Report 2021. Through PEDS II, the Government has defined four strategic objectives to be achieved until 2026, in alignment with the longer-term regional *Agenda Africa 2063* and the *SIDS Accelerated Modalities of Action (SAMOA Pathway)*. After describing the strategic objectives, the focus will be placed on tourism diversification.

With the main goal of transforming Cabo Verde into a “Platform Country”, PEDS II contemplates four pillars seeking to operationalize their respective objectives. First, in its *Economy Pillar*, the country aims to “ensure economic recovery, fiscal consolidation, and sustainable growth, promote diversification, and make Cabo Verde a platform country in the Middle Atlantic”. Second, in its *Social Pillar*, it seeks to “promote social development through human capital, inclusion, and mobility, reduction of inequalities, eradication of extreme poverty and gender equality”. Third, in its *Environment Pillar*, the government commits to “promote territorial cohesion, urban quality and sustainability, environmental sustainability, climate action, and resilience, and enhance biodiversity and geodiversity”. And finally, through its *Sovereignty Pillar*, it aims to “consolidate national sovereignty, further enhance the value of democracy, the Diaspora and Cape Verde's international prestige and promote regional integration and Cabo Verde's dynamic insertion in the world economic system” (“PEDS II”, 148-160).

Given this, the main objective is to make Cabo Verde a world “Platform Country” in the following areas: tourism, ocean, and air -considering its strategic geographic location-. In this line, having devoted the highest budget proportion to the *Economy Pillar* (almost 53% of the total budget), Cabo Verde seeks to enhance business development, including improving the business climate, efficiency, FDI diversification, exports increase, financial access, and business nets (148). In addition, it aims to foster the following related areas: agricultural transformation towards productivity and resilience; infrastructure modernization and safety; housing, urban development, and territory management –including a crucial point: islands’ connectivity–; sports; digital economy and innovation; financial services; industry and commerce; and sustainable energy (148-154). In addition, PEDS II explicitly contemplates exploring opportunities in extractive industries, such as rock and gravel, salt, or subsea soil

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mining (50). Finally, investment in science through research and development is also prioritized, as well as promoting language learning and strengthening intellectual property.

In terms of digitalization, a digital transition program is being implemented, taking advantage of its geographical position; for example, through the construction of a Technology Park being carried out with funds from the African Development Bank. Additionally, investments in human capital and digital skills of youth are being promoted, through trainings focused on Santiago and São Vicente (World Bank, 2020).

Regarding the islands' connectivity and accompanying the strategy to attract low-cost airlines ("PEDS II", 84), ongoing efforts are devoted towards developing an action plan to improve international and inter-island transportation options, integrating air, sea, and land modalities (World Bank, 2022).

Lastly, in relation to Climate Change and Sustainability, the government is conducting an Energy Transition Program (where Portugal is a key partner). The goal is to gradually rely on renewable energies, reaching 50% by 2030 and 100% by 2040 ("PEDS II", 38).

Solid coordination and complementarity among the four pillars of PEDS II are crucial for the country's sustainable development in the upcoming years. Making the country a "world platform", in a sustainable way, will only be possible by ensuring concrete actions towards fostering education, health, and culture; strengthening gender equality across all sectors; guaranteeing water and sanitation access; and protecting the country's biodiversity.

2.7.2. Cabo Verde as a Tourism Platform

Considering that tourism is the main economic activity, and in alignment with the strategic document *Grandes Opções do Plano Estratégico de Desenvolvimento do Turismo Sustentável* - GOPEDS (2018-2030)², PEDS II highlights the importance of diversifying the sector: across the ten islands, and in terms of products, operators, and source markets (Strategic Objective 1, *Economy Pillar*). The government aims to add value to the sector by anchoring agriculture, transportation, cultural, and creative industries, as well as strengthening tourism's contribution to employment and income (11). It also contemplates expanding the current offer in terms of health, business, ecotourism, sports, cultural and historical tourism (31). Forecasts reveal that the country will receive 1.2 million tourists by 2026 and 2.4 million by 2030 (41). In this context, and in alignment with ODS 8, 12, and 14, Cabo Verde aims to deconcentrate tourism, targeting the following Specific Objectives:

1. Increase to 40% tourist arrivals in islands other than Sal and Boavista,
2. Reduce to 44% the weight of the three main source markets,
3. Reduce to 81.4% arrivals from the main tour operators,
4. Decrease Tourist Saturation Index in Sal and Boavista to 9.5%; increase it in Santiago to 0.6% and in the remaining islands to 0.7%.

² Main strategic guidelines are focused on: Competitivity, De-concentration, Sustainability and Maximization of Net Positive Impact of Tourism. In addition, main strategic objectives include poverty reduction; contribution of tourism to HDI; Impact on Sustainability, among others.

The Operational Program for Tourism 2022-2026 (POT in Portuguese) serves as the sector's guidelines, encompassing recommendations included in each of the ten islands' Master Plans of Sustainable Tourism (Council of Ministries, Resolution N°31/2022, 2). By first acknowledging the country's "excessive" dependence on tourism, the POT recognizes the urgent need of diversifying both the overall economy and the tourism sector itself, as a means to mitigate the effects of eventual future external shocks. The POT also provides an action plan aiming to tackle the main issues of the tourism product of Cabo Verde: its poor qualification and lack of diversification. In the analysis provided, the factors contributing include existing deficiencies in basic infrastructure and internal air connectivity; an inadequate governance structure; a lack of integration of natural and cultural patrimony; and finally, inefficient marketing strategies that have also hindered the sectors' growth. These issues, in their turn, have prevented the maximization of economic and social impacts of tourism, reduced competitiveness, and generated poorly developed value chains. Moreover, they have constrained tourism supply, promoted its concentration, and caused an overreliance on certain operators and markets, affecting the sector's sustainability (3-4).

The first phase of the POT budget adds up to USD85 million, coming from the Tourism Fund (*Fundo de Sustentabilidade Social para o Turismo*, FSST) and a credit with the World Bank (presented later in this section). The five following programs are defined (9):

Program	Objectives and Projects Included	% of POT Total Budget
Supply Qualification	Diversifying national supply, including projects on rural, nature and cultural tourism, infrastructure development (ensuring accessibility, rural electrification, etc.) and qualification of local communities.	53%
Governance	Strengthening the planning and institutional articulation, with projects related to sanitary and quality certification, information and territorial management, and a legislative project to reform and update tourism legislation.	19%
Promotion of Tourism	Implementing marketing strategies focused on digitalization; as well as improving air and sea connectivity, with projects including events, marketing plans, and attraction of low-cost airlines.	6%
Sustainability	As a response to the environmental, social, and economic challenges of Cabo Verde, with projects in areas such as water and sanitation, energy efficiency, promotion of corporate social responsibility, integration of gender perspective and economic sustainability, projects aiming to integrate agriculture, blue economy, creative industries, and transportation.	20%
Qualification of Human Resources	Complementing the supply diversification and qualification, with projects such as the massive qualification of youth in adventure and ecotourism, fishing and cultural tourism, gastronomy and handicraft, and entrepreneurship.	2%

Table 3: Strategic Programs, Objectives, and Projects defined in POT.

Source: Information from POT 2022-2026.

2.7.3. Ongoing Projects with Multilateral Organizations

By providing financial support and technical assistance to developing countries, multilateral institutions play a key role in enhancing growth in developing countries. The following lines provide an overview of the current projects of Cabo Verde with the World Bank, the African Development Bank, and the IMF, providing us an understanding about how the country is operationalizing its set goals in terms of development and economic growth.

Common Part

The World Bank has been actively contributing to tourism diversification in Cabo Verde. Through the project “Cabo Verde Resilient Tourism and Blue Economy Development”³, the country is working towards increasing “diversity and resiliency in the tourism offering and small and medium enterprise (SME) participation in tourism-related value chains”. The credit seeks to increase tourism flows across more islands and market segments beyond the existing all-inclusive options, focusing on Santiago, São Vicente, Santo Antão, and Sal islands, by financing blue economy-related infrastructure in selected areas, and considering climate change risks⁴. Finally, it aims to improve environmental conditions to stimulate private sector investment⁵ (World Bank, “Project Appraisal Document on a Proposed Credit in the Amount of SDR 21.8 million (US\$30.0 Million Equivalent).”). In addition, the following projects are currently being implemented or in pipeline with the Multilateral⁶:

³ The project, part of the POT global budget (USD35 million), was approved in May 2022. An Additional Financing of USD 10 million was approved in March 2023; and a second Additional Finance is in Pipeline.

⁴ The project contemplates the rehabilitation of fishing piers, as well as interventions in seafront promenade areas. It seeks to improve accessibility to tourism areas, such as the Santa Maria-Espargos Road; and to rehabilitate trekking rails and cultural visitor centers. Moreover, it seeks to improve intermodal connectivity between islands.

⁵ By improving entrepreneurship and SME development in the tourism and fisheries value chains, with a focus on women-led businesses.

⁶ Cutoff date: July 19, 2023.

Project Name	Amount (in USD)	Status
“Cabo Verde: Second Resilient and Equitable Recovery”	52.50 million	Active
“Cabo Verde Human Capital Project”	26 million	Active
“Renewable Energy and Improved Utility Performance Project”	51.50 million	Active
+ Additional Financing	+20 million	In Pipeline
“Digital Cabo Verde Project”	20 million	Active
“Cabo Verde: COVID-19 Emergency Response Project”	5 million	Active
+ Three Additional Financing Programs	+ 15.9 million (total)	
“State Owned Enterprises Related Fiscal Management Project”	20 million	Active
+ Additional Financing	+ 10 million	
“Cabo Verde: First Fiscal Space and Sustainable Growth”	25 million	In Pipeline
“Improving Connectivity and Urban Infrastructure in Cabo Verde”	35 million	In Pipeline

Table 4: Ongoing Projects between Cabo Verde and the World Bank.

Source: Data from World Bank. “Projects”

On the other side, the ongoing efforts of the African Development Bank with Cabo Verde are concentrated in the areas of blue economy, privatization and public-private partnerships, port

infrastructure, local businesses development, renewable energies, and digitalization⁷ (African Development Bank, “Projects and Operations”).

Finally, while the programs with the IMF may not be directly defined for tourism, they support the sector by improving macroeconomic stability and creating conditions for a favorable business environment. In this context, the country has an ongoing Extended Credit Facility Arrangement with the IMF⁸, through which the multilateral is supporting the government’s plans towards economic and social progress, as well as the environmental challenges while aiming to reduce debt and mitigate risks (International Monetary Fund, 2023).

In conclusion, whether directly or indirectly related to tourism diversification, the areas of digitalization, human capital, clean energies, connectivity, sustainability, and blue economy are being prioritized by the Government.

After offering a comprehensive overview of Cabo Verde's socio-economic context, its human capital, financial sector, tourism ecosystem, relations with the EU, strategic priorities, and ongoing collaboration with multilateral organizations, the subsequent section will delve into our team's on-site visit to the island of Sal in Cabo Verde.

⁷ Cutoff date: July 19, 2023. The projects include: “MIC-CAP Vert Economie Bleue [sic]”, “Private Sector Competitiveness and Local Economic Development Programme”; “Technology Park”, “Support for Promoting Economic Efficiency And Investment Through Privatization And Public Private Partnerships”; and “Cabeolica Wind Power”), “Porto Ingles and Palmeira Ports Modernisation and Expansion Project”. Source: African Development Bank.

⁸ The credit was approved in June 2022 for an amount of USD 63.37 millions and a duration of 36 months. The main objectives are strengthening public finances and ensure debt sustainability; reducing fiscal risks from public enterprises and improve their financial management; modernizing the monetary policy framework and improving resilience of financial system; and raising growth potential and increase climate resilience.

3. Qualitative Research on Sal Island

3.1. Motivation

This research report presents a comprehensive investigation into the tourism sector of Sal Island, Cabo Verde, focusing on the challenges the country faces in its efforts to diversify its economy. The study utilizes a qualitative fieldwork approach, involving interviews with various stakeholders in the tourism industry to understand its dynamics and identify obstacles hindering its full potential. By gaining insights from these key actors, the research aims to illuminate the details of the tourism landscape and propose effective policies that foster sustainable economic growth for Cabo Verde, empowering the nation to diversify its economy and enhance resilience against external shocks, leading to long-term prosperity.

To grasp the essence of Cabo Verde's tourism sector, it is vital to explore the perspectives of different stakeholders, such as local communities, tourism operators, government officials, and environmental experts. This report embraces a qualitative lens, weaving together narratives that provide a holistic understanding of the current status of the tourism industry. Before the fieldwork, the group conducted a literature review to examine existing research on the tourism sector in developing countries, with a particular focus on Cabo Verde. It explored the advantages and disadvantages of tourism-led economic growth and discussed the potential drawbacks of overreliance on a single sector. The review also delved into various theoretical frameworks related to sustainable tourism and economic diversification, which informed the research approach and helped the group develop interview questionnaires for different stakeholders.

Common Part

The research reveals multifaceted challenges faced by Sal Island, such as sustainable resource management, capacity building, and cultural preservation. Simultaneously, it identifies opportunities in ecotourism, community-based initiatives, and innovative technologies that can revolutionize the sector. Engaging with a wide array of stakeholders, the study offers valuable insights for policymakers and other stakeholders seeking to foster sustainable economic growth through tourism sector diversification. The ultimate goal is to create a more robust, resilient, and diversified Cabo Verdean economy, benefiting both the nation and its citizens.

3.2. Methodology

3.2.1. Research Approach

To facilitate the project's implementation, interviews were employed as the primary information-gathering technique. The study is especially well suited to this research methodology since it enables a thorough examination of participants' viewpoints and experiences in Cabo Verde.

A total of 19 stakeholders were found to be involved with the project's subject before the fieldwork. To ensure a thorough understanding of the issue in question, specific interview sketches were established for each of these stakeholders. These interviews served to create a systematic framework but also gave the flexibility to explore subjects that were initially not included in the interview guide. Due to the working group's incomplete knowledge about the island of Sal, this approach allowed for the exploration of issues or topics that could have been missed. The group used a recorder and recorded notes on both paper and electronic devices in place of conducting interviews for the execution.

Common Part

The 19 actors that were chosen represented a variety of viewpoints on the research questions and issues, resulting in a comprehensive and multifaceted fieldwork strategy to acquire data from many angles. Every attempt was made to get in touch with and interview every one of these stakeholders. It should be emphasized, though, that not all stakeholders were able to be contacted and interviewed in the manner first planned.

The research team made the required adjustments while traveling to ensure a wide variety of participants. Indeed, three more categories were included for interviews during the fieldwork trip: visitors, residents, and a Portuguese restaurateur who had moved there 30 years earlier. These categories were added to increase our comprehension of island tourism.

The team conducted both structured and unstructured interviews, depending on the interviewee's approach, at three levels: government, tourism industry, and local communities. Additionally, given that the technique used exclusively focused on the involvement of some participants in circumstances common to everyday life, these interviews were relatively simple to conduct.

3.2.2. Considerations for Ethics

Through a process of informed consent, which makes sure individuals are fully aware of the research's objective and their voluntary participation, the rights of participants will be preserved. We shall take every precaution to uphold rigorous confidentiality, protect individual privacy rights, and anonymize any data. Furthermore, the data will be stored and accessible only to the research team.

We assure participants that rather than relying on isolated or chosen portions of the conversations, our policy advice is the outcome of a careful review of all the interviews that

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were done. This approach empowers participants to express their ideas with greater emphasis across a range of topics.

In conclusion, the study team came to a consensus on every interview that was done, ensuring that no interviews were handled differently in terms of ethical considerations.

3.2.3. Participants Selection Process

The choice of participants in the interview was a crucial phase in the field trip planning process. In fact, the drafts for the interviews were created based on that selection. The group has divided stakeholders into three different levels after identifying them. Professionals involved in the subject matter constitute the first level, and stakeholders from the industry itself make up the second level. The local community's stakeholders are included in the last group. Each level was separately chosen for a specific reason.

The goal of the first level was to get a macro point of view of the tourism industry through organizations like the Cabo Verde Tourism Institute, the Tourism Chamber, and the Municipality in addition to working with individual experts like the National Director of the Strategic Planning, Monitoring, and Evaluation Service Agency.

For the second level, there was interest in incorporating information from SMEs and microentrepreneurs, such as family-run hotels and tour companies, to encompass the breadth of the industry.

Regarding the last level, the objective was to understand the perspectives of those who daily engage in tourism, directly or indirectly, such as members of the fishermen's association, workers in different stores in Santa Maria and other neighbors.

Common Part

By using this method, we have been able to gain an understanding of the tourism industry from both micro and macro viewpoints. It has consistently been shown to be the best strategy for obtaining a holistic understanding of the industry.

3.2.4. Data Gathering & Interpretation

The group started the work of gathering information after the field trip and all the interviews were finished. The notes made during the interviews were compared to the transcriptions. This in-depth comparison helps confirm the transcriptions' accuracy and identify any additional information or subtle differences that might have been missed. As a result, a comprehensive dataset was compiled.

With the help of this strategy, the group was able to gather complete information from the interviews and develop insightful conclusions. By adopting this method, the group was able to efficiently compile detailed information from the interviews, which in the end aided in the generation of final recommendations.

3.3. Stakeholders in the Cabo Verde Tourism Ecosystem

Tourism Institute: Created in 2019, through Decree-Law number 37/2019 of July 25, the Tourism Institute's main function is to regulate and supervise Cabo Verde's tourism and implement policies aimed at serving this sector. According to the “Boletim Oficial da República de Cabo Verde” from 2023, this body is also responsible for supporting private investors, licensing, and overseeing the external and internal promotion of Cabo Verde. The Institute has taken over the competencies of the former General Directorate of Tourism (which operated under the Ministry of Tourism), with the exception of legislative reforms and the definition of strategy and policy, which were the responsibility of the Office of Tourism

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Development. Other tasks of the Institute include supporting the training of tourism professionals and granting tourism utility status which is designed to attract investment through the granting of tax incentives (Marçal 2019). As we can see from the statutes of the Official Bulletin of the Republic of Cabo Verde, the Institute of Tourism is the central unit of tourism in Cabo Verde and all institutions must coordinate themselves through the actions of this body. Within this ecosystem, the main institutions that interact with the Tourism Institute are: Cabo Verde Trade Invest (responsible for attracting investment to Cabo Verde); the Tourism Fund; The Institute of Employment and Professional Training, and The Chamber of Commerce.

Chamber of Tourism: The Chamber of Tourism is an association that represents private entities in the tourism sector. Its main role is to bridge the gap between the private and the public sector, seeking appropriate solutions for the sector and defending the concerns of private companies. Although it is not mandatory, companies have the option of joining the Chamber, which only has a physical presence on Sal Island where it is headquartered. The chamber stems from a previous organization, known as the National Union of Tour Operators, which had as a major objective to present the needs of operators and tourism agents of the island of Sal to the governing bodies based in Praia. One of the Chamber's main objectives is to assume a more proactive role in the supervision and licensing of tourism activities in Sal. Another of the concerns of the Chamber has been the diversification of tourism which intends to explore the market of West African countries (during the low season) as a way to circumvent the dependence on the European market.

Odjo D'Agua Hotel: The Hotel Odjo d'Agua is located in the village of Santa Maria and is one of the main hotels of the island of Sal managed and administered by natives of the island.

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The history of this hotel is closely linked to the family of the owners, being that the relatives of the current owner were lighthouse keepers on the promontory where the hotel was built (Odjo d'Agua Hotel 2022). In this sense, the Hotel presents itself as a family organization, which is concerned with transmitting the true Creole spirit and Cabo Verdean culture, but also with promoting the well-being of the island and its employees. The construction work for the Hotel started in February 1997, and it received its first guests on December 14, 1998, at a time when it had only ten rooms. Currently, and after several renovations (the most recent in 2018), the hotel has 113 units. Classified as a Charm Hotel, the Odjo d'Agua has a wide range of services and activities that make it one of the most sought-after places on the island. In addition to promoting various cultural offerings, the hotel Odjo d'Agua also stands out for various sustainable practices, including recycling and the introduction of solar panels. Finally, contractual security and the good relationship with employees and local communities are highlighted. These practices are fostered by the fact that this hotel promotes a family environment and has only Cabo Verdean employees.

Directory Of Strategic Planning: Gilson Pina has been National Director of Strategic Planning since 2019. Although this position is a new function, it does not present a great novelty, since the National Planning System has a working instrument well defined in the Strategic Plan for Sustainable Development (PEDS). Since the beginning of his mandate, Gilson Pina has made it a priority to achieve the PEDS commitments through the involvement and work of all sectors. The National Planning System is a coordinating agency that works with all sectors and stakeholders responsible for policy. This work is first divided into the issue of planning, where the resources and budgets needed to achieve and implement certain policies are analyzed, which then have to be monitored and evaluated according to their objectives. Regarding the tourism sector, PEDS II highlights the importance of promoting greater

diversification in terms of destinations, operators, and services. Through our interview with Gilson Pina, we were able to see that his vision for the development and diversification of the tourism sector is in line with the vision promoted by the Operational Program for Tourism 2022-2026, which includes recommendations for each of the islands (Government of Cabo Verde, “PEDS II”). Looking at a more general plan, Gilson Pina emphasizes the importance of investing in Human Capital and the Blue economy and draws attention to some important problems such as the lack of climate data that hinders sustainability commitments.

Municipality of Sal: The council of Sal is the main municipal body present on the island, and in this sense brings together a number of functions and responsibilities in terms of planning and economic and social development. Being Cabo Verde a country where tourism reaches about 25% of the national GDP and being the island of Sal the main tourist destination, the Municipality of Sal has an important role in the development of the country. Indeed, the entity ends up having an important role in local relations with the various agents of the island's tourism ecosystem. However, and within the tourism sector, the Municipality has no official competence and can only issue construction permits. However, since it is responsible for promoting basic infrastructure throughout the island, it ends up having a decisive role in the conditions that are offered to tourism on the island of Sal. From the social point of view, the Municipality has sought partnerships with private institutions in order to promote the basic structures, and in this sense, we can speak of the initiative "A House A Tap" in initiative with the UN. The Chamber also has partnerships with several private cultural projects in order to support and promote culture with tourism and support local artists (“Câmara Municipal do Sal (Executivo) | Cmsal,” n.d.). The main challenges pointed out by the Municipality of Sal have to do with the lack of capacity to legislate and regulate certain activities in the tourism sector, and in this sense, the entity has been strengthening the conditions of the municipal police.

However, many of these issues, including the regularization of tourism and informal work or the protection of beaches and the coastline, end up going beyond the powers of the City Council. Another problem that the members of the Municipality recognize in what is its operation is in the access to services and digital platforms that can facilitate the work of the municipality, but also in the access to common services such as tax payment and land management (“Câmara Municipal do Sal (Executivo) | Cmsal,” n.d.).

Fisherman Association: The Sal Island Fishermen's Association, which has been active for two years, plays an important role in representing and supporting local fishermen. The main function of the association is to address the challenges faced by fishermen and communicate these to relevant governmental and non-governmental entities. The association has over 300 members, which include fishermen, longshoremen, divers, and fish sellers. The fishermen face challenges related to infrastructure, including the inability to adequately preserve fish, lack of investment in equipment, and safety. They also highlight concerns about foreign boats operating in their waters without proper control or supervision, which has been reducing fish stocks. The association's main buyers are the local restaurants and the tourists that visit these establishments, since there is no local market, and the big hotels prefer to import fish from European companies.

3.4. Data Analysis and Key Findings

3.4.1. Data Analysis

In this chapter, we will outline the data analysis procedures adopted to analyze the qualitative interview data obtained from relevant stakeholders in Cabo Verde. We identify patterns, themes, and insights related to the interconnected objectives of promoting economic

diversification and fostering resilience within and beyond tourism in a post-pandemic environment. During our interviews, we adhered to ethical guidelines by ensuring the anonymity of participants. Consequently, sensitive subjects were broached without exposing any personal identification or professional associations. Therefore, the transcripts remain unpublished.

The analysis process involved a bottom-to-top approach, focusing on three-dimensional clusters: the professional (macro-perspective), tourism industry (micro-perspective), and local community. This approach allowed for a comprehensive analysis of the policy options as each level recognizes different challenges and opportunities, and this analysis sheds light on the perception of actual versus desired or intended state.

To initiate the analysis process, the interview data of sixteen interviewees was thoroughly reviewed, transcribed, and organized. Software tools were carefully utilized to assist with categorization and theme development, allowing for efficient retrieval and analysis.

Through an iterative process of data immersion and interpretation, the research team gained a deep understanding of the nuances and meanings embedded within the interview data. The team engaged in discussions, reviewed, reflected upon, and interpreted the data to derive meaningful insights. These identified key themes were then further analyzed in in-depth individual report parts. This comprehensive analysis allows for a nuanced understanding of the multifaceted challenges and opportunities present in these domains, providing a foundation for informed policymaking and strategic decision-making.

3.4.2. Key Findings

The buzzwords across the three stakeholder dimensions are education, connectivity, brain drain, opportunity, and formalization of sectors. Connectivity, in particular, can be categorized into distinct levels, including inter-island transportation routes, digitalization efforts, and exchange mechanisms between diverse islands and hierarchical structures. However, especially ‘opportunity’ highlights that most stakeholders see Cabo Verde in an era of positive development and the key concepts underscore the importance of where to grow.

3.4.2.1. Dimension One – Professionals

From the perspective of the first layer of stakeholders’ various key aspects are already being addressed to promote the development of the Islands. Efforts are made to ensure social and economic inclusion by supporting vulnerable groups, such as fishermen, during the pandemic. Formalization and regulation of the tourism sector are acknowledged as challenges, leading to measures like surveillance and tax compliance. Strategies for pandemic recovery and long-term sustainability are emphasized, including support for sustainable projects and diversification to avoid over-reliance on tourism. Access to capital and financing options are provided for entrepreneurs, with a focus on attracting foreign direct investment. Innovation, digitalization, and diversification are recognized as crucial for the country's future, with initiatives supporting digital adoption, skill enhancement, and tech investments. Enhancing connectivity for transportation and digital services is seen as vital for tourism development and overall economic growth. Climate change considerations are prioritized, with sustainability measures, clean energy development, and international collaborations aiming for a 100% renewable energy goal by 2050.

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3.4.2.1.1. Social and Economic Inclusion

The Municipality of Sal in Cabo Verde, the Institute of Tourism, and the Strategic Planning, Monitoring, and Evaluation Directory all emphasize the importance of social and economic inclusion in their respective roles. Efforts are made to support vulnerable groups during the COVID-19 pandemic by providing resources and training. The strategic planning agency collaborates with aligned ministers to implement and measure social and economic inclusion initiatives. Additionally, the municipality contributes to social inclusion measures by allocating a portion of tourist spending to specific social projects.

3.4.2.1.2. Regulation and Formalization of the Tourism Sector

Challenges related to the formalization and regulation of the tourism sector are acknowledged by both the municipality and the strategic planning agency. Informal work and lack of control pose problems for the sector's growth, resulting in negative experiences for tourists and tax evasion. To address this, the municipality implements surveillance measures in tourist areas and promotes tax compliance. The strategic planning agency also encourages formalization through policies supporting formalized entities, facilitating proper taxation, and assessing the sector's size accurately.

3.4.2.1.3. Pandemic Recovery and Outlook

The Municipality and the Institute of Tourism both acknowledge the need for pandemic recovery strategies and long-term sustainability in the tourism sector. Measures have been implemented to ensure preparedness for a high number of tourists after the COVID-19 pandemic. To achieve sustainability, the municipality supports projects related to sustainable water use, cultural initiatives, and local artist inclusion. The Institute of Tourism, on the other

hand, focuses on diversification, promoting new segments like digital nomads and cultural heritage to avoid over-reliance on tourism.

3.4.2.1.4. Access to Capital and Financing

Both the municipality and the strategic planning agency address the issue of access to capital and financing for entrepreneurs. Entrepreneurs in Cabo Verde have access to financing options such as bank credits, government initiatives, and loans from institutions. The strategic planning agency emphasizes the importance of attracting foreign direct investment to contribute to job creation and the country's balance of payments. Efforts are made to establish greater clarity and corporate social responsibility for investors, benefitting housing, education infrastructure, and childhood development.

3.4.2.1.5. Innovation, Digitalization, and Diversification

The municipality, the Institute of Tourism, and the strategic planning agency recognize the significance of innovation, digitalization, and diversification for Cabo Verde's future. The municipality acknowledges the need to catch up in terms of digitalization, with challenges in limited resources and infrastructure. Nevertheless, they support local businesses and startups in adopting digital technologies and leverage digitalization initiatives to attract foreign direct investment. The Institute of Tourism focuses on enhancing digital skills and promoting Cabo Verde as a telecommunications hotspot to attract digital nomads. Meanwhile, the Strategic Planning Agency encourages investments in technology centers and partnerships with tech giants like Microsoft.

3.4.2.1.6. Connectivity

The importance of enhancing connectivity for transportation and digital services is recognized by both the municipality and the Institute of Tourism. Efforts are made to improve transportation between islands, attract low-cost airlines, and reduce fares for domestic tourism. Cabo Verde has high internet connectivity and mobile phone usage rates, but further improvements are being sought to reduce prices and enhance access to digital services. Connectivity is seen as vital for both tourism development and overall economic growth.

3.4.2.1.7. Climate Change Considerations

The Institute of Tourism and the strategic planning agency both prioritize climate change adaptation and mitigation. The Institute acknowledges the importance of sustainability measures in the tourism sector, such as reducing plastic waste and developing clean energy sources. The strategic planning agency establishes a climate fund to support climate-related projects and collaborates with international partners to secure funding. Cabo Verde's goal is to achieve 100% renewable energy by 2050, demonstrating a strong commitment to climate change action.

3.4.2.2. Dimension Two – Tourism Industry

The tourism industry in Cabo Verde demonstrates a complex interplay of positive economic impacts, challenges in relationships between large and small stakeholders, inadequate healthcare and educational services, lack of preparedness for future shocks, and the outmigration of qualified individuals. From their point of view, addressing these issues requires a comprehensive and inclusive approach by the government encompassing education, formalization of businesses, improved social services, and measures to retain skilled

professionals within the country. Furthermore, challenges related to climate change are acknowledged but are not seen as the most significant issue at this stage in their daily life and business. However, most interviewees expressed a positive view of the industry, perceiving it as an opportunity to generate income and establish related businesses. They acknowledged the significant contribution of large tourism players in attracting a substantial number of tourists to the country, highlighting the financial benefits associated with increased tourism. Notably, major foreign tourism companies that operate in Sal Island did not respond to interview requests which is limiting our perspective.

3.4.2.2.1 Social and Economic Inclusion

The tourism ecosystem in Cabo Verde involves many Cabo Verdeans, including a significant number of women. The integration of the local community and support from local hotels play an important role in promoting social and economic inclusion. However, the health system in Cabo Verde faces deficits and needs prioritization. Infrastructure investments in the tourism sector should focus on healthcare and the availability of doctors on the islands. Efforts are being made to support smaller players and promote gender equality and women's leadership in the tourism sector. The Cabo Verde Tourism Institute plays a crucial role in implementing tourism policies, regulating, licensing, inspecting, and promoting tourism. The institute supports the training of tourism professionals, benefiting the local communities. Engaging with local communities is limited due to the island's focus on sun and beach tourism, making differentiation a challenge. However, some tour operators work to involve local sellers, mostly women, to give them a platform to sell locally handcrafted products. The growth of tourism in Cabo Verde has brought economic opportunities but also highlighted challenges such as the lack of infrastructure and the need for better integration among different sectors. Projects

funded through the Tourism Fund aim to improve investment, accessibility, safety, and infrastructure, benefiting local communities. Articulation of services between big hotels and local entrepreneurs is essential to ensure a comprehensive experience for tourists, although the cooperation is limited, faces a lot of barriers, and is not formalized.

3.4.2.2.2. Access to Finance, Regulation, and Formalization of the Tourism Sector

Strengthening policy enforcement and regulations is seen as necessary to maintain order and cleanliness in street vending and beach activities. While the majority of people possess the necessary licenses, street vendors attempting to sell goods with questionable practices to tourists pose a challenge. Formalizing and regulating the tourism sector is important for taxation and official registration. However, there are challenges of enforcement on the streets despite the efforts of the Tourism Institute that collaborates with various institutions, including Chambers of Commerce and the School of Hotel Management and Tourism, to formalize and regulate the tourism sector. In the eyes of some smaller stakeholders, the government's understanding of tourism's true value is limited, and lower taxes and better protection are needed to facilitate the growth of small tourism businesses and discourage informal practices. Licensing and inspection of establishments are necessary to ensure fair competition and maintain the overall framework of tourism. The Chamber of Tourism aims to take a more active role in supervising and licensing tourism activities. There is a need to address informal practices in the tourism industry and control inauthentic products and services through taxation. The rapid changes in the tourism sector have not been accompanied by adequate structures and regulations to sustain the growth, but regulation of the tourism sector can contribute to sustainable growth and benefit small entrepreneurs. Furthermore, there is a lack

of awareness and knowledge about how to access finance and funding opportunities for tourism businesses.

3.4.2.2.3. Pandemic Recovery and Outlook

The COVID-19 pandemic had a severe impact on the tourism sector in Cabo Verde, causing significant financial losses for operators and turning some areas into ghost towns. However, Cabo Verde effectively managed the crisis by providing training opportunities and financial support for tourism professionals. Some interviewees expressed frustration that they did not receive financial support, notably most likely due to informality. The successful vaccination campaign allowed the country to reopen for tourism with necessary safety measures, leading to increased hotel stays in 2022 beyond previous years. However, the tourism sector now tends to be last-minute, and there has been a decrease in prices to stay competitive. Nevertheless, the lack of lessons learned by the people on the ground from the pandemic and the focus on sun and beach tourism make the sector vulnerable again to future shocks. The Chamber of Tourism played a role in supporting workers during the pandemic, and diversification of demand is crucial to reducing reliance on the European market during the high season. New markets, such as West African countries, should be targeted through increased connectivity and promotion.

3.4.2.2.4. Sustainability

Sustainability measures, such as recycling water, using solar panels for energy, and addressing waste management, have been implemented in some parts of the tourism sector. The government provides incentives for businesses and solar panel installations. Concerns about waste management, fish scarcity, and excessive hotel construction raise questions about the

long-term sustainability of the islands. The government has signed a sustainability pact with major hotel groups and municipalities, focusing on water reuse, prohibition of single-use plastics, and other measures to mitigate climate change impacts. Balancing tourism expansion with environmental considerations is seen as essential.

3.4.2.2.5. Tourism Differentiation and Diversification

Cabo Verde's tourism offerings heavily rely on large hotels and sun and beach activities. The lack of diversification is seen as a potential problem for the sector's sustainability and resilience. Nature tourism and cultural tourism are identified as potential areas for post-pandemic demand. Nature tourism, such as turtle spawning and promoting tourism villages for nature experiences, can attract demand beyond sun and beach offers. Cultural tourism, including history, music, and Carnival, is important for the domestic and emigrant sectors but lacks sufficient supply. Collaboration between international and local operators is encouraged, but there are challenges in expanding beyond traditional activities. Improving connectivity between islands and addressing seasonality and competitiveness are key challenges. The Cabo Verde Tourism Operational Plan aims to diversify tourism through projects focused on nature tourism, cultural heritage, digital nomads, and adventure sports. While Sal Island is mainly focused on sun and beach activities, other islands have the potential for more authentic tourism experiences. Enhancing transport connections within the country and with West African countries can support tourism diversification.

3.4.2.2.6. Foreign Tourism Operators

Among the leading tourism operators in Cabo Verde, TUI Group stands out as a well-known international company providing comprehensive vacation packages, flights, and hotel

accommodations. Club Med, another notable operator, specializes in all-inclusive resorts and offers a range of amenities and activities for tourists seeking a comprehensive vacation experience. Meliá Hotels International, a renowned hotel chain, operates luxury resorts and hotels across various destinations, including Cabo Verde, providing tourists with upscale accommodations and services. RIU Hotels & Resorts is also prominent in the region, offering all-inclusive resorts with diverse dining options, recreational activities, and entertainment. Lastly, Hilton Hotels & Resorts, a globally recognized brand, maintains properties in Cabo Verde, providing high-quality accommodations and amenities for discerning tourists.

It is possible to argue that the presence of a limited number of prominent tourism operators in Cabo Verde suggests the existence of an oligopoly⁹, characterized by a small number of dominant firms in the market. The absence of direct communication or interview opportunities with the major tourism operators, despite concerted efforts through various channels, may be interpreted as circumstantial evidence of their substantial market power within the Cabo Verde tourism industry. This influence is further supported by the considerable contribution of tourism-related taxes to the budget of Cabo Verde and Sal Island. A tourism tax of 2.50€ per person per night for individuals is imposed on hotel accommodations. Additionally, an Airport Security Tax (Taxa de Segurança Aeroportuária) of 30.71€ is applied for international arrivals and paid directly to the authorities.

⁹ Oligopoly typically implies a market dominated by a few large firms that have substantial control over pricing and market conditions.

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The small players in the tourism industry, as expressed during our interviews, generally hold a positive perception of the major chains, acknowledging their role in attracting a significant number of tourists and potential clients to the country. Nevertheless, they harbor concerns regarding the lack of recognition and reputation that prevents them from establishing direct business relationships with these major chains. Consequently, they express a desire for increased government support to enable their participation in the value chain generated by tourism on the Island of Sal.

However, it is essential to note that a comprehensive analysis of the market structure and the behavior of these large operators would be necessary to draw a definitive conclusion. Determining objectively the extent of their market dominance, the level of competition within the industry, and whether they engage in coordinated actions or exert significant control over market dynamics.

3.4.2.2.7. Connectivity

Improving transportation links between islands is crucial to support tourism development and diversification. The government aims to attract low-cost airlines and work on intermodal transportation solutions to make domestic tourism more accessible. Further, more air competition could address seasonality by reducing flight ticket prices. Poor connectivity between the islands is seen by some parts of the stakeholders as a problem of corruption, and current transportation options are deemed inefficient. Lack of connections with African countries hampers the flow of tourists with middle-class spending power. Boosting flights between Sal and West African countries can tap into new demand. Challenges in inter-island transport, particularly between Sal and Boa Vista, increase costs and hinder accessibility for

tourists. The former Cabo Verde Express flight from Sal to Fogo allowed tourists to access nature diversification.

3.4.2.2.8. Human Capital

Formal training and empowerment of local workers, particularly young people, are considered crucial for the tourism sector. Partnerships with other institutions are established to facilitate turnover and recruitment of employees. However, there are challenges in implementing formal training programs, and the entrepreneurial landscape in Cabo Verde seems to favor young individuals over older ones. The lack of specific programs for special needs children hampers their support. The development of human capital is hindered by the reliance on non-local workers and the lack of investment in social structures. Brain drain is a concern, as skilled tourism workers often leave for better opportunities abroad. The growth of tourism has provided employment opportunities for the local population, but more investment in training and education is needed. The Chamber of Tourism emphasizes the need for certification to ensure quality and greater production, particularly in the agricultural sector, where hotel chains are investing.

3.4.2.2.9. Climate Change Considerations

Cabo Verde is implementing projects to address water scarcity, reduce dependence on imported oil, and combat plastic bottle production. The impact of climate change, such as rising sea levels and fluctuations in fish populations, is noticeable. The hotel industry has contributed to the diminishment of dunes by building directly at the beach. However, there is a lack of urgent concern about climate change among some individuals in the region, as some of them see health and education as more acute pressing issues. Some interviewees expressed

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that the government and people need to be more proactive in addressing climate change and its impact on the island.

3.4.2.2.10. Digitalization

Cabo Verde is highly focused on digitalization and has high internet connectivity rates. The country positions itself as a telecommunications hotspot, benefiting from international connectivity projects.

3.4.2.2.11. Other Topics and Concerns

Foreign investment significantly impacts the tourism sector in Cabo Verde. The government provides support for national investors through various projects. Information campaigns are used to inform people about tourism programs and opportunities. The role of big hotels in supporting local communities is questioned, and the government's focus on the capital city for tourism investment is seen as a challenge for the growth to other islands.

3.4.2.3. Dimension Three – Local Community (Santa Maria, Sal Island)

Unstructured interviews were conducted in Santa María through informal conversations with locals, including store employees, school workers and directives, a local artisan, a bus driver, and others. Acknowledging the fact that the approached individuals are not a representative sample of Santa Maria's population, these interviews provide a deeper understanding of the needs and perceptions of the community surrounding the main tourism accommodation establishments, with valuable insights that complement the information gathered through the two previous levels of research. The topics covered included access to basic services (such as health or education), experiences during COVID-19, and relationships with Sal's main

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tourism players, among other topics that arose naturally in conversations. In the following paragraphs, we will describe the main findings from these interviews, as well as the common needs highlighted by the locals. The identity of the interviewees will be kept confidential.

3.4.2.3.1. Challenges in Access to Education and Training

Even though all the individuals approached had completed secondary school, their access to training varied due to different constraints. Participants have had access to government-provided free training during the pandemic; however, age limits and the focus of current public and private programs on young people are limiting the ability of older individuals to participate in these courses.

3.4.2.3.2. Limited Digitalization in Local Stores

In terms of digitalization, the stores visited on the pedestrian street in Santa Maria revealed a lack of digital payment systems. None of the five stores had implemented such systems, resulting in customers being required to pay in cash, with no option for digital transactions. Furthermore, these stores did not provide receipts for purchases. Interestingly, despite this lack of digital payment infrastructure, all workers in these stores possessed mobile phones, had access to the internet at home, and claimed to have at least basic computer literacy skills. This reveals a discrepancy between the personal use of technology by the workers and the digitalization efforts within the stores themselves.

3.4.2.3.3. Impact of Pandemic and Lessons Learned

COVID-19 had significant effects on the workforce in Sal, with a considerable number of workers having benefited from a layoff subsidy provided by the government and employers

offering support during this challenging time. Due to the high costs of living in Sal, interviewees revealed that many individuals opted to return momentarily to their home islands to reduce expenses, considering the high costs of living in Sal.

In addition, the pandemic also brought forth important lessons for the community. Some participants highlighted the importance of having savings as a means to be prepared to face unforeseen changes and uncertainties. Additionally, there was a growing recognition of the significance of mental health and spending quality time with family, highlighting their resilience and adaptability through hard times.

3.4.2.3.4. Diverse Perceptions Regarding Big Actors in the Tourism Industry

When asking about people's perceptions of big hotels, a range of opinions emerged among interviewees. On one hand, some locals mentioned the positive impact of these establishments, mentioning their role in creating job opportunities and contributing to the improvement of local infrastructure (such as the development of the pedestrian street in Sal).

However, on the other hand, contrasting views were also expressed by locals, who characterized big hotels as being detached from the needs of local communities. They emphasize the importance of encouraging tourists to get out of the hotel facilities and interact more with local businesses, particularly restaurants. It was noted that many resorts have their own stores, tour offerings, and other services inside, isolating tourists from the local economy. Finally, in terms of Corporate Social Responsibility, big hotels appear to have a limited involvement with the local community. The interviewees mentioned that only one or two local hotels currently provide food to schools (as part of a former program aiming to supply schools

with food). These observations shed light on the complex dynamics between big hotels and the local community in terms of their impact, engagement, and responsibility.

3.4.2.3.4. Social Needs and Challenges in Santa Maria

Interviewees unanimously identified some urgent social needs within the community. The first difficulty mentioned was the need for improvements in healthcare. They indicated that the health center closes at 8 p.m. on weekdays and during weekends, leaving residents with limited access to medical services in case of emergencies. Additionally, a shortage of specialists in the island's hospital was mentioned, further exacerbating the situation.

Another major community issue highlighted is caused by children being left unsupervised during the day, while parents are working. With part-time schooling, children tend to wander around the beach, leading to instances of drug and alcohol use, as well as violent incidents. Moreover, parents' work commitments hindered their ability to engage with their children's education, as they are not able to attend school meetings and participate in their learning process.

In addition, local store employees expressed concerns about the impact of migration from other African and Asian countries. The goods offered by their stores at lower prices are affecting their competitiveness and sustainability.

Furthermore, as already expressed in the previous sections, the current connectivity difficulties emerged as another challenge. In fact, the high prices of flights and unreliable boat services have made inter-island mobility very limited.

Finally, high bureaucracy faced was mentioned as a barrier to implementing local businesses.

In order to foster a more resilient, inclusive, and sustainable tourism sector in Cabo Verde, it is essential to prioritize the basic needs of local communities in any discussion about tourism diversification. By addressing current issues such as healthcare access, childcare, transportation, fair competition, and bureaucratic processes, the tourism industry can better contribute to the development of the local population, creating a positive and mutually beneficial relationship between all stakeholders.

3.5. Limitations of the Study and Future Research

Our research relied mostly on data analysis from in-depth interviews to explore the key aspects of the tourism sector. After a well-organized three-level intervention profile (professional, tourism-related, and local community), several essential limitations must be acknowledged.

One of the primary limitations was the inability to perform a quantitative analysis in post-pandemic economic and financial recovery. This limitation arises predominantly from the constraints imposed by confidentiality restrictions. As a result, we were unable to access key datasets that may have offered more detailed insights about moratoria and economic recovery. To solve this constraint in future research, accessing microeconomic data may allow to investigate cause-and-effect relationships, at individual or aggregate levels, contributing to the study's reliability, validity, and completeness.

Based on our study findings and the qualitative data obtained through interviews, a second limitation of this study is related to the specific location and context in which the research was conducted. The findings are based on data collected from a particular geographic area with a specific set of conditions, and therefore, their generalizability to other regions or contexts may be restricted. In our study, qualitative data collection was limited to the context of Sal Island,

however, Cabo Verde comprises nine inhabitants and diverse islands, each with its unique characteristics. Additionally, it is essential to acknowledge that external factors beyond our control may affect the reproducibility of these findings in other settings. Future studies should consider conducting similar research in diverse locations to provide a more comprehensive understanding of the broader applicability of the results.

A third limitation of this study is the inability to conduct interviews with large international hospitality stakeholders. We were unable to engage in direct interviews that could have provided valuable insights on tourism dynamics and ecosystem, potentially causing a selection problem in our data collection, and limiting the richness and nuance of our findings and scope of our study.

A fourth and final limitation pertains to the selection of stakeholders. While efforts were made to engage with a diverse range of stakeholders, including tourists, local communities, tourism businesses, and government bodies, the scope of stakeholder representation was limited in the tourism sector, and may not encompass the entire spectrum of perspectives within this active sector. Future research could explore a broader array of public and private actors to provide a more comprehensive understanding of the complex dynamics in the tourism industry. For instance, conducting interviews with local academics and researchers, transportation providers, media and marketing agencies among others, could offer fresh insights and contribute to a more comprehensive understanding.

4. Individual Paper: Unlocking Fiscal Space: Leveraging Opportunities to Empower Progress in Developing Countries by Tobias Derr

3.1. Introduction

The research in this individual section focuses on analyzing how fiscal space is utilized in small developing countries facing similar constraints in economic development, such as Cabo Verde. Our qualitative research reveals a significant challenge related to the formalization of the tourism industry and its related sectors, including fishermen, stores, and restaurants. Incentives to address formalization are rooted in the goal of expanding the tax base to finance diversification and achieve fair tax compliance. At the beginning of the analysis policy action concerning supervision was not initially covered but emerged from the analysis of various stakeholder interviews, especially in dimension one and two. While taxation may seem solely within the purview of government officials, the research findings indicate that entrepreneurs and small businesses also consider it a crucial concern. They seek to comply with rules to assert their citizen and participation rights, not just for individual benefits, but also to contribute to the common good and promote equitable distribution of tax and insurance contributions to foster fair competition. Looking at the bigger picture, based on U.N. estimates, low-income countries need to raise their yearly public spending by as much as 30 percent of their GDP to attain the Sustainable Development Goals (Baum, et al. 2017).

3.2. Literature Review

Roy, Heuty, and Letouzé (2007) created the generic definition that “fiscal space is the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective, for a specified set of

development objectives.” In other words, fiscal space means the flexibility a government has in its budget to allocate resources for specific needs without putting its financial stability or the economy at risk. Introducing a multidimensional notion of fiscal space, many papers have built upon the seminal work of Heller (Understanding Fiscal Space 2005). According to Heller, the concept “remains fuzzy” and depends on a variety of factors, including the level of public debt, the size of the fiscal deficit, the availability of financing, and the quality of public expenditure management. However, an essential limitation to apply this framework to other than advanced economies is the underlying assumption of access to financing and the presence of well-established institutions (Baum, et al. 2017). While countries such as Germany possess significant fiscal space, developing nations encounter constraints in attaining sufficient budgetary room essential for financing future economic development (Haksar, et al. 2018). These critiques make it necessary to take different perspectives that focus on the context of developing countries. Moving from a theoretical analysis to a practical proposal involves carefully considering two vital aspects: first, the envisioned public program, and second, the potential revenue prospects within the country's political and socio-economic landscape, along with its future growth prospects (Aguzzoni, The concept of fiscal space and its applicability to the development of social protection policy in Zambia 2011). An alternate paper that focuses mainly on the LIC in the context of fiscal space investigates how the administration can increase further budget resources aimed at fighting poverty (Brun, et al. 2006). The authors highlight the issue of fiscal space has become more important regarding the Millennium Development Goals and that ultimately the mobilization of additional resources should benefit a framework to fight poverty. According to their paper, poverty and economic growth significantly influence both the level of tax effort and the amount of government revenue generated. Brun, et al. 2006 conclude that the relationship between fiscal space and poverty is two-fold. On one hand, high

levels of poverty, as well as inequality, decrease the available fiscal space. However, on the other hand, the different aspects of fiscal space can also be used as tools for redistribution and to fight against poverty. According to Baum, et al. 2017 one area of emerging research explores the connection between a country's revenue raising capacity and public investment, suggesting that improving physical and human capital can stimulate growth and increase revenue collection, thus expanding fiscal space, but it overlooks the impact of macroeconomic uncertainty.

3.3. Understanding Fiscal Space in Small Developing Countries

3.3.1. Key Components of Fiscal Space

The IMF's Fiscal Affairs Department determines potential fiscal space with seven different factors (P. Heller 2005). Firstly, reprioritizing expenditure means cutting unnecessary spending such as subsidies or wages for ghost workers, while protecting important public sectors to use government money more wisely and effectively. Secondly, boosting efficiency aims at the implementation of good governance to reduce corruption for instance. Thirdly, the objective of raising revenue can be achieved through efficient tax administration and broadening of the tax base. The ratio of government revenue to GDP in LICs should aim to be at least 15 percent of their GDP. However, recent estimates by the U.N. aim for at least 30 percent of their GDP to reach the SDGs (Baum, et al. 2017). Fourthly, increasing borrowing while evaluating if the costs justify the social return and if the debt sustainability management is respected to determine how much level of debt an economy handles (Hakura 2020). Fifthly, monetary expansion such as ensuring enough money supply to support real economic growth while keeping inflation low. However, if a government considers using money creation to increase spending, there are limits due to the risk of causing inflation (IMF 2023a). Sixthly, securing more external grants can be

a viable way especially for developing countries to boost their fiscal space and their development goals as they are not repayable. Nevertheless, it requires a sustained and predictable flow of grants to create meaningful impact and reduce uncertainty (P. Heller 2004). Seventhly, pursuing sound macroeconomic policies that are recommended or conditioned by multilateral organizations, which failure to implement can negatively affect future assistance.

3.3.2. Stylized Facts – Unique Challenges faced by LICs in Managing Fiscal Space

The IMF Working Paper by Baum, et al. (2017) provides various insights on four stylized facts that developing countries face compared to emerging economies and should be considered while assessing fiscal space. The first stylized fact according to the authors is that LICs face low public debt but a surge in fiscal deficits. In other words, LICs have relatively low levels of accumulated government debt compared to their economies but their administrative spending exceeds their revenue. The reason for this is the wave of debt relief by the Heavily Indebted Poor Countries (HIPC) initiative in 1996 with an estimated assistance of \$76 billion in 2017 net present values (IMF 2023b). Among LICs, public debt ratios showed a significant decline, reaching 23 percent of GDP by the year 2008 [

Figure 3: LICs: Decomposition of Government Debt Evolution (Percent of GDP)]. But this trend began to reverse in 2009 after the aftermath of the global financial crisis (Baum, et al. 2017). On average, in LICs government debt has increased now by 30 percentage points of GDP since 2011, reaching 67 percent of GDP in 2022, which is the highest level recorded since 2005, except for the exceptional year 2020 (Mawejje 2023). The second fact revealed by Baum, et al. (2017) is the decreasing reliance on concessional financing since 2007 to seek

independence from multilateral and Paris Club creditors¹⁰ financial assistance. Consequently, the proportion of concessional loans [*Figure 3: LICs: Financing Mix of Sample Countries (Percent of GDP)*] relative to the overall debt reduced from approximately 65 percent in 2001 to about 40 percent by 2014 (Baum, et al. 2017). The authors state that reasons therefore are gained access to international capital markets and increased bilateral lending from India, Brazil, and China and that the move towards non-concessional external and domestic financing may worsen debt dynamics in the future. The third discovery in Baum et al. study (2017) reveals that LICs face high macroeconomic volatility and have relatively limited financial depth. However, despite these challenges, their economic growth remained quite robust when compared to advanced and emerging market economies. While LICs are highly vulnerable to external trade and commodity shocks the developed banking sector in those countries acts as a shock absorber (Kpodar, Goff and Singh 2018). This highlights the limited ability to maintain sufficient policy buffers, leading to increased liquidity and debt stress (Baum, et al. 2017). The fourth stylized fact is that the high level of government involvement in the economy and extensive state ownership of firms and banks in most MENAPEG¹¹ countries expose them to potential contingent liabilities (Boukezia, et al. 2023). Especially in Africa the largest source of fiscal risk is the realization of guarantees, undisclosed debts and arrears of state-owned enterprises (SOEs), currency depreciation, and insufficient preparation to cope with those risks (Musa 2023). Regardless of their significance, data on contingent liabilities is raw, and only a

¹⁰ “The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. As debtor countries undertake reforms to stabilize and restore their macroeconomic and financial situation, Paris Club creditors provide an appropriate debt treatment.” (Club de Paris 2023)

¹¹ MENAPEG refers to 17 low- and middle-income countries in the Middle East, North Africa, and Pakistan region, excluding high-income Gulf countries.

limited number of LICs include them in their budget planning, leaving them vulnerable to unexpected fiscal burden when contingent liabilities emerge (Baum, et al. 2017) (IMF 2016b).

3.3.3. Implications of Limited Fiscal Space on Development and Progress

The limited availability of resources for the government to invest has a variety of negative effects. In this section, the focus lies on the effects of reduced investment in infrastructure, human capital, and the interrelation between economic growth and development. Several theories such as the “poverty trap¹²” (Sachs, et al. 2004) and the “bottlenecks¹³” (Willoughby 2004) support the assumption that infrastructure investments generate significant returns, especially in LICs (Roy, Heuty and Letouzé 2007). Furthermore, numerous studies provide compelling evidence supporting the positive effects of investing in various infrastructure areas, including transportation and communication with a particular emphasis on rural areas (Fan, Linxiu and Xiaobo 2002) (Klitgaard 2004), agricultural research and development (Alston, J. Martin and Pardey 2015), and electricity infrastructure (Lipscomb, Mobarak and Barham 2013). Although the impacts of public investment relationships are context specific, there is substantial and increasing empirical evidence suggesting that improved access to water, sanitation, healthcare facilities, and transportation can have a noteworthy and direct impact on reducing child mortality and poverty (Vorisek and Yu 2020). To achieve the 17 Sustainable Development Goals by 2030, an estimated annual investment of between US\$3 trillion and

¹² “A poverty trap is a self-perpetuating condition whereby an economy, caught in a vicious circle, suffers from persistent underdevelopment.” (Kiminori 2010)

¹³ “Removing bottlenecks in the economy, which hurt poor people by impeding asset accumulation, lowering asset values, imposing high transaction costs and creating market failures. Eliminating these bottlenecks allows the poor to contribute to growth directly through the employment and income opportunities [...]” (Willoughby 2004)

US\$5 trillion will be required (The Economist Intelligence Unit 2020). To conclude, at the core of the issue lies the large funding gap in public spending for public goods that demands immediate attention by increasing the available fiscal space.

3.4. Opportunities to Unlock Fiscal Space for LICs

The international community, particularly the United Nations system and the International Financial Institutions (IFIs), has reached a consensus on the importance of eight optional ways¹⁴ to expand fiscal space for national development (Ortiz, et al. 2019). In the following, the focus lies on increasing the contribution towards the government budget through broadening the tax base and improving the tax management efficiency of the administration.

3.4.1. Domestic Revenue Mobilization

The primary channel of generating domestic revenue is through broadening the tax base and modifying various tax rates which can involve changes in taxes on consumption, corporate profits, financial activities, personal income, property, imports or exports, and natural resource extraction (Ortiz, et al. 2019). The fiscal space can be further increased by enhancing the efficiency of tax collection methods and overall compliance can also contribute to resource generation domestically (Ortiz, et al. 2019). Mobilizing domestic resources is appealing for

¹⁴ (i) expanding social security coverage and contributory revenues, (ii) increasing tax revenues, (iii) eliminating illicit financial flows, (iv) improving efficiency and reallocating public expenditures, (v) tapping into fiscal and foreign exchange reserves, (vi) managing debt: borrowing or restructuring sovereign debt, (vii) adopting a more accommodative macroeconomic framework, and (viii) increasing aid and transfers

LICs as it avoids the adverse effects of external resources, such as the “Dutch disease¹⁵”, but it comes with social, political, and economic challenges, demanding administrative and technical capacities, and may require years for implementation due to extensive reforms (Aguzzoni 2011). Nevertheless, especially for LICs increasing the tax revenue and broadening the tax base plays the most important role in government development (Brautigam, Fjeldstad and Moore 2008), which is demonstrated in the fact that Official Development Assistance (ODA) is recently more often conditioned on fiscal space achievements (Aguzzoni 2011). The authors Brun et al. (2006) state that are factors to assess the taxation potential within a country that is benchmarked to peers and can be considered as normally expected revenue. They identify the difference between the actual tax rate and the tax potential as the representation of the tax effort. A positive tax effort suggests that the country is taxing its current resources beyond what is expected, while a negative tax effort suggests that the country is not fully utilizing its potential for taxation (Brun, et al. 2006). The Tax effort relies on short-term tax policy, whereas tax potential is influenced by long-term structural factors (Aguzzoni 2011). Various studies suggest estimates that developing countries fail to realize their full tax potential (UNU WIDER 2022). In a typical developing economy, tax collections amount to only 15 percent of GDP [

Figure : Tax-to-GDP ratios, 2000-2020], whereas a typical advanced economy collects around 40 percent of its GDP in taxes (Akitoby, Raising Revenue 2018). The main source of domestic

¹⁵ “An economic phenomenon wherein both the rapid development of one sector of the economy and the decline of other sectors lead to the substantial appreciation of the domestic currency. [...] It is also often characterized by a substantial appreciation of the domestic currency.” (Corporate Finance Institute 2019)

revenue is generated through direct taxes such as personal income tax and corporation tax (PIT) and indirect taxes¹⁶ such as the value-added tax (VAT). According to the Revenue Statistics Report for Africa published in 2022, between 2010 and 2020, the average tax-to-GDP ratio in Africa rose mainly due to increases in VAT and PIT (OECD/ATAF/AUC 2022). Further, in 2020, taxes on goods and services were the primary source of tax revenues in Africa [*Figure 6: Tax structures (% of total revenue)*], making up around 50.4% of total tax revenues, with VAT accounting for 27.8% and taxes on income and profits contributed to about 39.3% of tax revenues (OECD/ATAF/AUC 2022).

3.4.2. Challenges and Constraints of Bringing the Informal Sector into the Formal Economy

One notable characteristic of LICs especially in Sub-Saharan Africa is the significant level of informality (Aguzzoni 2011). The International Labour Organization defines the informal sector as “all economic activities by workers and economic units that are, in law or practice, not covered or insufficiently covered by formal arrangements.” The guidebook developed by the African Tax Administration Forum focuses on taxing the informal sector. It highlights the challenge that eight out of ten workers are in the informal sector which contributes minimally to the domestic revenue (ATAF 2021). Further, it reveals that in African countries, the informal sector exhibits several key characteristics such as low output levels, a large number of unregistered enterprises without formal government recognition, tax non-compliant entities, businesses operating from temporary structures instead of permanent premises, and businesses

¹⁶ “A direct tax is one that the taxpayer pays directly to the government. These taxes cannot be shifted to any other person or group. An indirect tax is one that can be passed on-or shifted-to another person or group by the person or business that owes it.” (Internal Revenue Service of the United States 2023)

that operate in urban areas rather than remote rural regions. According to the Guidebook, some of the challenges faced in defining the informal sector by the government include the heterogeneity of the sector, poor relationship with tax administration, insufficient tax information, difficult tax calculation, difficulty in filing and reporting, as well as complicated and confusing tax laws. On the other hand, the Guidebook highlights that the primary obstacles encountered by informal sector participants in formalizing their businesses include expensive registration procedures, extensive documentation requirements, high tax rates and multiple tax obligations, limited access to credit and a challenging business environment.

3.5 Case study Maldives – Increasing Tax Revenues supported by Tourism Industry

The authors Akitoby et al. (2019) analyzed in their Case Study in Tax Revenue Mobilization in Low-Income Countries seven tax reforms in developing countries.¹⁷ Their three main findings are that any tax reform requires political will and stakeholder commitment; that there is a larger scaling effect by tackling both administration and tax policy reform; and, lastly, that a well-designed medium-term fiscal revenue strategy can gain momentum and play out successfully

Table 5: *Recent Tax Increase Episode in LICs*].

¹⁷ (Burkina Faso, The Gambia, Maldives, Mauritania, Rwanda, Senegal, and Uganda)

This project focuses on Cabo Verde and the lessons learned from the Maldives by Akitoby et al. (2019) are particularly relevant. The Maldives, like Cabo Verde, is an archipelagic state heavily reliant on tourism. The study examines policy reforms in the Maldives starting in 2011, following the aftermath of the global financial crisis, which bears similarities to Cabo Verde's current post-pandemic situation. In both cases, external shocks, and unsustainable debt negatively impacted tourism revenue, necessitating strong fiscal consolidation.

The authors highlight those political tensions between parties delayed critical economic reforms in the Maldives, underscoring the importance of political consensus in supporting economic recovery. Notably, the tax policy reform in the Maldives focused on introducing a new indirect tax called the Tourism Sector Goods and Services Tax (TGST), calculated as a percentage of the value of goods or services sold, which is named "ad valorem tax"¹⁸. This policy aimed to capture the value-added service of tourism operators, including resorts and tourist guides. The tax rate gradually increased from 3.5 percent in 2011 to 12 percent in 2014, and as of 2023, it stands at 16 percent (Maldives Inland Revenue Authority 2023), reflecting the thriving tourism industry.

Another important reform was the establishment of a new independent and autonomous tax authority, the Maldives Inland Revenue Authority (MIRA), in 2010. MIRA's mandate included the registration of eligible taxpayers with identification numbers, digitalization of services such as declarations and payments, implementation of compliance management components, and the introduction of a transparent audit framework. Furthermore, a human resource strategy attracted

¹⁸ Ad valorem taxes are taxes that are calculated based on the assessed value of an item. An example would be the value-added tax where the incremental value is taxed. (Corporate Finance Institute 2020)

young, well-educated staff, and ongoing training programs enhanced their skills and motivation.

Consequently, the authors found that the Maldives created a significant tax increase of 12.1 percent of GDP, starting from 8.8 percent during the reform period between 2011 and 2017 [

Table *Recent Tax Increase Episode in LICs*]. The achievement of the domestic revenue mobilization up to 20.9 percent of GDP was larger than expected. The utilization of online platforms and software streamlined administrative processes, and the audit capacity substantially increased, with 850 audits conducted within the first two years. Between 2019 and 2020, the tax-to-GDP ratio in the Maldives remained constant at 19.1 percent (OECD 2023) compared to 8.8 percent in the previous period of 2011.

3.6. Conclusion and Policy Options

In conclusion, the existing research highlights the importance of fiscal space in small developing countries and the challenges they face in expanding it. Fiscal space is necessary for future development and the main source is domestic revenue. Cabo Verde already has an ad valorem tax on goods and services, which is currently 15 percent (PwC 2023) which is the main tax. However, the following four main policy options have been identified for Cabo Verde.

3.6.1. Tax Policy Reforms

Simplify and Make Transparent Rules: Streamline and simplify tax rules and regulations to make them more understandable for taxpayers. Enhance transparency by providing clear explanations of tax laws and the reasoning behind tax rates and spending decisions.

Online Tax Payment and Filing: Implement online platforms for tax payment and filing to make the process more convenient and accessible for taxpayers. Introduce an identification number system to track eligible taxpayers efficiently.

3.6.2. Strengthening an Independent Tax Authority

Decentralized Tax Departments: Establish separate tax departments on every island to avoid centralization on the main island. This will improve local tax administration and responsiveness to island-specific needs.

Transparent Auditing Framework: Develop and implement a transparent auditing framework that ensures fair and consistent audit procedures, reducing opportunities for corruption and ensuring compliance.

3.6.3. Capacity Building Among Administration Staff

Recruitment of Young Staff: Recruit and hire young professionals with fresh perspectives and technological skills to modernize tax administration and adapt to changing circumstances.

Training Programs: Provide basic training to new recruits and offer continuous professional development programs to enhance the skills and knowledge of tax administration staff.

Career Incentives and Scholarships: Offer career incentives for staff to pursue higher education, such as scholarships for Bachelor's, Master's, and Ph.D. programs related to tax and finance.

Island Rotation: Implement a system of staff rotation among different islands to encourage synergy effects, break prejudice, and prevent nepotism within the tax administration.

3.6.4. Addressing Informal Sector Challenges

On-Street Enforcement: Increase on-street enforcement efforts to detect and discourage informal economic activities. This approach creates pressure for informal businesses to formalize their operations and contribute to the tax system.

In conclusion, these multifaceted policy options offer strategic pathways for Cabo Verde to enhance its fiscal space and support future development.

5. Policy Options and Lessons Learned from Abroad

4.1. Responsible Tourism, Private Sector, and Local Communities

Developing a Corporate Social Responsibility certification scheme led by the Government could bring tourism enterprises and local communities closer. Evidence suggests that increasing the engagement of companies, including -but not limited to- big hotel chains, in local communities can have positive effects on their short-term performance. To maximize the effectiveness and appropriateness of CSR practices, impact assessments (on firms' performance and communities' well-being) and community participation should be incorporated. The Government would act as i) an incentive provider, advertising certified companies and evaluating their performance, and ii) a resource catalyzer, matching social needs with private resources, offering context and evidenced-based guidance, and ensuring proper coordination. However, the type of CSR initiatives promoted should be carefully analyzed, exploring other types of public-private collaborations and legislative measures that could complement them.

Lessons Learned. - Costa Rica has become an example of Responsible Tourism. Its Blue Flag Program, focused on the environmental aspect, has highlighted the benefits of certifications for companies. Furthermore, its Social Progress Index for Tourism Destinations provides a roadmap for social interventions and partnerships. In addition, the Green Tourism Business Scheme in Scotland has underlined the importance of making benefits visible to firms and correctly managing their expectations to ensure their continuity. Finally, experiences in Nigeria have shown how inadequate coordination between entities can increase the administrative burden of companies and disincentivize them from voluntary certifications.

4.2. Investments in Infrastructure

Investments in infrastructure with the goal of maximizing the advantages of sector-wide diversity for the tourism industry. Introduction of a unique public transit provider to improve connectivity effectiveness and lower service prices. According to interviews, strategically improving connections is crucial for both locals and tourists, spurring increased demand for the tourism sector. As a result of the country's ability to offer more options, it also means that demand will be greater in diversity. Could perhaps provide an adequate solution to this problem because it enables the government to exercise vigilant economic control, which is essential considering the sector weight relative to GDP. Moreover, the creation of a beneficial digital ecosystem to appeal to a new group of consumers, especially digital nomads who depend on reliable internet connectivity. The installation of marine cables and the creation of a specialized workspace can accomplish this. Regarding physical places, as suggested by the literature the establishment of entrepreneurship incubators is another policy option to encourage size diversification and a less concentrated supply in a few big hotel chains. These facilities are designed to give people essential business skills for entrepreneur's life.

4.3. Human Capital for a Better Tourism

The integration of Corporate Social Responsibility (CSR) and mentoring strategies in higher education is recommended to enhance students' human capital development. Additionally, Conditional Cash Transfers (CCTs) have proven effective in boosting student enrollment, particularly for males at risk of dropping out of the labor market. The tourism-centric service sector's significance in Cabo Verde, particularly on the island of Sal, suggests that cash transfer programs could further encourage the completion of specialized tourism courses.

4.4. The Importance of Fiscal Space for Development

Reshaping the taxation policy and administration could generate greater fiscal space for development which benefits the society. The research emphasizes the importance of fiscal space for developing countries such as Cabo Verde and the challenges they face in expanding it, with domestic revenue being the primary source. The individual report recommends four main policy options. Firstly, simplify and enhance transparency in tax rules, facilitate online tax payment, and implement an efficient taxpayer identification system. Secondly, establish decentralized tax departments, implement a transparent auditing framework to reduce corruption, and ensure compliance. Thirdly, recruit young professionals, provide training programs, offer career incentives and scholarships, and implement island staff rotation to modernize the tax administration and prevent nepotism. Fourthly, increase on-street enforcement to encourage informal businesses to formalize operations and contribute to the tax system.

Lessons learned from the Maldives on tax reforms highlight that successful tax reforms require political will and a revenue strategy addressing both increasing administration efficiency and simplifying tax policy. The synergy effects resulted in a significant increase in tax revenue from a single-digit percentage to 20 percent of GDP within 6 years.

4.5. Regulations and Formalization to Foster Inclusion and Diversification of the Tourism sector

Ensuring financial support and training for small entrepreneurs by helping them meet quality and safety standards and connecting these local services with key tourism stakeholders. In this scope, and being that industry, commerce, and service providers are the main informal actors in the Cabo Verdean context, there are alternatives and concrete examples

that can be followed. Initiatives such as the "Linkages Network" in Jamaica, and the examples of the Maldives and New Zealand, demonstrate how the promotion of trainings, financial support, and regulations allowed the creation of partnerships between local operators and major tourism agents. These specific cases described above exemplify how these governments have promoted inclusion and diversification of tourism through regulation and formalization.

The problem of tax evasion and loss of control of the tourist flow was identified by several entities throughout the interviews conducted. This issue can be addressed both through the creation of incentives for customers themselves to demand the formalization of companies, and through the creation of specific certifications that encourage entrepreneurs to formalize themselves. In this sense, innovative and effective strategies need to be implemented to encourage companies to register officially and comply with tax regulations. The promotion of certification programs, as was done with the "Seychelles Sustainable Tourism Label", not only forces companies to formalize but also promotes the sustainability of the tourism sector. This measure is also part of the vision offered by the Chamber of Tourism, which spoke to us of "taxation for inclusion". Indeed, promoting this type of fees and certificates not only ensures greater equality and control within the sector, but also ensures that these small enterprises have another type of formal recognition.

4.6. Collaboration between public and private sectors, local communities, and international organizations to successfully diversify tourism offerings.

By implementing a synergistic strategy, Cabo Verde can take advantage of the unique strengths, resources, and insights of each stakeholder, leading the way for a resilient and sustainable tourism sector. Public and private sectors can unite their efforts to allocate resources effectively, covering areas like infrastructure development, marketing campaigns, and training initiatives

that enhance the overall quality of tourism experiences. Government bodies can establish regulatory frameworks, incentives, and infrastructure plans that lay a robust foundation for sustainable tourism growth. Meanwhile, private enterprises can inject their innovation, investment, and industry expertise, contributing to the creation of distinctive tourism experiences that resonate with diverse traveler segments. Collaborative endeavors can culminate in the establishment of contemporary wellness centers, adventure sports hubs, and cultural festivities, augmenting Cabo Verde's allure as a desirable destination.

Simultaneously, involving local communities ensures that the diversification endeavors remain firmly rooted in authenticity. The active engagement of local communities in the tourism development process stands as a vital component, ensuring their voices are heard, cultural authenticity is preserved, and economic benefits are distributed equitably. By integrating community members into the planning and execution of tourism initiatives, Cabo Verde can forge experiences that genuinely reflect the spirit of the nation. This may encompass organizing cultural festivals, artisan workshops, and guided heritage tours that provide visitors with an immersive and authentic encounter with Cabo Verdean life and traditions. Moreover, direct community involvement nurtures a sense of ownership and pride, fostering enduring sustainability and responsible practices.

International organizations, drawing upon their global expertise and resources, can offer invaluable guidance and support in sculpting Cabo Verde's tourism diversification strategy. By learning from successful cases across the globe, international organizations can contribute with essential best practices, technical support, and funding mechanisms, aiding Cabo Verde's evolution into a multifaceted tourist destination. Their involvement ensures the incorporation

of best practices, upholding of environmental standards, and meticulous consideration of socioeconomic impacts.

This cooperative policy approach not only optimizes the potential for success but also facilitates the comprehensive development of Cabo Verde's tourism sector, thereby contributing to economic growth, safeguarding cultural heritage, and fostering sustainable prosperity; embracing a future firmly grounded in mutual partnerships.

4.7 The case of RAM (Autonomous Region of Madeira)

The autonomous region of Madeira, being in the European context and not belonging to SIDS, does not seem to be a good example to be compared to Cabo Verde. However, the context of the pandemic COVID 19 demonstrated how the specificities of the economy of the autonomous region of Madeira, marked by its excessive dependence on the tourism sector, are close to the undiversified economy and vulnerable to external shocks that we find in Cabo Verde (PREERAM, 2021). These similarities, and the existence of a recent study (PREERAM) aimed at strengthening and diversifying the economy of Madeira, makes this comparison both useful and interesting. In fact, this study aims to study new opportunities and challenges for Madeira to overcome the difficulties and vulnerabilities that its economy suffers due to the fact that it is an insular and outermost region. In addition, this study identifies opportunities for development and diversification linked to innovation, exploring new trends brought by the post-pandemic scenario, but also strategic ones that are based on more traditional sectors. Finally, both Cabo Verde and the autonomous region of Madeira have identified in recent years what are the main investments and infrastructures that have enhanced this transition to a more sustainable and resilient economy. Investments in information and communication infrastructures, air and maritime transport, health services, and renewable energy are the ambitions of these two

regions, which demonstrates the evident similarities and the pertinence of this comparison. (PREERAM, 2021).

As we mentioned before, the study carried out in the autonomous region of Madeira highlights both opportunities related to innovation as well as investment in traditional sectors. Within this last sector, the investment in agriculture is considered an opportunity that should be explored according to the limitations of an isolated and peripheral territory. According to PREERAM, the investment in agriculture should be conducted through the promotion of specialized crops and products, but also in the diversification of supply, which allows to create crops with various by-products and to explore a larger number of chains with more value (PREERAM, 2021). On the other hand, it is also necessary to consider the weight of tourism, and to consider a growing market segment that values organic and locally produced food (PREERAM, 2021). In fact, this bet in specific products has made Madeira today have world-renowned products such as Bananas, Madeira Wine or Poncha. In this sense, and as far as it also has a set of relevant products such as wine, cheese and coffee, it is important that Cabo Verde can promote the development of these products on a larger scale. Another relevant issue that is in the report and that is already being worked on in Cabo Verde, is the need for these investments in agriculture to be supported at the level of innovation and technology. The Hidro Saudável project, which is being developed on the island of Santiago is an example of innovation in hydroponic farming that should be replicated on a larger scale. This system seeks to combine technology with the natural factors of Cabo Verde, in that it aims to avoid waste of water, scarce in this region, and use the advantages of solar energy (“World Bank Group - International Development, Poverty, & Sustainability,” n.d.).

Regarding sectors linked to innovation, PREERAM highlights the need to stimulate a more resilient economy by investing in science, technology and investment in emerging economic activities such as digital nomads. In recent years Cabo Verde has been developing its economy to meet the challenges of sustainability, as we can see by the case of the investment in the blue economy. However, the vision proposed by PREERAM, in what is the attraction of support and the creation of opportunities for business development turns out to be somewhat innovative and, in this sense, should be considered. In the case of the blue economy, a sustained investment is proposed based on research and innovation. In this sense we highlight the need to create research and technology centers that promote and sustain the investment in sectors and products of the regional economy linked to areas such as eco-innovation and the bioeconomy (PREERAM,2021) This focus on research centers is linked to other priorities highlighted by PREERAM that also highlights the importance of attracting qualified human resources.

Another emerging phenomenon, such as the case of digital nomads, follows a similar model, and PREERAM proposes that the attraction of nomadic workers is complemented by the creation of a skills center in the area of Information and Communication Technology (ICT). The possibility of attracting companies that work in this area, not only means a greater tax revenue, but can have a relevant role in various sectors of the economy and in various technical activities. In the case of Cabo Verde, this possibility may be enhanced by the archipelago's geographical position, both for its proximity and connection to the European market and as a gateway to the African market (PREERAM, 2021). This bet on the phenomenon of digital nomads is a trend that should be explored in regions like Cabo Verde and Madeira that already have a recognition in the area of tourism and have attractive natural conditions. In the case of Cabo Verde, where residential tourism practices are already quite notorious, particularly during the kitesurf season, attracting this type of worker could be a bet to be explored.

With the necessary investment in infrastructure, namely in the 5G network, the climate and the relatively low cost of view (excluding the islands of Sal and Boavista), Cabo Verde could benefit from this new reality brought by the pandemic (PEDS, 2022). The method proposed by PREERAM, which aims to combine the attraction of workers with attracting technology companies seems an attractive model as it brings benefits to the economy in various areas and sectors.

In the case of Madeira there are already ongoing experiences, namely through the promotion of the first digital village in Europe (Ponta do Sol), which encompasses the Madeira Digital Nomads project developed by the regional government. The promotion of this digital village aims to attract digital workers and entrepreneurs to settle in the region for periods of one to six months and live as locals in this community. (Digitalnomads 2023). This experience offers several advantages in terms of infrastructure such as a physical space to work, free Wi-Fi from 8 a.m. to 10 p.m., and also access to the Slack digital community. Although the phenomenon of digital nomads is little studied, Madeira has been growing as a destination for this type of workers, and in this sense, it may be an important model for Cabo Verde to study and outline a strategy (Digitalnomads 2023).

Finally, and looking at the proposals of PREERAM for the tourism sector, we realize that there is an attempt to diversify tourism products and explore new trends post-pandemic. This strategy aims to minimize the environmental impact of mass tourism, but also diversify the sector and invest in new types of tourism based on nature and biodiversity. This proposal aims to reconcile the sustainability of the tourism sector with the increase of its diversity and resilience. If we look at the official document of the Tourism Strategy of the Autonomous Region of Madeira for 2022-2027, we can see how many of the PREERAM proposals were considered. The great

novelties of this strategy are based on what is the promotion of an experiential fusion between the Sea, Mountains, and Culture. (Publituris 2021). In effect, and looking at the six strategic pillars for the development of the region, we realize that there is a new paradigm to be considered in tourism in Madeira: Nature, Active & Sports Tourism; Sea & Nautical Tourism; Health & Wellness; Cultural Heritage; Gastronomy & Wine; Lifestyle, Trendiness & New Trends and Consciousness & Sustainability (Publituris 2021). This new concept of promoting Madeira as a tourist destination aims to affirm the region as a global and differentiated experience and as a sustainable destination that can be visited throughout the year (“Governo Regional da Madeira ” n.d.).

Being Cabo Verde tourism strongly concentrated in what concerns its offer (Sal and Praia) and destinations (Sal and Boa Vista), a strategy that considers this new type of tourism offers and trends can be positive. This question becomes even more relevant if we consider that from the geographical point of view, Cabo Verde has an extremely diversified natural offer and that it allows to combine multiple tourist practices. However, for Cabo Verde to promote all these destinations and tourism practices, investment is needed in terms of inter-island transport infrastructures. (PEDS, 2022). However, and although the government has already identified the need to explore these new segments, it is necessary that this strategy be assumed and promoted as a priority.

This comparison aims to look at what have been the good practices that the Autonomous Region of Madeira has been trying to implement to achieve a more resilient and diversified economy. The fact that we are talking about two insular and peripheral contexts and that share problems in the scope of investments and infrastructures makes this comparison interesting and pertinent.

6. Conclusion

As we navigate the path of tourism diversification in Cabo Verde, attention must be paid to different key areas: human capital development, business formalization, strategic infrastructure investments, fiscal space unlocking, and the strengthening of responsible tourism practices. While these initiatives might not be sufficient for the country to successfully face future external shocks, they certainly provide elements that can help Cabo Verde overcome current and future social and economic challenges, by building a foundation for a more sustainable and inclusive tourism industry in the islands.

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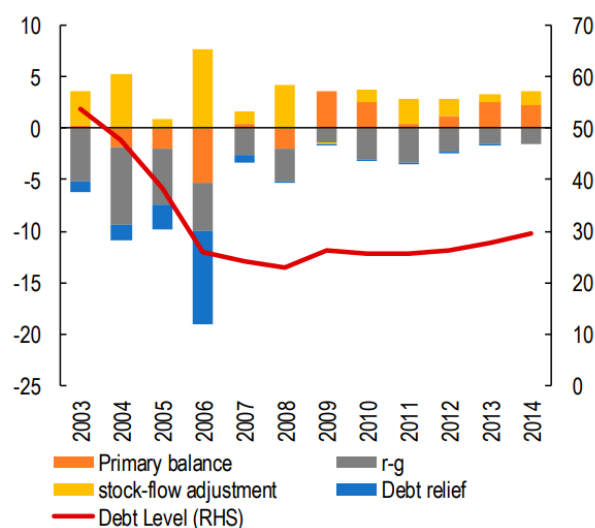
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Appendices

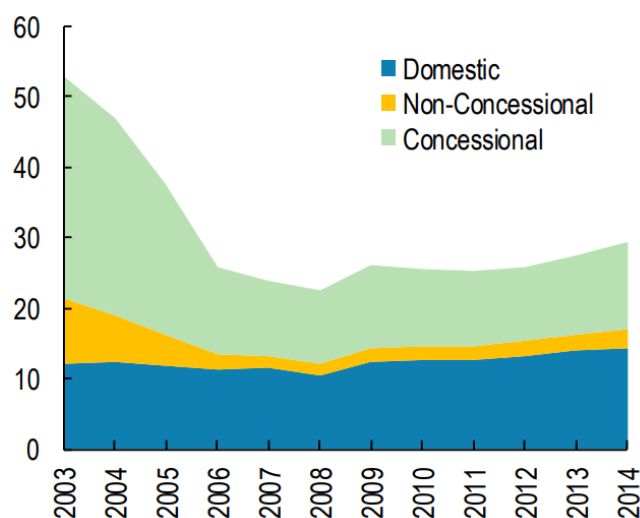
Appendix Individual Paper Tobias Derr

Figure 3: LICs: Decomposition of Government Debt Evolution (Percent of GDP)



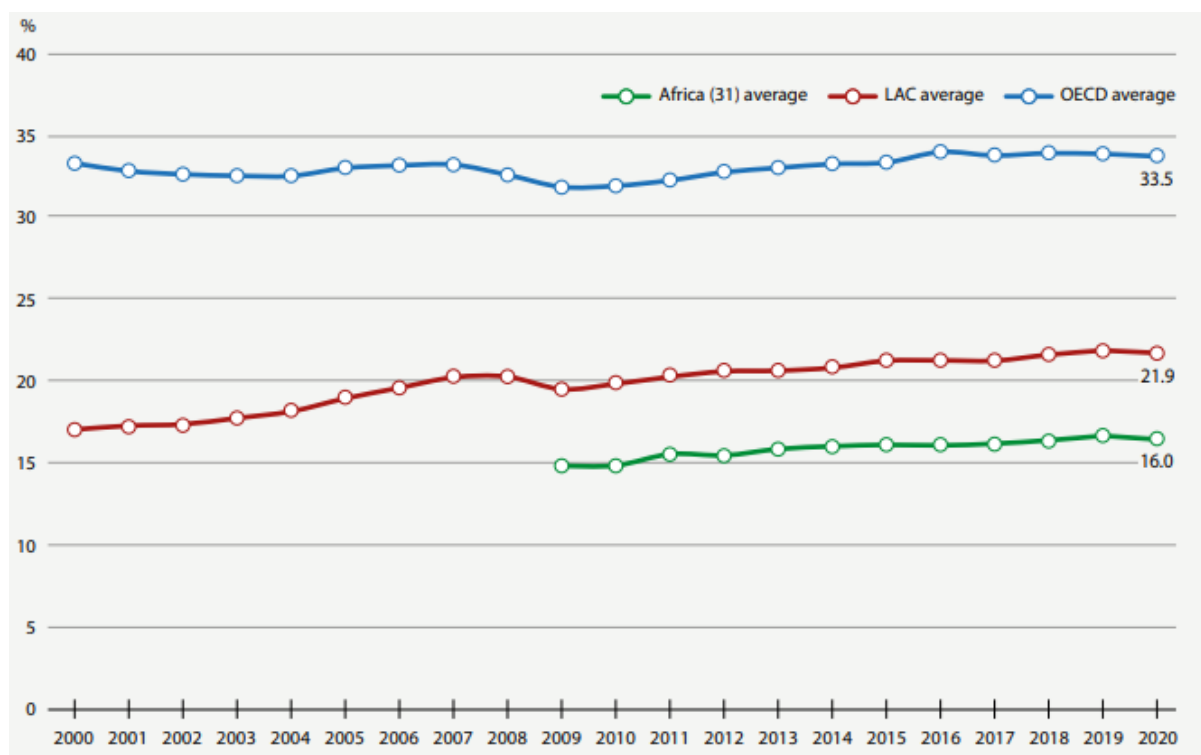
Source: (Baum, et al. 2017) Data: IMF, World Economic Outlook; and IMF staff estimates. The sample comprises 28 LICs.

Figure 4 LICs: Financing Mix of Sample Countries (Percent of GDP)



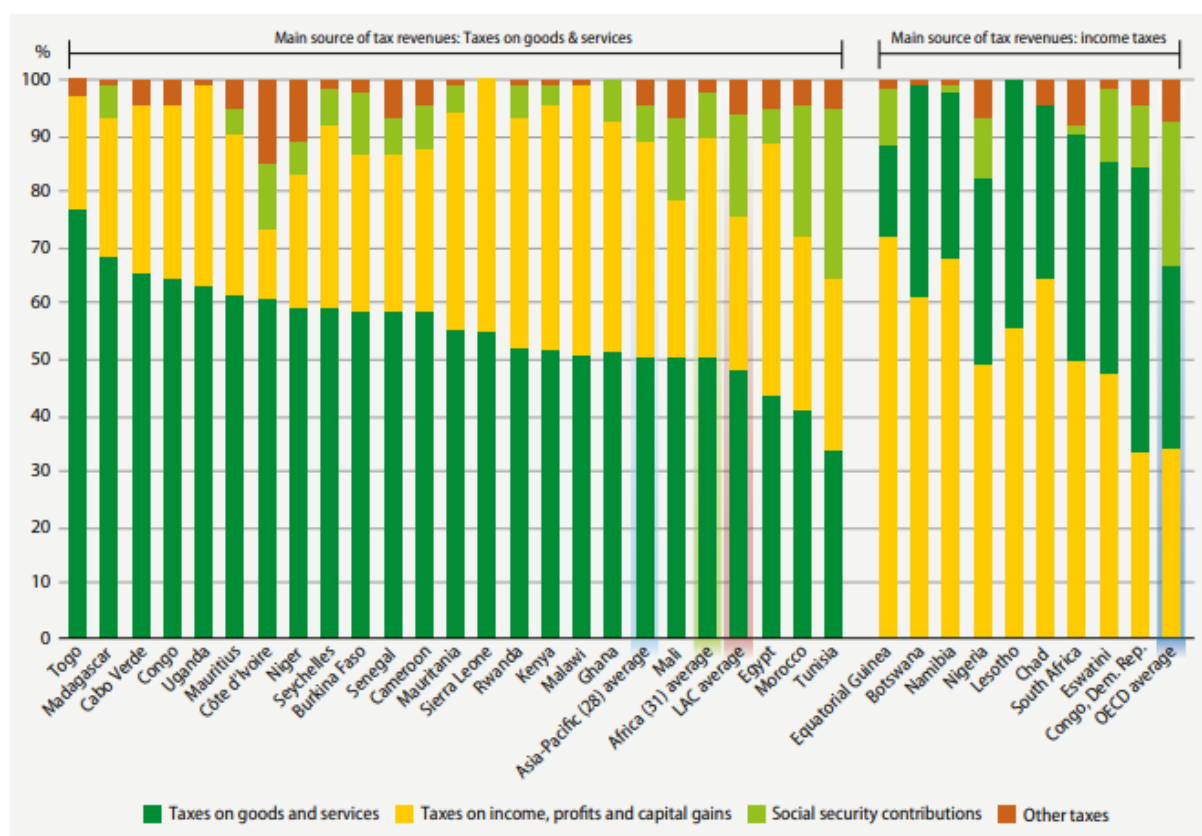
Source: (Baum, et al. 2017) Data World Bank's International Debt Statistics; and IMF, World Economic Outlook. The sample comprises 28 LICs.

Figure 5: Tax-to-GDP ratios, 2000-2020



Source: OECD/ATAF/AUC (2022), Revenue Statistics in Africa 2022,
oe.cd/revstatsafrica (OECD/ATAF/AUC 2022)

Figure 6: Tax structures (% of total revenue), 2020



Source: OECD/ATAF/AUC (2022), Revenue Statistics in Africa 2022, oe.cd/revstatsafrica (OECD/ATAF/AUC 2022)

Table 5: Recent Tax Increase Episode in LICs

	Reform period*	Tax collection (% of GDP)		Tax increase
		Before reform	After reform	
Burkina Faso	2009-2013	11.9	16.8	5.0
The Gambia	2011-2015	13.2	17.6	4.4
Maldives	2011-2017	8.8	20.9	12.1
Mauritania	2010-2014	11.1	17.2	6.1
Rwanda	2010-2015	11.9	15.6	3.7
Senegal	2010-2017	18.0	20.9	2.9
Uganda	2013-2017	10.5	14.0	3.5

*The paper focuses on the period through 2015. In some cases, tax revenues continued to improve beyond 2015; and therefore these cases were recorded.

Source: Country authorities and IMF staff estimates (Akitoby, Honda, et al. 2019)