

Tourist Development in Cape Verde: The policy challenge of coping with success

Report on the tourism component of the Cape Verde Diagnostic Trade Integration Study of the Integrated Framework for trade-related technical assistance to Least Developed Countries, coordinated by the United Nations Development Programme



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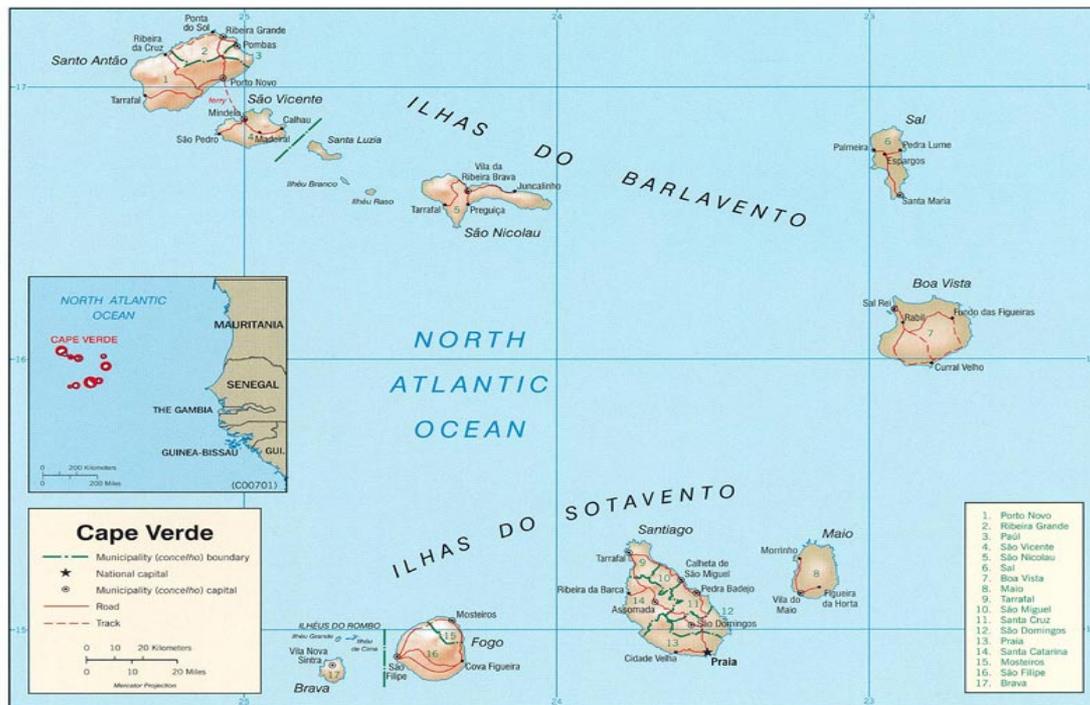
1. Introduction

1.1 Objective

This report constitutes the tourism component of the Diagnostic Trade Integration Study (DTIS) conducted in Cape Verde as part of the Integrated Framework for trade-related technical assistance to least-developed countries. The Integrated Framework¹ is a multi-agency, multi-donor programme that assists the Least Developed Countries (LDCs) to expand their participation in the global economy to accelerate growth and reduce poverty.

This study focuses upon investigating, the: contemporary trends in tourism; extent of current and potential linkages; pro-poor impact of tourism; and the enabling environment. The motivation for this study is not, however, simply research curiosity. Specific recommendations will be made on how to develop a programme of feasible interventions to improve the developmental impact of tourism in Cape Verde (see Terms of Reference in Annex A).

Figure 1: Location of Cape Verde



1.2 Strategic approach

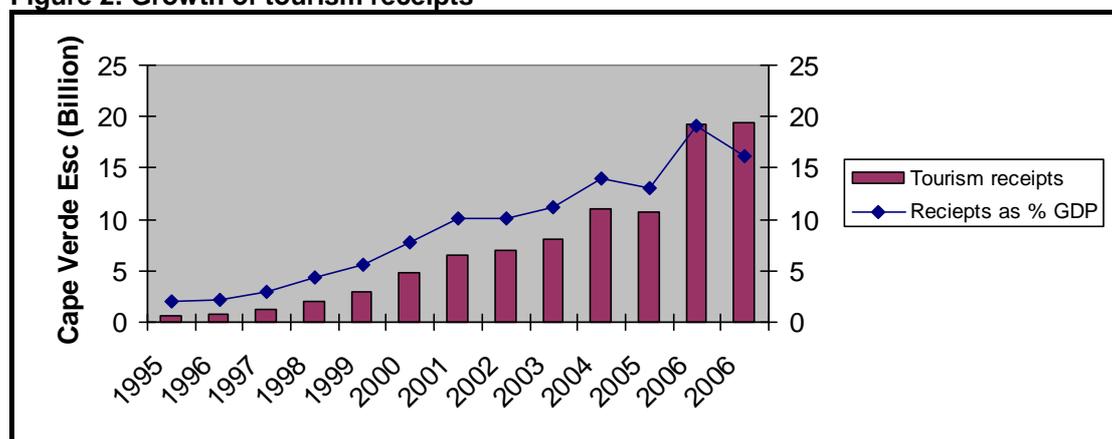
Researchers must define clearly the problem they are seeking to address. This is particularly important in the case of tourism development in Cape Verde because, to

¹ Main IF collaborating agencies are the International Monetary Fund (IMF), the International Trade Centre (ITC), the United Nations Conference for Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the World Bank (WB) and World Trade Organisation (WTO).

many developing country policy makers, the story of tourism in Cape Verde is one of almost unparalleled success.

In the decade since international tourism started in Cape Verde, the growth in tourism receipts has been dramatic – both in absolute terms and also relative to the broader economy. In Cape Verde, tourism receipts constitute about one-fifth of the economy and a high proportion of total exports.

Figure 2: Growth of tourism receipts



Source: Direcção Geral de Desenvolvimento Turístico (March 2008) Perfil de turismo em Cabo Verde

The result of this growth in tourism receipts has been to transform the Cape Verdean economy². For many years the economy has had an almost surreal quality – reflecting the fact that the main financial flows are largely in the hands of external actors. Migrant remittances, air transport receipts and official transfers (i.e. aid) dominated the economy and had little to do with anything the population did in Cape Verde. Subsistence agriculture and artisanal fishing providing a safety net for those choosing not to embark on any of the three main livelihoods strategies of Cape Verde’s population: emigration abroad; links with the diaspora and migration to urban centres.

In other words, tourism is the first significant economic activity that has taken place in Cape Verde that is both globally competitive and reflects something that happens *in* Cape Verde rather than just *to* Cape Verde. It therefore represents something much more important than money. A successful tourist sector in Cape Verde offers the prospect of independence and not having to leave home to earn a living - because the market is coming to Cape Verde rather than Cape Verdeans having to go to the market.

However, in spite of this macro-economic success, people perceive problems. Across a broad range of stakeholders, from policy-makers to people working in the tourist sector and ordinary Cape Verdeans, there is a keenly-felt concern that tourism is not really benefiting the Country.

- The benefits of tourism are just ‘leaking’ away to the off-shore accounts of international operators and overseas companies supplying the tourist industry because of a lack of linkage between the tourist and non-tourist economies;

² See excellent graphical presentation on page 12 of Jorgen Carling (2008) ‘Policy Challenges Facing Cape Verde in the Areas of Migration and Diaspora Contributions to Development’

- Tourism has few links with Cape Verdean culture and tourists are isolated from the host culture in large, foreign-owned, all-inclusive resorts; and
- Tourism is threatening the environment and society of Cape Verde through unplanned development and encouraging crimes such as prostitution and gun crime.

In addition, as part of the process leading up to a tourism master planning exercise, the following issues relating to the enabling environment for tourism have been raised by the tourism department.

Box 1: Concerns with the enabling environment for tourism

1. shortages of water and electricity;
2. transport, principally inter-island which is critical for the spatial diversification of tourism :
3. lack of tourist promotional material
4. lack of tourist infrastructure;
5. intersectoral linkages are needed between tourism and energy; transport; agriculture; the environment; environment and the private sector
6. lack of a strategic tourism plan.

Source: Direcção Geral De Desenvolvimento Turístico (2008) Perfil de Turismo em Cabo Verde

This study seeks to address these issues at these two different levels.

First, at a strategic level, it examines linkages between the tourist and non-tourist economies to investigate how the tourist sector currently benefits Cape Verde – and poor people within it.

Second, at a more operational level, the study assesses the enabling environment for tourism and outlines how this can be enhanced.

1.3 Research methods

This report is based upon evidence collected during a mission to Cape Verde from 18th to 28th April 2008. During this time the author visited the islands of Santiago, Sal, Sao Vicente, Santo Antao and Boa Vista.

Interviews were conducted with about thirty key stakeholders in the tourist sector including: official policy-makers, tour operators, parastatals, suppliers such as hoteliers, NGOs and other representatives of the industry (see Annex B for a list of people interviewed). These interviews included formal hotel surveys (see Annex C).

Sensitive information was provide on a confidential basis, so statements are not attributed to specific individuals. A copy of this report will be sent to all participants to allow them to validate the information contained within it.

1.4 Definitions and conceptual approaches

This study has one important definition and two conceptual issues.

Tourism is defined as the activities of persons travelling to and staying in places outside their usual environment for up to one year, for leisure, business

or other purposes that is not remunerated from the place visited. This definition raises two immediate issues of relevance to for Cape Verde. First, migrant workers (whether from Portugal to manage hotels or from Guinea-Bissau to build them) are not tourists – they are workers and should be excluded from tourist statistics (see Section 2.2 for more detailed discussion).

Second, visitors from the diaspora – so-called emigrants – who typically return from the countries they are living and working in every few years to visit friends and relations are indeed ‘tourists’ and an important element of tourism in Cape Verde. There is a reluctance to acknowledge the importance of the diaspora as either tourists or investors in tourist facilities in Cape Verde.

The two important conceptual issues are: pro-poor tourism; and, a framework for the different ways that the tourist economy can link to the non-tourist economy.

Pro-poor tourism is a concept which focuses upon the net flow of benefits from tourism to poor people. It was developed around the turn of the new Millennium and sought to broaden the application of tourism as a tool of development beyond the traditional domain of community-based tourism and eco-tourism to more mainstream types of tourism. Pro-poor tourism is based upon three hypothesis:

- Tourism can be pro-poor;
- Through deliberate interventions, tourism can be made more pro-poor; and
- Any kind of tourism can be pro-poor.

A number of empirical studies have been undertaken recently by organisations such as the International Finance Corporation (IFC), SNV and ODI to test these hypotheses. Although there is much to be done to strengthen the empirical foundation of findings, it appears that these hypotheses generally are robust for a broad variety of tourist destinations³.

How tourism can reduce poverty? Tourism can reduce poverty in several different ways – or via several different pathways – as Figure 3 represents overleaf.

The most obvious linkage between tourism and the poor are direct links – such as when poor people find jobs in hotels and restaurants in the tourist sector, or when communities benefit from a private sector concession to develop tourism on their land. These direct linkages tend to be most significant in places with relatively high wage levels and relatively low levels of linkage between tourism and the local economy – for instance in South Africa.

In economies with low formal sector wages and a vibrant local economy, indirect links often have a larger impact on poor people living around a tourist destination than direct links. For instance, in much of South East Asia, formal sector wages in hotels are often \$1-\$2 a day and there is a rich network of links to the non-tourism (i.e. craft and food) economy. Another form of indirect linkage between tourism and the poor is induced links, where non-poor people that derive their earnings from tourism spend these wages in a way that brings benefits to the poor.

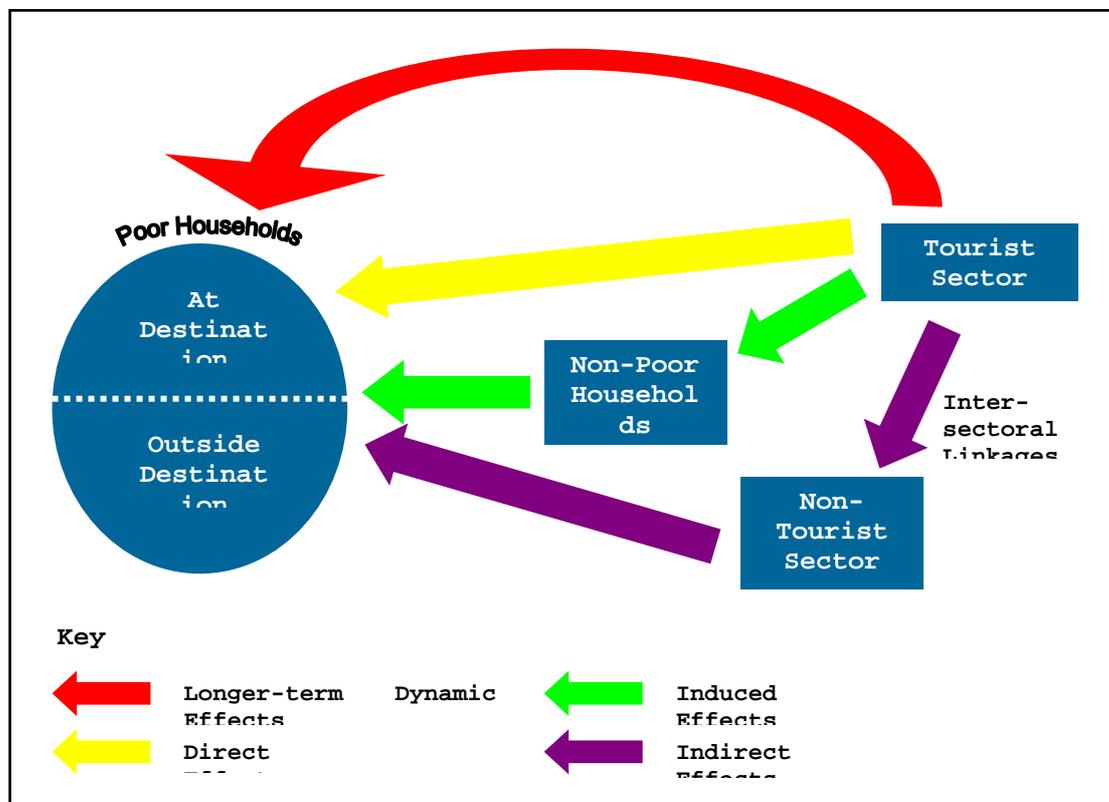
³ See Mitchell and Ashley (forthcoming 2008) ‘Pathways to Prosperity – how tourism can reduce poverty?’ report for the World Bank

Finally, the dynamic effects of tourism are the longer-term effects. For example, raising additional tax from tourism that can benefit the poor through government expenditure.

There is also an emerging body of knowledge that international tourism helps economies to diversify and improve their exports precisely because it exposes indigenous entrepreneurs to international tastes within their own borders⁴.

Dynamic affect have great relevance for a country like Cape Verde because even a very modest tax take from the tourist sector could have a dramatic influence on government finances. Perhaps even more significant, though, is the potential benefit of international tourism in assisting Cape Verdeans realise their compelling national vision of moving from an economy of subsistence primary producers dependent on handouts from outsiders to a globally competitive service sector economy.

Figure 3: How the benefits of tourism reach poor people



1.5 Structure of the Report

This report comprises five main sections.

The **overview of tourism** in Cape Verde focuses on contemporary trends on the supply and demand side of the tourist industry. On the supply side this includes an analysis of Cape Verde’s current bed stock and an indication of the current level of investment in the sector. On the demand side, tourism arrival statistics are analysed

⁴ Lajaranga and Walkenhorst (2007) ‘Of linkages and leakages: how tourism can foster economic diversification’ World Bank research paper

to assess the source markets, number, length of stay and expenditure of visitors to Cape Verde.

In the Section on **tourism benefits to Cape Verde**, the issue of linkages between tourism and the rest of the economy are outlined and the issue of the ‘leakage’ of tourism benefits to the poor is discussed.

The Section on **tourism benefits to the poor** explores linkages between tourism and poor people. In this section an attempt is made to quantify the proportion of total tourist receipts in Cape Verde that accrue to people from poor backgrounds.

Whilst tourism is a predominantly private sector activity, the role of the state in providing a supportive **enabling environment** is important in terms of encouraging a specific scale and pattern of tourist development.

Finally, the **recommendations** that are presented throughout the Sections above, are drawn together in the final Section and distilled into an series of twelve concrete and practical interventions for consideration by the study partners.

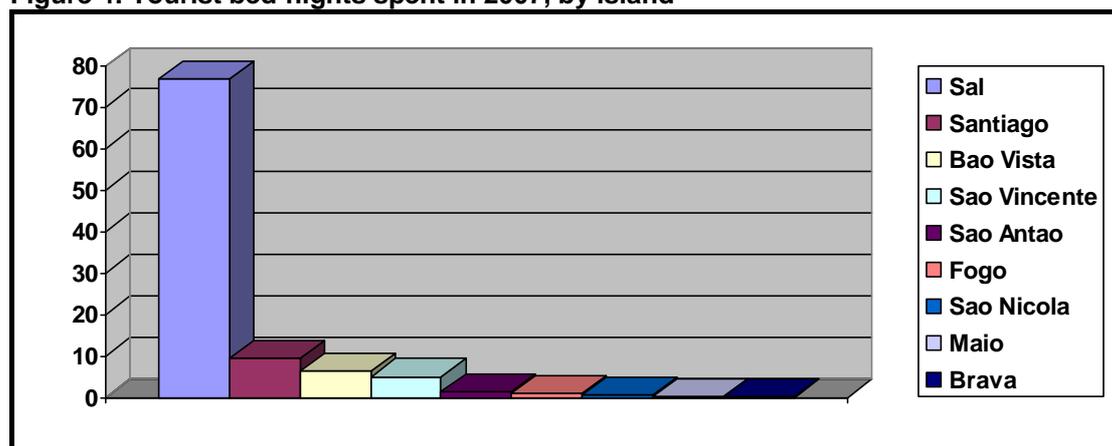
2. Overview of tourism in Cape Verde

2.1 Supply

Although tourists visiting Cape Verde come from a rich diversity of origins, their destinations within the Archipelago are limited. The concentration of tourist activity on one or two centres on just four islands is striking.

Over three-quarters of all tourist bed-nights in Cape Verde (1.1m nights out of a national total of 1.4m in 2007) were spent on the island of Sal and over 80% of the tourist rooms on Sal are located in the small town of Santa Maria.

Figure 4: Tourist bed-nights spent in 2007, by island



Source: INE (2008)

Figure 4 illustrates the degree of concentration of Cape Verde’s bed stock. Well over half the registered national bed stock – which comprises some 10,000 beds in 5,000 rooms - is located in the ten large hotels on the islands of Sal, Santiago and Boa Vista.

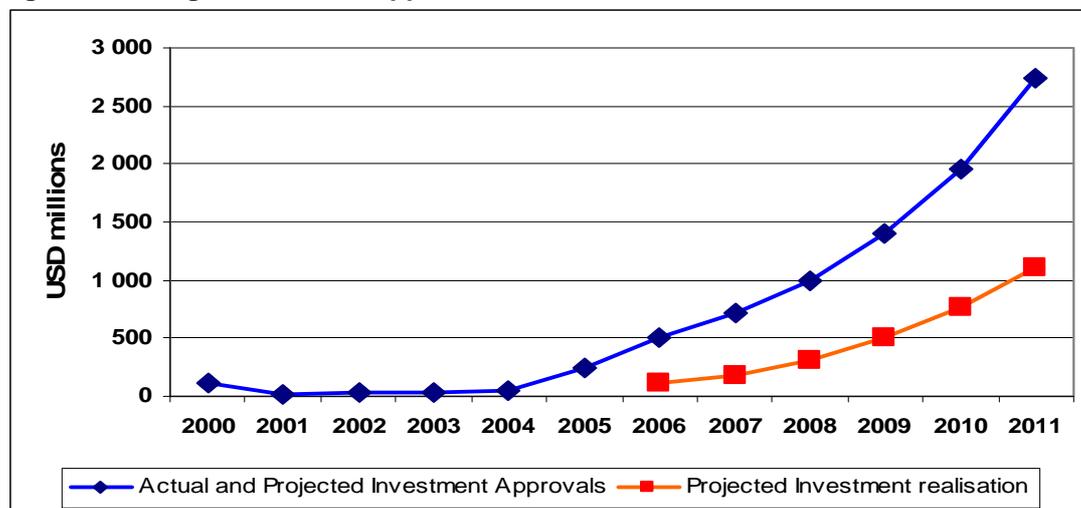
Table 1: Bed stock in 2007

Island	No. establishments	No. rooms	No. beds	Concentration
	Total			
Sal	37	2,931	6,422	5 large (>200 room) hotels account for 1,701 rooms - or 58% of island total
Santiago	38	727	1,336	2 large (>100 room) hotels account for 227 rooms – or 31% of island total
Bao Vista	15	809	1,579	3 large (>100 rooms) hotels account for 619 rooms – or 77% of island total
Sao Vincente	20	443	808	Largest hotel has 90 rooms
Santo Antao	21	250	353	Largest hotel has 26 rooms
Fogo	13	136	228	Largest hotel has 39 rooms
Maio	3	66	134	Largest hotel has 80 rooms
Sao Nicolau	8	72	101	Largest hotel has 15 rooms.
Brava	5	45	65	Largest hotel has 12 rooms
Total	142	4,836	10,450	

Source: Cape Verde Investments (May 2007) Cape Verde: The Country - Facts

There is certainly a building boom taking place in tourist accommodation in Cape Verde, driven principally by foreign investors. Encouraged by duty free imports of construction materials for tourism projects approved by Cape Verde Investments (CI); a five year holiday on corporate tax; and strong tourism demand, it has been estimated that tourism investments make up 95% of all foreign direct investment (FDI).

Figure 5 is based upon 2006 investment data. Whilst slightly dated, it does illustrate several important points relating to FDI in Cape Verde. First, such investments appear to be growing at an accelerating rate. Second, even two years ago the volume of investment already taking place is highly significant for a small country with a population of 430,000 and GDP of about €1bn. Third, there is little evidence of foreign investors withholding land with approved projects whilst seeking speculative gains in land prices, as is observed in other developing country contexts. It would appear that there is only a 2-3 year lag between development approval and implementation.

Figure 5: Foreign investment approvals


Source: CVI cited in Grant Thornton (2007)

As with the current stock of tourism accommodation, however, these approved investments are highly concentrated geographically. Half of the total is on the island of Sal and half of the rest is on Boa Vista, with the rest split between Santiago and Sao Vincente.

Table 2: Approved tourism-related foreign investments Cape Verde, 2000-2006

Island	No. of investments	Value of investments (€millions)	% of total investment value
Sal	27	348.1	49.4%
Boa Vista	14	164.0	23.3%
Santiago	14	93.9	13.3%
Sao Vincente	19	78.5	11.1%
Sao Nicolau	2	10.9	1.3%
Maio	4	5.4	0.8%
Fogo	2	3.1	0.4%
Santa Antao	1	0.5	0.1%
Brava	1	0.1	0.0%
Total	84	704.7	100%

Source: Grant Thornton (2007)

These supply-side trends raise three important issues, the:

- Geographical spread of Cape Verde's tourism industry;
- The rate of growth of tourism; and
- The type of tourist development in terms of scale, ownership and type.

In terms of the geographical location of the tourist industry, current trends suggest the development of three different tourism products in Cape Verde.

First, the great majority of tourist activity - at least 80% of bed nights based upon current patterns of usage and the scale of investments over the next five years and perhaps 70% expenditure - will be in European package tourists staying at large beach hotels on the islands of Sal and Boa Vista.

Second, almost all the remaining 20% of bed nights and tourist expenditure will be on the islands of Santiago and Sao Vincente. Because these islands have a much more significant host population and economic base, there will be greater opportunity in these places for tourists to link up with Cape Verdean culture and somewhat stronger links to the non-tourist economy. Domestic (business and leisure) and diaspora tourism will become increasingly important trends in these places. The diaspora are not only important as tourists but also tourism investors. In Sao Vincente, for instance, about half of the smaller tourist developments (pousadas and residenciais) have been established by returning emigrants.

At present the taxation regime is very generous for approved foreign investors (5 years holiday from corporation tax and 2 years exemption from importation duty). These benefits apply to members of the diaspora but not to domestic investors which have the effect of discriminating against indigenous enterprise.

Recommendation 1: *Policy-makers consider encouraging the proportion of new investments in Santiago and Sao Vincente to increase in order to raise the likelihood of local linkages between the tourist and non-tourist sector. Levelling the playing field between domestic and foreign investors may be one way of achieving this goal.*

Tourism from the traditional European source markets will be encouraged by direct flights serving the new international airports (opened in October 2005 in Santiago and scheduled for opening at the end of 2008 in Sao Vicente). These new airports are important because they increase the accessibility of, not only Santiago and Sao Vicente, but also the neighbouring islands of Santo Antao, Fogo and Maio – or 90% of the population of Cape Verde.

Third, tourism is almost completely bypassing the remaining five inhabited islands of the Archipelago. Last year they collectively accounted for about 2.7% of total tourist bed nights in Cape Verde – or an average of about twenty tourists per day on each island. Given the current lack of indirect linkages to the tourist sector from these islands, the most significant ways these islands will benefit from tourism is by providing workers for the industry in Sal and Boa Vista and from the redistribution of tax revenue collected from the tourist industry. However, seeking to divert even a small proportion of existing tourist flows to Sal, Boa Vista, Santiago or Sao Vicente to another island for an 'add on' excursion could have an important impact on these marginalised islands.

Recommendation 2: *Recognising that almost all tourists to Cape Verde will arrive at one of the four international airports at Sal, Boa Vista, Santiago and Sao Vicente, the distribution channels to other neighbouring islands should be improved both in the form of local air links and rapid ferry links.*

The rate of growth of tourism is striking in Cape Verde. However, before concluding that the Country is being over-developed and risks irrevocable damage to its ecological assets, we need to understand a number of issues.

First, tourist development in Cape Verde is from a very narrow base – so that relatively modest investments may create the impression of step changes that may be deceptive. For instance, when the RUI Canbana hotel in Boa Vista opens it will add 20% to the national bed stock – increasing it from the current figure of some 5,000 rooms to over 6,000 rooms. The point is that the tourist sector in Cape Verde is currently small and effectively concentrated into one corner of one island – so it is quite possible to have dramatic rates of growth without any plausible risk of concreting over the whole Country.

Second, tourism may well offer CV its only narrow window of opportunity for moving from a low-level subsistence economy to an dynamic and competitive service sector economy. This does not suggest that policy-makers should operate a laissez-faire approach to tourist development, but rather that they should think very carefully in determining the carrying capacity of Cape Verde.

Recommendation 3: *As part of the master planning process, policy-makers should establish the realistic environmental carrying capacity of tourism areas based on an appreciation for the trade-offs between an environmental and socio-economic development agenda.*

Third, there are indications that CV is learning from its mistakes in Santa Monica on Sal – where tourist development started and has been relatively haphazard. Indeed the creation of the Society for the Development of Tourism in Boa Vista and Maio is an institutional expression of perceived need to plan tourism development more effectively in the future.

Tourist-related development proposals in Cape Verde are dominated by large, foreign-owned, mixed use resorts that include hotels and residentios (holiday flats)

and often a golf course or marina development. There are some real advantages of mixed use schemes.

However, residential developments have much less clear socio-economic benefits than hotels. The employment and local links of residential schemes will be eroded if they are empty for periods of time and the risk for filling properties generally passes from a developer to private individuals for residential schemes.

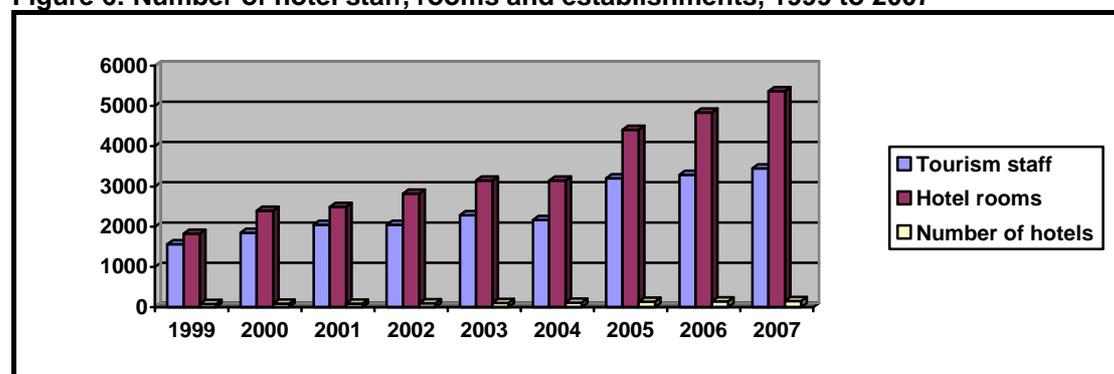
With hotels a commercial organisation with its own distribution channels and a strong incentive to utilise capacity throughout the year will generally avoid the kind of 'urban deserts' that can develop around residential 'time-share' type developments. As most residential developments are being sold 'off plan' and many developers are on-selling projects after housing units have been purchased but before the start of building, there is a real danger that investors will be exploited and damaging investment confidence in Cape Verde.

To give an indication of the lack of regulation, one hotelier reported about finding a web-site advertising the sale of plots for land that he owns.

Recommendation 4: *The consequences of increasingly developing what could amount to residential 'time share' resorts needs careful consideration. It is suggested that the Spanish experience of the second-home market is studied to find practical lessons from this experience.*

Recommendation 5: *Government should consider closer regulation of the land and property markets in Cape Verde to reduce the chances of investors being exploited.*

Figure 6: Number of hotel staff, rooms and establishments, 1999 to 2007



This analysis clearly shows the strong relationship between the growth in hotel infrastructure and number of staff required to service them. The number of hotel staff in Cape Verde has more than doubled from 1,561 in 1999 to 3,450 in 2007 at the same time that the number of hotels has increased from 79 to 150 and the number of rooms has almost tripled from 1,825 to 5,368 over the same time period.

This illustrates a rapid growth in hotel employment but also illustrates the economies of scale of larger hotels that require few staff per room than smaller hotels. In 1999 the average hotel in Cape Verde had 23 rooms and 0.86 staff per room. By 2007 the average hotel size had increased to 35 rooms with 0.64 staff per room.

2.2 Demand

In Cape Verde tourism statistics are collected by INE, the Department for Statistics. The figures aggregate the number of foreign nationals arriving and staying overnight at any of the ten islands in the Archipelago.

Citing analysis undertaken by the Sterling Merchant Bank, the Grant Thornton report⁵ suggests that official figures could overstate the true international tourist arrivals by almost 50%. Based on an analysis in 2006, it is estimated that the 'true' number of foreign visitors was 190,000 – contrasting with the official figure of 280,000.

Box 2: Foreign tourist arrivals in Cape Verde

Analysing the official international arrivals figures for 2006 of 280,000 - the Sterling analysis suggests they are:

- Reasonably accurate for the roughly 185,000 visitors each year from the main source markets in Europe (Portugal, Italy, Germany, France, Netherlands and the UK);
- Official statistics do, however, double count tourists who visit more than one island (recording this as two arrivals rather than one tourist visiting multiple islands) but the extent of 'island hopping' involves less than 10,000 visitors – or only 5% of the above total;
- Include the 47,000 arrivals from Dakar – as much as 90% of whom may be migrant workers who are not foreign tourists (the distinction being the receipt of wages at the destination which distinguishes a business tourist from a migrant); and
- Official statistics also include an estimated 37,000 Cape Verdeans from the diaspora.

In summary, it is suggested that the official tourism figures overstated the true number of foreign tourists in 2006 by about 90,000 and this total comprised about: 10,000 genuine tourists who were island hopping; 43,000 West African migrant workers who were not tourists; and, 37,000 Cape Verdeans emigrants. The combined effect is to reduce the estimate of international tourist arrivals from the official figure of 280,000 to an adjusted figure of 190,000.

Adjusting the figures to account for double counting and economic migration from West Africa is reasonable. However, excluding all visitors from the diaspora from tourism statistics is questionable. Although official data indicates that only 0.3% of hotel bed-nights were occupied by emigrants in 2007 who constituted some 13% of total international arrivals – the role of emigrants as tourists is changing. Hotel surveys revealed that, particularly during the somewhat quieter mid-year period - when discounts are available for large and long-staying family groups - Cape Verdean emigrants are becoming an important source of demand for beds in hotels on islands with a sizeable residential population (Santiago and Sao Vicente). In one of the two large, up-market hotels in Praia, the manager estimated that almost all beds were occupied by emigrants in June and July.

To deny that these visitors are genuine tourists is puzzling – particularly when, like the Vietnamese diaspora, there are sound developmental reasons to encourage relatively affluent and qualified emigrants with a special attachment to the destination to visit their rapidly transforming homeland. However, even if visitors from the diaspora are regarded as tourists, the fact remains that the official arrivals figures probably overstate the true figure by about 20%. This suggests a best guess international arrival figure for 2007 should adjust the official figure of 312,880 to between:

⁵ Grant Thornton (2007) Tourism Component of the Partnership to Mobilize Investment of the Cape Verde Millennium Challenge Account

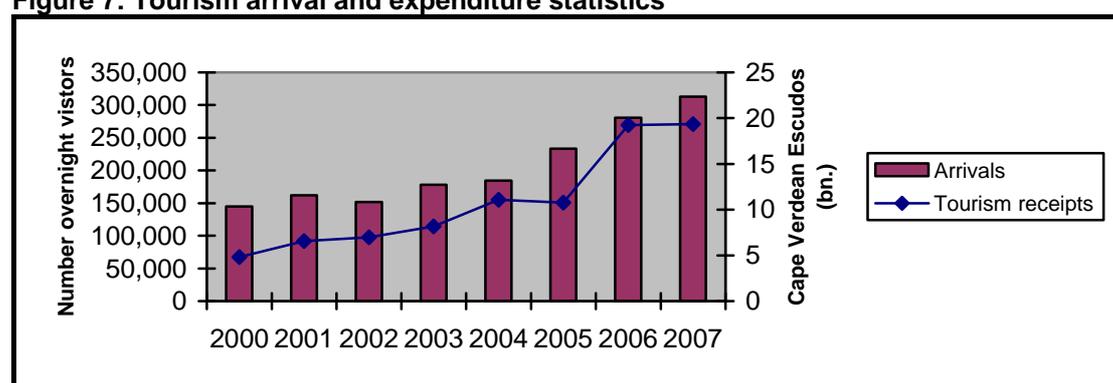
- (312,880 total, minus 90% of 33,784 arrivals from ‘other countries’, minus 10,000 ‘island hoppers’) equals **272,000**; or
- Above minus 44,083 Cape Verdian emigrants, equals **228,000**; or
- A mid-point of about **250,000** international arrivals in 2007.

It is not only arrival statistics that are a cause for concern. The length of stay data, suggesting an average length of stay of 4.5 days, seems very low in the context of a destination dominated by Europeans on package holidays of roughly twice this level. Similarly, the official occupancy figures are very much lower than hotel surveys suggest are realistic. The complete lack of data on tourist expenditure is a serious weakness for policy-makers.

Recommendation 6: *All tourism stakeholders need more accurate statistics. It would be relatively easy to collect more robust basic tourism statistics by, for instance, reconciling the INE tourist arrival figures with those generated by the customs department and conducting a tourist expenditure survey.*

Maintaining the level of aggregate expenditure per visitor is a significant achievement in the context of the sharp increase in visitor numbers and the macro-economic stability that characterises Cape Verde (pegging the Cape Verdean Escudos to the Euro at the rate of 110 Ecv to €1 has contained inflation at very low levels – from -1.9% in 2004 to 3.7% in 2000 - in recent years).

Figure 7: Tourism arrival and expenditure statistics

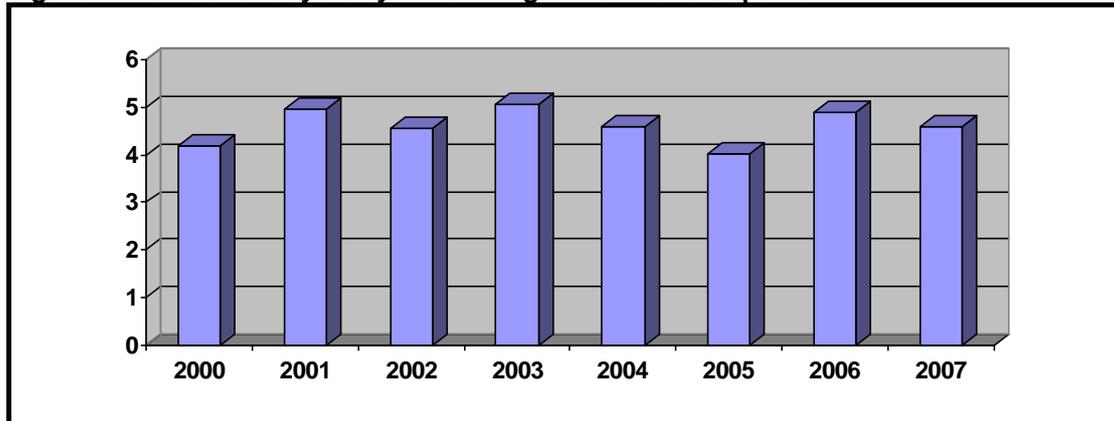


Sources: INE and Department of Tourism

In 2007, foreign tourists spent an estimated at Ecv 19.3bn (or €175m) on goods and services in Cape Verde. This equates to a gross spend per tourists (based on our ‘best guess’ of 250,000 international tourists in 2007 rather than the official arrival figure of 312,000) of €700 per trip. This gross expenditure reduces to a net yield figure of some €324 when taking account of the Ecv 10.7bn (or €97m) spent on imports generated by tourist demand (see Section 3 for more details). These figures equate to gross and net yields of €155 and €72 respectively per day for an average length of stay of 4.5 days – which may well only appear high because of the low length of stay estimate.

Maintaining spend per visitor is particularly impressive for a sun and sand destination just beyond the Euro-zone for two reasons. First, there is a general trend for more and shorter holidays. This can result in destinations experiencing increasing visitor numbers without a corresponding increase in tourist receipts. Figure 8 indicates that Cape Verde has successfully maintained the length of stay per visitor. Although we do not find the 4.5 days figure credible, the stability of the duration of overnight stays is significant.

Figure 8: Number of days stay for overnight visitors to Cape Verde



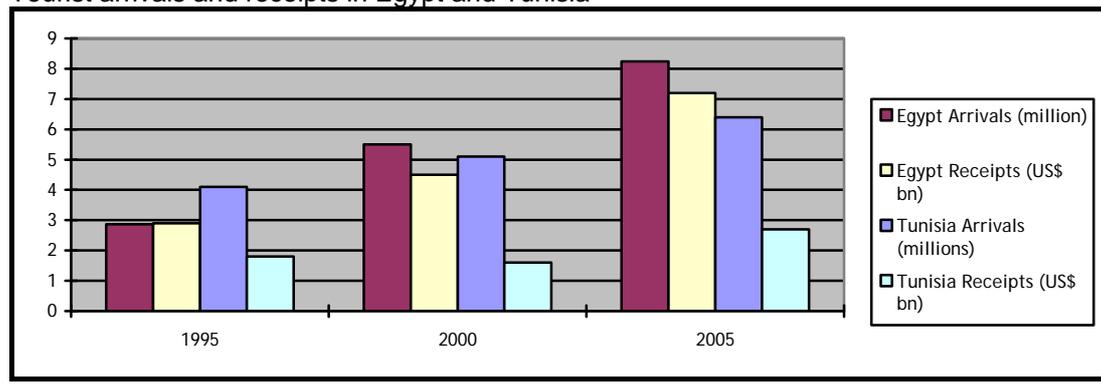
Source: INE (2008)

Second, the undifferentiated sun & sand tourist product a 4-6 hour flight from the main European markets is an extremely competitive market. A consequence of this is that some destinations are clearly ‘trading down’ in order to maintain visitor arrival number growth. As Figure 7 illustrates, there is no evidence that Cape Verde is taking this approach in the chase for visitor numbers.

Box 3: Declining spending per tourist in competitor destinations

Despite increasing visitor numbers, Tunisia has experienced painfully slow increases in tourist receipts from US\$1.8bn in 1995 to US\$2.7bn in 2005 (and a drop in absolute receipts in the late 1990s despite increasing arrival numbers). Egypt has also seen some reduction in tourist receipts per trip as the lower end sun & sand products at the Red Sea have begun to eclipse the traditional historical and cultural tourism in the Nile Valley. This slippage in expenditure is less striking than for Tunisia because it was from a much higher initial spend per tourist and tourist numbers have increased so fast that this has off-set the effect of reducing unit spend. As a result, tourist receipts have more than doubled and the contribution of tourism to Egyptian exports has gently increased from 22% to 24% since the mid-1990s.

Tourist arrivals and receipts in Egypt and Tunisia



Source: World Bank (2007) World Development Indicators 2007

Recommendation 7: *Although the key tourist product in Cape Verde is sun and sand, the tourist sector enjoys a high spend per tourist. This translates into a strong yield per international tourist – even having accounted for the effect of imports. Maintaining this yield per visitor should be a critical aim of tourism policy.*

Cape Verde is blessed with strongly diversified source markets. This is an important achievement in a Continent where tourism source markets are generally still dominated by patterns rooted in the colonial era.

Table 3: African Inbound Tourism from Larger EU Markets, 2003

Rank	Country:	France	UK	Germany	Italy	Spain	Belgium	Netherlands	Total
1	Tunisia	833,989	223,189	488,481	379,773	78,223	132,596	44,490	2,180,741
2	Morocco	916,147	134,059	129,391	100,001	231,156	80,062	66,486	1,657,302
3	South Africa	127,760	456,468	257,018	49,818	25,597	42,735	120,933	1,080,329
4	Kenya	55,057	177,339	180,156	61,428	11,667	7,424	20,933	513,589
5	Mauritius	200,229	91,210	53,970	39,774	9,081	10,170	4,403	408,837
6	Senegal	181,470	3,063	7,985	9,279	12,682	0	0	214,477
7	Nigeria	50,149	31,310	48,915	53,166	16,886	5,537	4,349	210,312
8	Algeria	106,042	4,549	7,049	10,571	8,600	3 801	1,525	142,137
9	Tanzania	22,103	43,656	19,222	24,675	9,565	6 497	15,272	140,990
10	Zimbabwe	12,504	58,354	25,902	18,682	3,891	0	0	119,333
11	Namibia	9,364	19,291	58,036	8,809	4,448	4 197	11,778	115,923
12	Cape Verde	12,847	1,140	18,095	54,278	7,679	9 702	0	103,741
13	Seychelles	25,990	18,765	15,903	17,771	2,062	1 392	978	82,868
14	Zambia	4,050	64,970	5,627	3,025	0	0	0	77,672
15	Burkina Faso	47,663	2,475	4,683	3,215	0	4 984	2,734	65,754
16	Lesotho	0	39,470	25,991	0	0	0	0	65,461
17	Gambia	653	40,872	4,253	200	0	1 707	7 262	54,947
18	Mali	22,539	1,460	2,412	3,476	2,637	0	0	32,524
19	Botswana	2,730	14,445	6,584	2,168	2,097	0	4,181	32,205
20	Uganda	3,022	17,176	3,519	1,924	0	1,748	2,474	29,863
21	Ethiopia	5,482	8,976	5,719	6,348	0	1 ,70	3,044	29,571
Total		2,639,790	1,452,239	1,368,911	850,192	426,269	313,922	310,427	

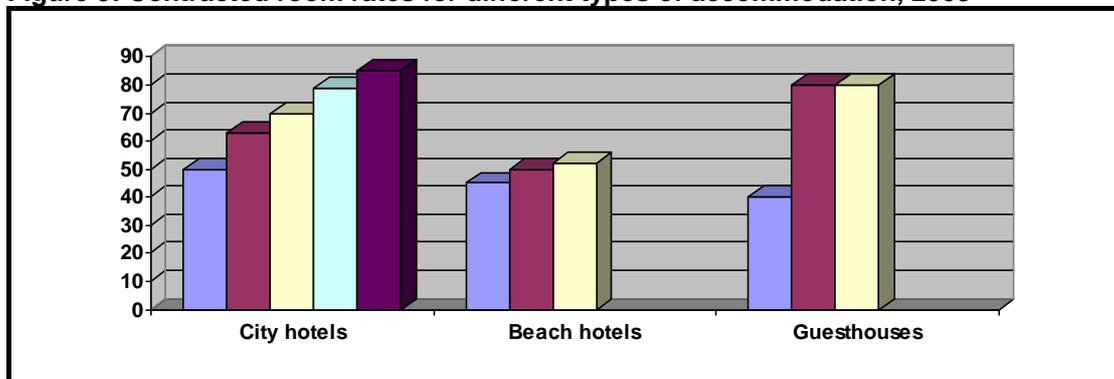
Source: Global Development Solutions (2006) *Value Chain Analysis for the Tourism Sector in Ethiopia* based on WTO statistics

Note: Highlighted squares show the largest EU Market for a particular African country.

There are several advantages of having diversified source markets. They tend to mitigate the inevitable power imbalance between a small and peripherally-located tourist destination in the South and tour operators from large, affluent Northern source markets. This is reflected in the relatively high contracted room rates which hoteliers in Cape Verde report achieving in negotiations with European tour operators.

The contracted rates above for city and beach hotels are for large establishments of at least 50 rooms and reflect the average room rate negotiated with tour operators. City hotels, all of which were in the four star quality category, were in the range €50-€85. Hotels in Sao Vicente are less expensive than hotels in Santiago – all priced on a bed and breakfast basis. Large beach hotels on Sal and Boa Vista are contracted at cheaper rates than the city hotels and in a much narrower range of €45-€52 – even though packages are normally priced on an all-inclusive basis. Smaller guesthouses sell rooms directly to the public, rather than to tourists via tour operators. Their average rates are higher than larger hotels in their vicinity.

Figure 9: Contracted room rates for different types of accommodation, 2008



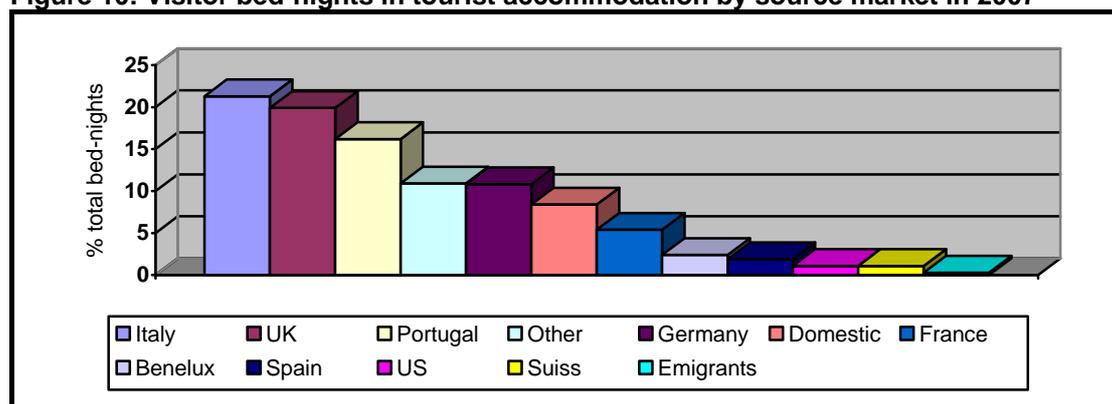
Source: ODI hotel survey

The striking feature of these room rates is how high they are – compared with other destinations serving a predominantly European market for a sun and sea product beyond the Eurozone. For instance, in neighbouring Gambia, contracted room rates only reach about €25 during the high season and are less than half this rate during the low season⁶. In the Red Sea destinations in Egypt, discussions with accommodation providers suggested even lower rates for five star, all-inclusive packages.

In Cape Verde, therefore, even the beach hotel rates are about twice the peak rates achieved in competitor destinations elsewhere. Also, because of high occupancy and the lack of seasonality, these rates are relatively firm throughout the year and tour operators typically only receiving discounts on the rack rate of up to 20%. This is a striking feature of the tourism value chain in Cape Verde.

⁶ J Mitchell and Faal, J (2008) The Gambian Tourism Value Chain and Prospects for Pro-Poor Tourism ODI Working Paper 289

Figure 10: Visitor bed-nights in tourist accommodation by source market in 2007



Source: INE (2008) Nota de Imprensa

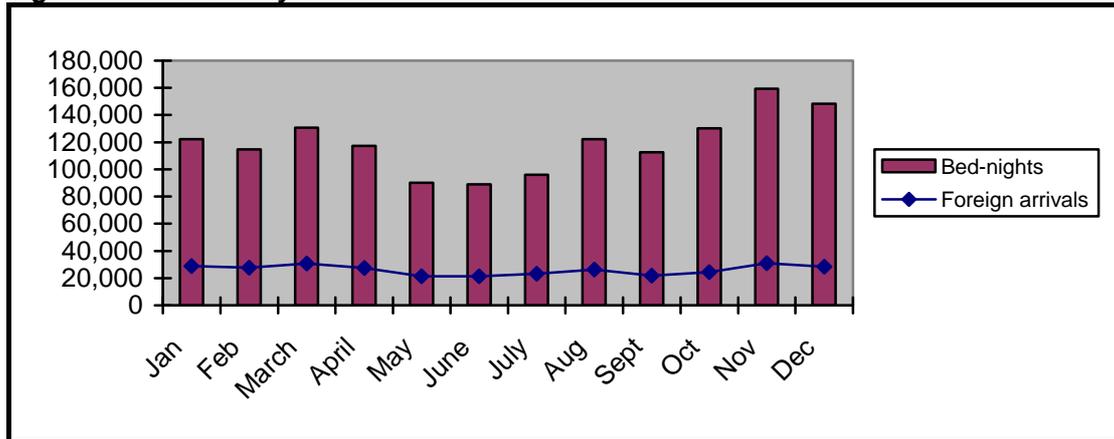
Three interesting features of the Cape Verde tourist market leap out of Figure 10. First, the scale of domestic tourism in Cape Verde is significant for a low income developing country. Domestic tourism comprises some 8% of total bed-nights in tourist accommodation – predominantly in hotels. Also the magnitude of the ‘other’ category – the fourth largest group of tourists about whom we know virtually nothing.

Finally, the rapid increase in tourists from the UK travel market is striking. This is a positive development for Cape Verde in that this market is large and well-travelled. However, it is also likely to result in pressure to reduce contract rates from accommodation and other suppliers as discounts are required in exchange for guaranteed tourist flows. This point is important because – as is described in more detail in Section 3 – workers wages in the tourist sector are one of the key linkages between the tourist sector and the Cape Verde economy. These wages are also the most significant variable item in the cost structure facing hotel managers and so the item most likely to come under pressure if contract rates are negotiated downwards. The net effect of accepting lower contract rates is a transfer of resources from Cape Verde to the source markets in Europe.

Recommendation 8: *Hoteliers can be supported to resist the pressure from the contract negotiators of large tour operating companies to reduce rates through maintaining control of the supply of tourist infrastructure and stimulating demand through a marketing campaign.*

A key additional advantage of diversified source markets is that it allows suppliers of tourism services to benefit from more stable demand throughout the year. This is because tourists from different source markets visit Cape Verde at different points in the year – so seasonality can be expressed as the changing mix of tourists rather than fluctuating numbers of tourists. For example, Southern Europeans tend to visit mid-year whereas Northern Europeans – and particularly Nordic visitors – travel at either end of the year. The main flows of Cape Verdeans are from the diaspora at Christmas and domestic tourists visiting the carnivals and festivals held on different islands throughout the year.

Figure 11: Seasonality of tourist demand in 2007

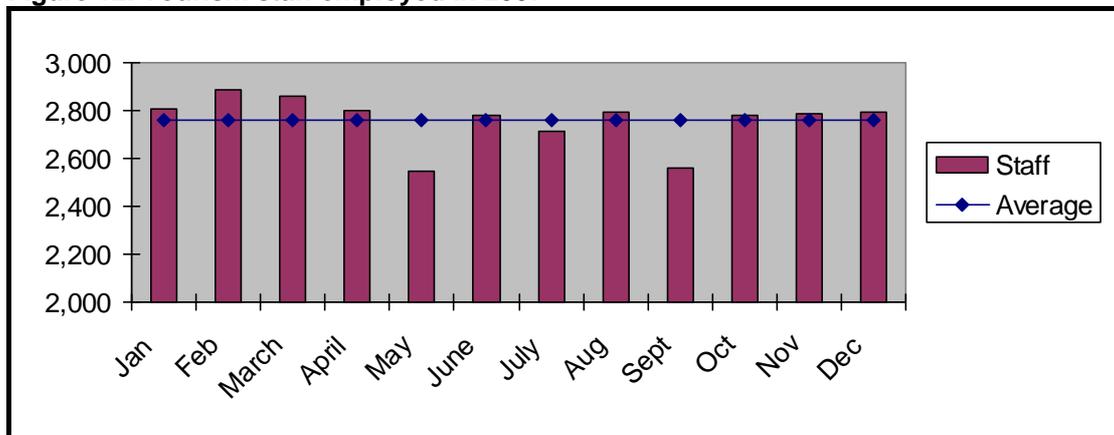


Source: INE (2008)

The stability of tourist demand is an important positive feature of Cape Verde because it makes it much easier for hoteliers to achieve viable aggregate occupancy rates. It is also important for workers because it allows a stable and permanent workforce to emerge which encourages employers to invest in their staff.

This is demonstrated in the unusually stable tourism sector workforce illustrated in Figure 6. Hotel surveys corroborated that almost all hotels employed the great majority of their staff on permanent contracts and only hired small numbers of temporary staff for demand peaks.

Figure 12: Tourism staff employed in 2007



3. Does tourism benefit Cape Verde?

3.1 Tourism demand and supply

Understanding the *impact* of tourism - in terms of visitor numbers, tourist receipts and investment totals covered above - is an important part of the picture. This is the domain of the conventional tourism master plan. For public policy makers however it is fairly crude and may encourage the numbers-driven form of tourist development that is so evident in a number of North African destinations at present (witness, for instance, Morocco's stated aim to reach 9 million tourist arrivals). Increasingly, more thoughtful decision-makers are seeking an analysis to examine the *effects* of tourism.

This takes into account the immediate impact of tourism, but also traces these impacts back into the host economy – essentially to allow a comparison of ‘before’ and ‘after’ tourism scenarios.

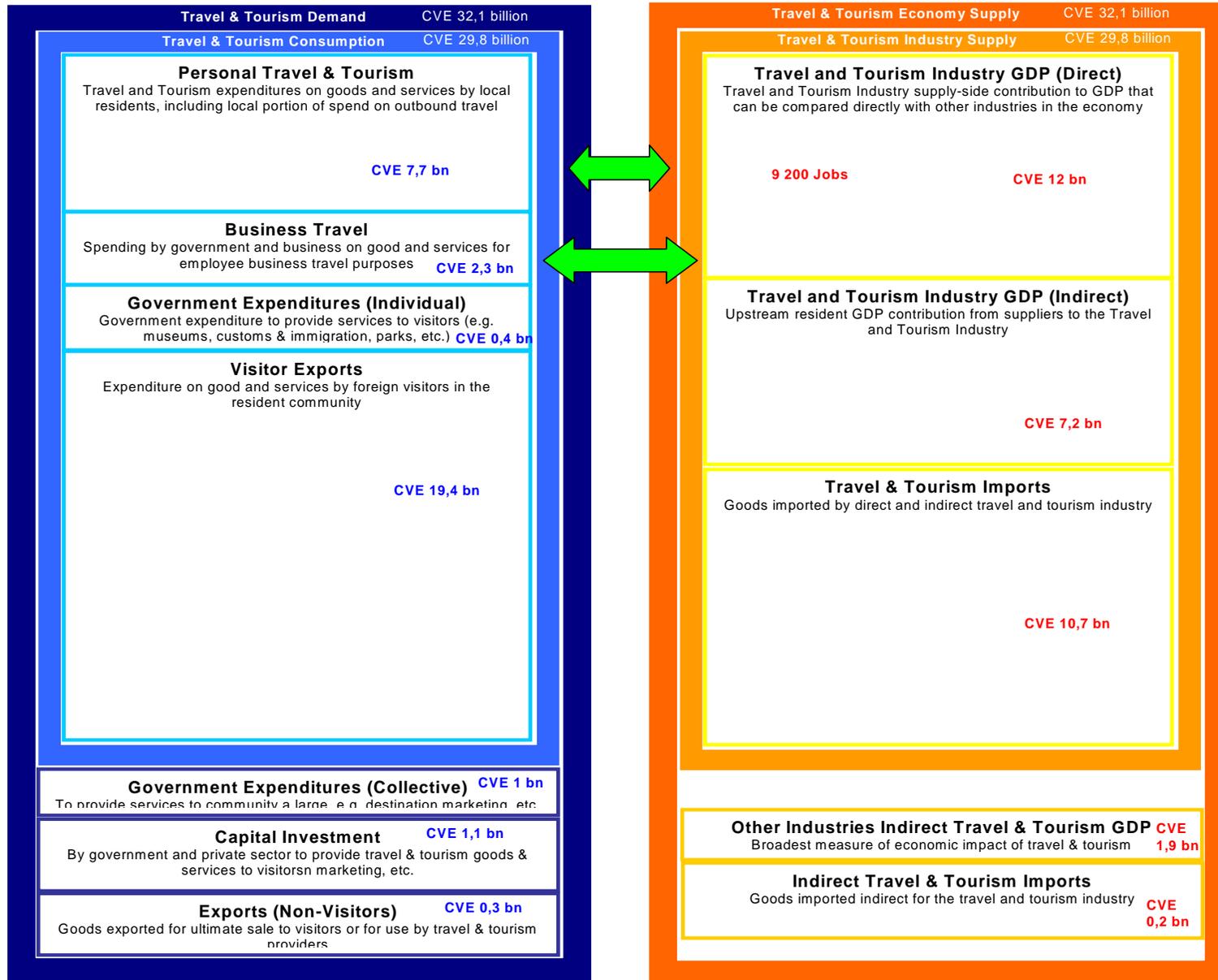
For example, when a person gets a hotel job, an impact analysis will examine their wage and, perhaps, how it is spent to estimate induced impacts. These positive results will be aggregated and presented as the impact of tourism.

A more sophisticated analysis will recognise that people (and even investments funds) are generally doing something before tourism development takes off at the destination. Therefore, when a hotel is built and jobs are created, investment funds and people are diverted from what they would otherwise have been doing. So, the negative impacts of this diversion need to be subtracted from the positive impacts of the tourist growth to isolate the net effect. In addition, the analysis should look at where the construction materials to build the hotel come from and examine the supply chains to operate the establishment (the indirect impacts). The analysis below, extracted from the Grant Thornton Report and based upon a World Travel and Tourism Council (WTTC), provides several useful insights into some of the indirect, induced and ‘leakage’ effects of tourism – to complement our understanding of the direct impacts of tourist expenditure and jobs created.

The analysis in Figure 13 focuses on what is the effect of tourism on the Cape Verde economy. This is important to establish empirically because there appear to be two almost diametrically opposed views on the effect of tourism in Cape Verde – neither of which, in the view of the author, is supported by the available evidence.

The positive view is that rapid tourism development will inevitably benefit the country – so the only challenge is to build as much and as quickly as possible. A widespread counter-view, is that as tourism in Cape Verde is dominated by large, foreign-owned enterprises, the benefits generated almost entirely bypass the host country and overwhelmingly benefit corporate interests in the tourist’s country of origin.

Figure 13: Estimate of Tourism Satellite Account for Cape Verde in 2007



The empirical evidence provides some support for both views but endorses neither. Given the paucity of actual data in Cape Verde – including such basic indicators as the number of tourist arrivals and their spending behaviour - the analysis is based on estimates generated by the World Travel and Tourism Council and Oxford Economics and Accenture. The framework used is that of tourism satellite accounts (TSA). TSAs have traditionally been used to reveal the linkages between narrowly-defined 'tourism' as reflected in countries national accounts and the rest of the non-tourist economy to provide an analytical basis for industry lobbyists to claim that tourism is much larger and more important part of the economy than official figures suggest.

Travel and tourism demand in Cape Verde in 2007 was estimated to be CVE 32.1bn (or €290m).

93% of this total demand is comprised of consumption spending. About two-thirds of this total is made up of by foreign tourists buying goods and services in Cape Verde – spending an average of about €700 per trip.

However, over a quarter of total tourist consumption is tourist spending by local residents (including the local proportion for overseas trips) – and this does not include domestic business travel. This all points to an impressive scale of domestic tourism spending in total tourist consumption. Less impressive is the extent of government spending which comprises only about 5% of tourist total demand through support to visitor facilities (like museums, immigration, etc) and investments in destination marketing.

The supply-side effect of this CVE 32.2bn (or €290m) worth of tourist demand on the economy is revealing. The aggregate effect of tourism on Cape Verdean GDP is estimated at CVE 21.2bn (€192m) – the difference between tourist demand and what the Cape Verde economy can supply is made up of imports to a value of CVE10.9bn or €99m.

3.2 Leakages and linkages

The immediate question raised by this analysis is, is the tourism glass of €290m:

- One-third empty (because of the 'leakage' of €99 through imports generated by tourist demand; or
- Or two-thirds full (because €192m of the benefits of tourism demand remain in Cape Verde)?

Tourism sceptics may highlight this high 'leakage' of benefits. They have a point - this is a high level of imports for activity taking place on the Archipelago itself. Even a 10% reduction in imports would add 1% to national GDP and could have an important impact on poverty.

A more positive view would be to focus on the two-thirds of tourist demand which is supplied locally. This equates to 19.1% of GDP or CVE 49,000 (€446) per person resident in Cape Verde. Even at the dynamic 3.9% economic growth rate per head that has taken place since the liberalisation in the 1990s, it would take many years to replace this loss of economic activity if tourism stopped (and, of course, a high proportion of the recent economic growth is itself directly the result of tourist development). So, stopping tourism would present policy-makers with a double-whammy: it would significantly damage the macro-economy; and, also deny Cape Verde most successful way to recover from this position).

It is also important to put tourism in Cape Verde into context. The whole of Cape Verde is very 'leaky' – with up to 40% of GDP being spent on imports. This is exactly what one would expect from an economy that has been based largely upon hand-outs from overseas being used to finance imports. In this context, the 34% 'leakage' rate for tourism is actually lower than for the non-tourist economy.

The scale of linkages between the tourist and non-tourist economies may surprise some. The satellite account analysis suggests that only a little over half of the total local supply meeting tourist demand is direct from the tourist industry itself (the hotels, restaurants, bars, excursions and transport services normally associated with the tourism).

The rest of the local benefit derived from tourism is through indirect impacts – suppliers to the tourist industry (such as food, crafts, etc). This suggests that, even if the stereotypical all-inclusive tourist only eats Italian food and never steps outside the resort, the benefits of their stay for Cape Verde are actually as significant for the non-tourist economy as for the tourist industry. This is particularly striking in terms of jobs. INE estimates 3,450 people worked in hotels in 2007 – yet the tourism satellite accounts suggest there are 9,200 tourism jobs created by tourism.

The extent of linkage between the tourist and non-tourist economy demonstrated by Cape Verde is a fairly typical multiplier for a developing countries⁷. This is a surprise finding because everything we know about what determines the scale of the multipliers effect would suggest that Cape Verde would have a very low figure. Generally, the bigger and richer and more diversified a destination economy is and the more mature its tourism market is, the higher the multiplier⁸.

So the relevant policy question for Cape Verde is not why are 'leakages' so large - but rather the reverse, why are linkages so strong? Two important criteria may go some way to explaining this seeming paradox.

Recommendation 9: *The direct and indirect impacts of tourism are very significant for the economy of Cape Verde. These benefits need to be understood properly and communicated effectively to the public and policy-makers domestically.*

First, wages are relatively high in the tourist sector in Cape Verde and virtually all tourist workers are Cape Verdean – so these direct linkages do explain a significant element of the 'local capture' of the benefits of tourist demand (see detailed discussion in Section 5).

Recommendation 10: *The tourism labour market is an important mechanism for the transfer of benefits from tourism to Cape Verde. To make sure that this mechanism functions well it is important to improve the training levels for tourist staff.*

Second, tourist development has precipitated a construction boom in Cape Verde. In the same way that tourism dominates the tertiary sector in Cape Verde, construction dominates the secondary sector – and contributed some 10% to GDP in 2000. This suggests that the construction sector, alone, accounts for at least half the total links with the non-tourist sector. Food and beverages are a very large element of the cost structure of most hotels and almost all hotels purchase their inputs from wholesalers in Cape Verde. So, even if the item was imported, there is a significant capture of local benefits from importation duties and wholesalers mark-up.

⁷ Mitchell, J & Ashley, C (2008) 'Pathways to Prosperity: how tourism can reduce poverty'

⁸ Lajaranga and Walkenhorst (2007) 'Of linkages and leakages: how tourism can foster economic diversification' World Bank research paper

Obviously policy makers should focus on increasing the scale of local benefits from tourism - and making sure the poor benefit – but this analysis suggests that two issues should be recognised immediately.

First, it would appear that tourism is having an important positive macro-economic impact on Cape Verde and the scale of ‘leakages’ whilst certainly an issue – but a less crippling one than many believe.

The most appropriate policy response to ‘leakages’ is counter-intuitive. Simply intervening to reduce ‘leakages’ by protecting local suppliers is often an ill-conceived strategy that proves counter-productive. For instance, part of the motivation for retaining the national carrier, TACV, is to avoid foreign carriers capturing the typically 50% of the total retail value of a European holiday package that accrues to the air carrier. As a consequence of this flawed logic, Cape Verdean tax payers are supporting a loss-making enterprise that is subsidising foreign tourists and proving a blockage to tourist redevelopment in Cape Verde. In addition it is quite incorrect to describe payments that never reach Cape Verde as ‘leakages’ – so TACV is an example of an expensive and ineffective way of preventing a problem that does not exist.

Recent work at the World Bank has shown that the best way to reduce ‘leakages’ is to increase linkages and this is a function of factors such as: improving the business environment; enhancing human capital; increasing the participation of women in economic activities; and, a safe environment. This is a much more productive avenue for government attention than trying to stop ‘leakages’⁹.

A real advantage of this approach is that it will encourage government to undertake precisely the kind of policy actions that it should be implementing anyway to support the strategic vision for Cape Verde.

Recommendation 11: *To improve linkages between the tourist sector and the non-tourism economy, government should develop its activities within a progressive linkage paradigm rather than reinventing a flawed import substitution approach*

Second, tourism is the central engine of growth in Cape Verde – so it is important to understand how the tourist economy works and relates to the rest of the macro-economy. To be trying to address important issues of public policy – like the benefit of tourism to Cape Verde - on the basis of some estimates put through an analysis by a tourist industry lobby organisation and two British consultancy organisations is far from ideal. As part of the master planning process, there should be a real effort to collect data in areas where it is a gap (expenditure) and get more accurate statistics for data which is already collected.

Recommendation 12: *In addition to more accurate baseline tourist statistics, there is a need for stronger analysis of the functioning of the tourist sector to inform policy-makers about options for the sector*

Finally, the longer-term dynamic effects of tourism are rarely explored in tourism analysis. There are two potentially significant positive dynamic effects that may apply to Cape Verde.

⁹ Mitchell, J and Ashley, C (2007) ‘Leakage Claims: Muddled thinking and bad for policy?’ ODI Opinion No.81

First, tourism can have an important impact on the tax base of a local economy. This is important for an economy like Cape Verde with an low and unbalanced fiscal structure. For example import duties and customs taxes accounted for two-thirds of fiscal revenue in 2003 – with almost all the rest accounted for from income and profit taxes¹⁰. It is entirely appropriate for governments to use fiscal incentives to attract foreign investors into a new market. However, the pattern developing in Cape Verde – where hotels are sold every five years to allow another foreign company to qualify the purchases for a further five years to tax and duty-free status – may not be the best use of government resources foregone.

Recommendation 13: *Government should review the fiscal incentives awarded to the tourist industry with a view to assessing the efficiency of the large incentives offered to foreign companies and the lack of such support offered to domestic companies.*

Second, tourism is likely to be having a positive impact of tourism on economic diversification in Cape Verde. This could result from two different types of variable. One is the recent finding that the interaction between international visitors and indigenous entrepreneurs in tourist destinations reduces the costs and risks of entrepreneurs understanding the international market and can be a spur to discovering new export markets. The other factor is more direct. A significant cause of the rapid growth of Cape Verde in the last 15 years has been productivity increase and a critical cause of this has been the ability of the tourist sector to absorb low-productivity, rural workers into tertiary occupations with three times higher rates of productivity.

4. Does tourism benefit the poor?

There are a number of reasons to expect tourism in Cape Verde to have a weak link to people from poor backgrounds.

First, tourism in Cape Verde does not take place where poor people live. The centres of tourism activity are located on Sal, Santiago, Boa Vista and Sao Vincente which are the four richest islands on the Archipelago. Not only are Sal and Boa Vista comparatively affluent they also have a very small population to interact with the tourist sector.

¹⁰ Ibid

Table 4: Socio-agricultural statistics 2004

	Sao Antao	Sao Vincente	Sao Nicolau	Sal	Boa Vista	Maio	Santiago	Fogo	Brava	Total CV
Population	47,124	67,844	13,536	14,792	4,193	6,742	236,352	37,409	6,820	434,812
Poverty incidence	54%	26%	40%	13%	15%	38%	37%	42%	43%	37%
Registered Family Farms	6,789	2,060	2,009	410	489	1,098	24,625	5,726	1,244	44,450
% using irrigated farming	39%	8%	17%	1%	8%	11%	17%	2%	10%	44%
Cattle	832	236	1,255	60	260	760	15,206	3,064	653	22,306

Source: World Bank (2007) Cape Verde Rural Development Assessment

Second, Cape Verde has very weak local supply chains for all economic activities and particularly those used intensively by tourist establishments – energy and food. Notwithstanding the fact that one-quarter of the workforce are agricultural, only 10% of the Country's land area is suitable for agriculture and Cape Verde imports more than 80% of the food consumed in the Country¹¹. Therefore, even though most hotels purchase their supplies from wholesalers based in Cape Verde (only two large hotels were found that import their own supplies directly) – these outlets import most of their supplies. The fact that tourism is concentrated on islands like Sal with virtually no agricultural base simply reinforces this propensity to import.

4.1 Direct jobs in tourist sector

In Cape Verde there is a widespread perception that hotel wages are exploitative and that foreign-owned hotels pay staff particularly badly. Little evidence to support this view was found from the hotel surveys.

Average non-managerial wages with a weighted average of €289 per month with the highest wages paid in Sal, then Boa Vista, then Santiago and the lowest in St. Vincente. These wage differentials reflected the different cost of living and scarcity of labour on the different islands. No evidence was found for the assertion that locally-owned establishments paid workers more generously. In addition, the employers pay a 15% social security levy.

INE statistics suggests 3,540 hotel workers in Cape Verde in 2007. Clearly there are many more people working within the tourist sector than just in the hotel sector. The incomes of staff working in tour operators, shops, taxi drivers, excursion providers, restaurants outside hotels, transportation services, tourist authority workers are entirely dependent upon tourist demand for their livelihoods. The tourism satellite account exercise suggests 9,200 work in the broadly-defined travel and tourism sector in Cape Verde.

This figure seems plausible given the total available workforce of 166,000 in Cape Verde – some 130,000 of whom are employed. About 44,000 people are employed in the agriculture and fisheries sector, suggesting 86,000 non-agricultural workers with jobs in the labour force¹². Given the disproportionate size of the public sector labour force in Cape Verde – the significance of 9,200 private sector jobs is clear.

Estimating the pro-poor impact of this employment is challenging. Our surveys suggested that a high proportion (some 98%) of hotel workers are Cape Verdean and 95% of staff are non-management grades. This suggests a minimum of some 8,500 non-management Cape Verdeans working in the tourist sector. Discussions with employers suggested that a very high proportion of non-management staff in the tourist sector are from poor backgrounds – which is precisely what would be expected in an economy in transition.

Applying the average monthly non-management income of €289 from the hotel surveys this suggests an annual pro-poor benefit from the wages of non-managerial Cape Verdeans working in the tourist sector of about €29.5m – or about 11% of the total tourist expenditure in Cape Verde of €270m in 2007. This is a cautious estimate because interviews with tourist stakeholders in the non-accommodation suggested

¹¹ World Bank (2007) Cape Verde Rural Development Assessment

¹² Ministry of Finance and Planning (2004) Growth and poverty reduction strategy

that tourism workers generally earn more from jobs outside the hotel sector. It also excludes earnings from tips of hotel workers.

Recommendation 14: *The supply of labour to the tourism industry is one of the few supply chains in Cape Verde that is overwhelmingly indigenous and pro-poor. Government should work with the tourist industry to ensure that workers are available with the correct skills to maintain this important linkage.*

The hotel survey gained detailed information about the cost structure of hotels in Cape Verde. What is striking is the finding that a staff cost make up a weighted average of 22% of total hotel costs. Assuming gross margins of 35% in the accommodation sector, this proportion of costs would equate to about 14% of hotel turnover – again suggesting that the estimate of direct pro-poor impacts at 11% of tourist turnover is a cautious estimate.

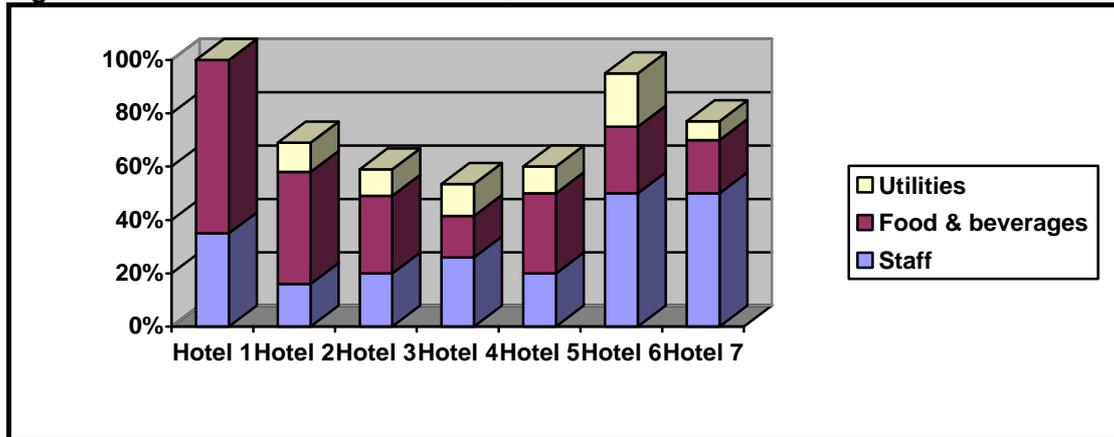
In addition to direct pro-poor links there are indirect links – in the construction and agricultural sectors.

4.2 Construction



Construction output comprises about 10% of GDP in Cape Verde – or about €100m a year. The expected rate of foreign tourism investment implementation of US\$1bn from 2006-2011 suggests this annual output figure is cautious but robust.

Figure 14: Cost structure of hotels in 2008



Source: ODI hotel survey

Interviews with construction companies indicated that labour comprises about 50% of total construction costs. Despite buoyant demand, average daily wage rates in the construction sector have dropped from €9 to €5 a day¹³ as immigrants from ECOWAS countries have found work in the tourist industry with fewer barriers to entry than formal sector jobs in hotels and restaurants. At these wage rates and assuming 35% gross margins in the construction sector, this suggests that some 18,000 full-time equivalent construction workers are active building tourism assets in Cape Verde with earnings of some €35m a year. This strongly suggests that the construction sector is providing very significant pro-poor benefits in Cape Verde as almost all construction workers are from poor backgrounds.

Recommendation 15: *Government should work closely with the construction industry to identify and train the workforce to ensure that the higher skilled positions with attractive wage levels can be filled with Cape Verdean workers.*

Even if only half the construction workforce is from Cape Verde, this €17.5m flow of indirect benefits from the tourist sector to poor Cape Verdeans is a very significant pro-poor flow, equivalent to about 6% of annual tourist expenditure of €270m.

4.3 Agricultural supplies

The high levels of spending on food and beverages by hotels is striking. As Figure 13 illustrates, hotels are spending a weighted average of 32% of their total operating costs on F&B. Little of this is sourced locally.

In small part this reflects demand-side issues – two large hotels interviewed directly import almost all their inputs from Europe to ensure quality of supply and the health and safety standards of the food. However, despite being firmly lodged in the popular imagination, this is not standard practice in the hotel sector in Cape Verde. Imports are subject to lengthy delays at ports, necessitating the maintenance of very large and expensive foods stores by hotels) and very high importation duties (both formal and informal). These reasons provide a strong financial rationale for localising the food supply chain.

A much more significant constraint to the procurement of local food and beverages is to be found on the supply side – despite a quarter of the labour force working in

¹³ World Bank (2007) Cape Verde Rural Development Assessment

agriculture and fisheries, Cape Verde does not produce much food on a commercial basis. The Archipelago imports between 80% to 90% of all its food imports. Most hotels purchase their food and beverages from wholesalers in Santiago and Sao Vicente – and therefore only consume imported goods because this is where wholesalers source their supplies. Locally-sourced foods include some fruit (bananas, papaya, mango), some fish (Tuna, Wahoo, mullet and shark), some vegetables from Sao Antoa, the interior of Santiago and Fogo and some red meat from Santiago.

A further layer of complexity is the fact that the main tourist island of Sal and rapidly-growing Boa Vista are virtually devoid of agriculture – and are located furthest from the most important agricultural centres in Sao Antoa and Santiago (see Table 4).

Therefore the propensity of the tourist sector to import food and beverages is symptomatic of a broader problem, the lack of food self-sufficiency of Cape Verde. In addition, the location of the tourist industry away from the limited agricultural activity that does exist, simply aggravates the problem.

In broad terms, the tourist industry is likely to spend at least €15m a year on food and beverage supplies (1.4m total tourist bed-nights in 2007 multiplied by €11 per guest per day as an average unit cost). If 80% of this volume is imported, this implies local food purchases of some €3m a year. In Cape Verde some 44,000 agricultural and fisheries workers produce about 8% of GDP (some €80m output per year) – or €1,800 output per worker per year. Output per farmer is low because of the small scale of farming units of about 1.5Ha each. Assuming a 100% mark-up in prices from the farm gate to the hotel, €3m hotel purchases from wholesalers would support 800 average-sized farmers with €1.5m of agricultural sales.

This analysis suggests that agriculture is not currently a strong linkage between the tourist sector and Cape Verde – or poor people within the Country. The low level of existing linkages can, of course, suggest huge potential for future improvement. The difficulty is that many of the constraints holding back an improvement agricultural linkages are structural and will be difficult and time-consuming to change.

Recommendation 16: *Working with the Millennium Challenge Fund to identify specific agricultural inputs required by the tourist industry which are particularly appropriate for cultivation in Cape Verde and working on both the supply and demand end of these supply chains is an approach which has the greatest likelihood of success.*

4.4 Taxation

Finally, an important mechanism for transferring resources from tourists to poor people is taxation. This is particularly the case in places where government has progressive policies relating to poverty reduction and has a functioning implementation infrastructure, as appears to be the case in Cape Verde. The tax take from tourism in Cape Verde is not known and is limited as a result of the 5 year exemption from corporate tax and 2 year exemption from importation duties granted to most foreign investors. However, through:

- Visa payments of €25 per entry for about 250,000 foreign visitors (total of about €6m a year); and

- Income tax incidence of about 6% on a total tourist wage bill of about €31m (9,200 workers earning an average of €280 per month) – suggests income tax yield of about €1.8m a year.

Combined this suggests that taxation could be currently having a pro-poor impact – and there is very considerable scope to increase this impact. Government is keen to maintain the current incentives package for new investors to ensure the continuing attractiveness of Cape Verde to foreign investors. However, granting additional tax holidays on the basis of what are essentially real estate sales to new overseas investors for hotels after the expiry of the tax holiday period, serves little developmental purpose and the efficiency of this use of public funds should be assessed (see Recommendation 13).

In summary then, our analysis suggests that about 18% of total annual tourist expenditure of €270m in Cape Verde flows directly to people from poor backgrounds. The main pathways by which benefits are transmitted to the poor are:

- €29.5m through direct jobs in the tourist industry;
- €17.5m for Cape Verdean construction workers building tourist infrastructure;
- €1.5m for local purchases of food and beverages; and
- €7.8m generated by visa and income tax paid by tourism workers.

This equates to a minimum of €56.3m benefits flowing directly, indirectly and via dynamic flows to poor Cape Verdeans from total tourist spending of €270m – or about 21%.

5. Enabling environment

5.1 Policy-making & governance

The Cape Verde Government has developed a clear strategic vision for the Country and a coherent place for the development of the tourist sector within this national vision. The transformation strategy of 2001 was based on the clear recognition that the productive capacity of Cape Verde had to be expanded in a way that enhanced the attractiveness of the Country.

A key aspect of the transformation strategy is the exploitation of the country's competitive advantages in key sectors such as tourism, garments, fish processing, shipping and air transportation. A critical element of this strategy is the need for Cape Verde to build for itself an image of an attractive country for people who want to visit or live in, work and invest in the country¹⁴

There is ample evidence that this commitment has been followed through into tough strategic decisions. For instance, the ASA strategic plan of 2004-2008 which resulted in heavy investment in air transport infrastructure is a clear indication of this strategic vision being followed through into implementation. Similarly, the creation of tourist development zones (ZDTI or Zonas de Desenvolvimento Turístico Integral) to facilitate the supply of land for tourist development is an example of this vision being translated into reality.

¹⁴ Ministry of Finance and Planning (2004) Growth and Poverty Reduction Strategy Paper

The prominence of the tourist sector in the growth and poverty reduction strategy paper of 2004 was unusual because, at that time, very few governments had made the conceptual link between tourism development and poverty reduction.

Elements of this thinking are followed through into the strategic plan for tourism 2004-2015. The focus of this plan is on the financial impacts of tourist expansion. Projections envisage the number of tourist arrivals reaching 1.2m by 2015 (up from the 2007 figure of some 250,000) and tourism receipts rising to CVE 33bn by 2015 (up from CVE 19.3bn in 2006). Social, cultural and equality issues are included in the plan, but these are much less specific and clearly secondary to the urgent need to develop tourist infrastructure and increase the financial contribution of tourism.

This approach may have been necessary in 2004. And, although Cape Verde has been successful in achieving tourist growth through attracting a comparatively small number of large tourist investments, it would certainly be premature to be complacent about future tourism growth. However, in the tourism master planning process which has started, the issues of environmental sustainability and local benefits and linkages between the tourism and non-tourism economy need much greater prominence.

The danger of not addressing the widely-held (and largely incorrect) view that Cape Verde is not benefiting from tourism is that an anti-tourism coalition develops which proposes a policy programme that is not compatible with the sustainable development of the tourist sector.

Recommendation 17: *The on-going tourism master plan process should move beyond being a conventional strategy driven by tourist arrival numbers and supply infrastructure. It should analyse the benefits accruing to Cape Verde and poor residents from tourism and develop a policy programme to enhance these benefits.*

There is certainly evidence of adaptive behaviour by Government. The establishment of the Society of Tourist Development of Boa Vista and Maio (SDTBVM) in 2004 was based on the explicit recognition that the outcomes of relatively unregulated tourist development in Sal were not acceptable and a different regulatory environment was necessary. It is also implicitly recognised that severing the development control functions of municipalities with regard to tourist developments in their areas, whilst possibly justified in terms of accelerating the release of tourism land supply, can create on-going tensions in the relationship between the tourist sector and local government. The recent operationalisation of the National Tourist Council is a welcome development which allows the public and private sectors and the relevant parts of central and local government to discuss tourist development issues in a multi-stakeholder forum.

Recommendation 18: *The National Tourism Council should be supported and encouraged to play a leading role in the development of the tourism master plan.*

The SDTBVM has integrated tourist development into a broader master plan which has included a social component (including a social fund), involves a broad range of local stakeholders, a stronger environmental focus and is seeking to strengthen links between the tourist sector and the local economy. With recent transactions of unserviced land in the ZTDI reaching €50 per m³, there is no evidence that this more regulated approach has reduced demand for tourist land in Boa Vista.

Recommendation 19: *Allow the experiences gained from operating the SDTBVM to inform the development of tourism regulation elsewhere in Cape Verde.*

It is evident that there is sometimes a gap between strategy and operational reality in tourism. For instance, the Official Bulletin of 15/2003 was a far-sighted documentation of the organogram for the Department of Economy, Growth and Competitiveness¹⁵. In Article 14, the Directorate General of tourist development is tasked to maintain a database of information about the tourist sector; create tourism development plans; develop tourism products which protect the cultural and natural resources; collaborate with other organisations that promote tourism domestically and internationally; coordinate zones of tourist development; and, maintain tourism statistics.

A number of the functions in quite extensive mandate have not been fulfilled. An important reason for this failure is that the DGDT has only five of the 18 staff envisaged in the organogram. It is not clear why the DG responsible for an economic sector that is central to the transformation of Cape Verde and is raising a number of important regulatory issues has been persistently kept so under-staffed.

As the key priority issue for tourism development becomes less dominated by the need to stimulate investment (and the role of Cape Verde Investments, or CI) and has some space to explore how to enhance the developmental impact of tourism, the demands on the DGTD will increase and resources will need to be made available to allow this important challenge to be met. This is particularly important as the private sector becomes more organised, as evidenced by the development of the first representative body of the private sector, UNOTOURS. It is important that the private sector has a strong public sector with which to engage.

Recommendation 20: *For DG tourist development to play its correct role it should be adequately resourced as envisaged in the 2003 Official Bulletin.*

It is also clear that, even with the more regulated and accountable model of tourist development in STDBVM, implementation issues remain.

5.2 Infrastructure

Air

Tourist development is highly dependent upon the provision of adequate infrastructure. This is illustrated by the development of Sal as the main tourist island in Cape Verde, as this was the only international airport on the Archipelago until 2007 and the first hotels were established to accommodate the flight crews. Since then, international airports have been opened in Praia (Oct 2005), Boa Vista (Oct 2007) and the international certification of Sao Vicente as an international airport is scheduled for later this year.

Taken together with the air traffic control system, the international air transport infrastructure is strong and is also compatible with the policy objective of spreading the benefits of tourism beyond Sal. The increase in tourism demand for accommodation in Boa Vista and Praia when the international airport was opened was very significant (with hotels reporting a tripling of occupancy in Boa Vista and a twenty percentage point increase in Praia). Given the strong growth in the tourism sector in Cape Verde and the fact that the destinations other than Sal are developing

¹⁵ Boletim Official (2003) Organica do MECC Decreto Lei 15/2003

from such a low base, it is quite possible that this ‘diversion’ of tourist flows around the Archipelago will take place without any absolute drop in arrival numbers at Sal.

Domestic air infrastructure is problematic in Cape Verde. Until very recently Cape Verde Airlines (TACV) has had a monopoly on domestic flights. This has resulted in high ticket prices being charged by TACV to cross-subsidise loss-making flights on the competitive international routes to Europe and America. This created the perverse situation where the Cape Verdean taxpayer and domestic traveller subsidise the costs of flying for affluent international tourists. This situation also directly undermines the official policy of encouraging ‘island hopping’ to spread the benefits of tourism more widely around the Archipelago. However, recently competitive carriers have been allowed to open scheduled services in the domestic market (Halcyon are moving and CV express). This should reduce costs and increase passenger loads.

Even if liberalisation of the domestic air transport does not stimulate an increase in ‘island hopping’ (quite possible given the ‘black hole’ that aviation experts have used to describe the TACV’s financial performance) the development of four international airports is having the same impact – a rapid development of three alternative tourist destinations to Sal.

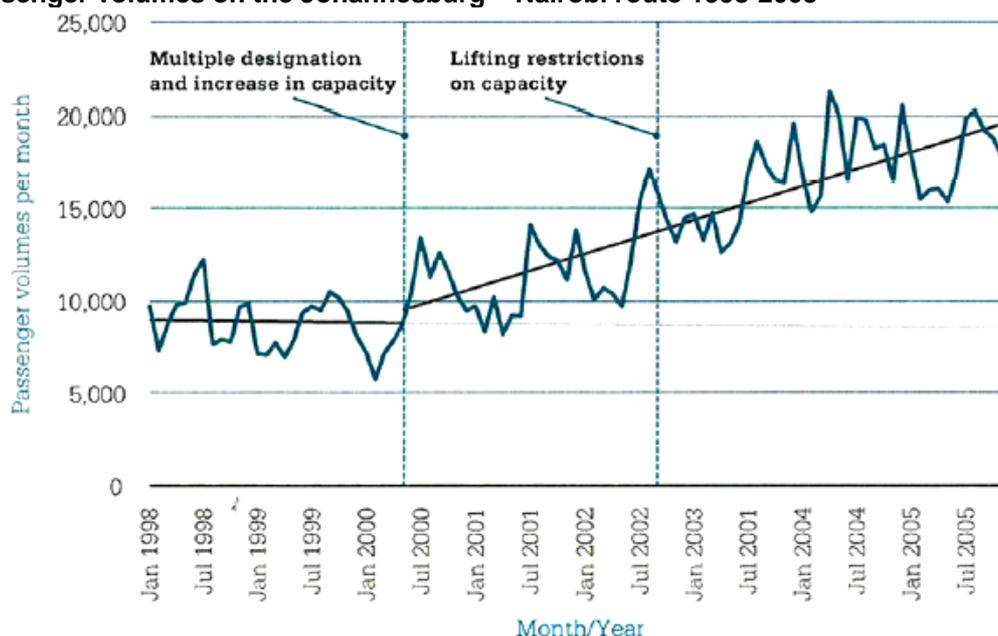
Recommendation 21: *Government should encourage new entrants to the inter-island transport service that can either reduce costs or increase the quality of this service, to encourage ‘island hopping’.*

Box 4: Impact on passenger loads of air transport liberalisation

The projected economic impact of air transport liberalisation on SADC would be for more than half a million additional foreign tourists to arrive by air – bringing an additional US\$0.5bn tourist expenditure into the wider economy. Including the multiplier effect, this tourist spending is projected to increase Southern Africa’s GDP by some US\$1.5bn – or 0.5%.

The graph below outlines the impact of opening the Johannesburg – Nairobi route to competition in 2001/2.

Passenger volumes on the Johannesburg – Nairobi route 1998-2005



Source: Genesis Analytics (2006)

Attractions

The development of Santiago and Sao Vicente has much greater significance than simply being 'another' destination in Cape Verde. This is the first time that direct international flights will be bringing tourists to destinations that are population centres (70% of Cape Verdeans live on one of these two islands and a much higher proportion of the poor population), have an agricultural sector and a vibrant cultural environment.

This is a much more conducive environment for developing local economic linkages than in Sal and Boa Vista. For instance, package tourists in resorts on Sao Vicente for a week will typically take two excursions, one day trip to Sao Antoa and the one to Mindelo. Tourists from the same source markets in Sal and Boa Vista take many fewer excursions simply because of the lack of attractions available.

A further rationale for spreading the benefits of tourism more equitably around the Archipelago is that concentrating tourist flows into one area risks an over-exploitation of the tourist product and threatens the traditional Cape Verdean culture of hospitality or 'morabrezza' to visitors.

There is real concern amongst hoteliers on Sal about the sustainability of the tourist product on offer. Tourists are not experiencing the 'real' Cape Verde and most are seeing little other than the hotel and the beach. The concern is that Cape Verde may have a short life as a novelty destination, but is unlikely to enjoy repeat trade unless it offers more to tourists or slashes prices to become competitive with other sun and sand destinations. Tourist exit survey results from tourists staying in hotels in Sal with the largest outbound tour operator in Europe suggest that 70% would not consider returning to Cape Verde. These are not the kind of messages that Cape Verde can allow to continue in its main destination.

Recommendation 22: *The international airport at Mindelo is opened as soon as possible and Sao Vicente and Santiago are promoted as a Cape Verdean experience to complement the sun and sand experience offered in Sal and Boa Vista.*

Recommendation 23: *Hoteliers, restaurateurs, entertainers and the local authority should explore ways of getting a larger share of the 6,000 tourists staying overnight in Santa Maria out of their hotels in the evening and enjoying appropriate facilities in the town.*

Utilities

The quality of utilities is highly variable in Cape Verde. As a result most of the larger hotels have diesel-run generator stand-by systems that are inefficient, expensive and polluting.

Water is an expensive commodity in Cape Verde with low and erratic rainfall. Hoteliers reporting being charged prices of between €4 - €7 per m³, reflecting the high cost of desalination. At these water prices, it would be surprising if all the golf resort developments proposed in Cape Verde are viable unless they are based on innovative grey water irrigation systems.

The costs of running generators and buying desalinated water are two of the cost drivers behind the 11% of total operating costs which are made up by utilities.

Port



Given that most of the tourists in Cape Verde are separated from most of the agricultural sector and other supplies and the two large ports in Mindelo and Praia by some 200km of sea – having efficient inter-island marine transport is important for the hotel industry in Sal and Boa Vista.

Unfortunately, the service is regarded by hoteliers as expensive and unreliable. Sal is being supplied by marine traffic unloading on one small jetty with very basic equipment. As a result, unloading is so slow that sometimes incoming ships are held for two weeks before they can use the harbour. The costs are also prohibitive, with a container costing €1,000 to transport from Praia to Sal and only €2,000 from Lisbon to Sal – and much cheaper goods available in Lisbon than Praia.

The impact of this is to impose costs on hoteliers, both directly in terms of high freight costs and also indirectly in terms of large cold storage facilities at hotels in response to unreliable supply infrastructure. These costs erode the advantage that Cape Verdean suppliers should have over overseas suppliers and contribute to 'leakages'.

Recommendation 24: *Port facilities and ships with cold storage would encourage inter-island trade in supplies to the tourist trade. The impact of poor port infrastructure is to impose significant unnecessary costs on the tourist industry and sub-divide up an already small market.*

Training & human resource development



There is almost complete consensus from employers in the tourist sector that the labour force in Cape Verde needs significant investment to improve human capital. Specific weaknesses identified are tourism awareness for the population as a whole and language and practical tourism skills for workers in tourist establishments. Management training is also required if Cape Verde is going to localise management positions and breaks the current dependency on expatriate senior managers.

The first hotel school due to be opened in Praia is acknowledged by the sector. However, if the number of tourist arrivals each year is planned to increase some 300% from the current level of about 250,000 to over one million in 2015 in the strategic plan, there will be a need to train about 2,000 workers a year simply to avoid the current capacity backlog not getting worse.

This is an opportunity to design an intervention that will have positive impacts that are felt beyond the tourist sector. For Cape Verde to develop the human resources to support the vision of a off-shore service economy, there is an urgent need to improve awareness of the European markets, language and management skills - whether the beneficiaries will find occupations in tourism or financial or health services. The potential role of members of the diaspora in supporting this initiative would be considerable.

There is a real danger if this opportunity to transform the labour force is shirked. At senior levels the international market will continue to provide the management of tourism infrastructure. At junior levels, the ability of migrant workers from ECOWAS to move into semi-skilled occupations in large numbers, putting downward pressure on wages and therefore encouraging an exodus of Cape Verdean labour has been demonstrated in the construction sector. This will not only reduce one of the major

benefits of tourism to Cape Verde but will also encourage the kind of low quality and low wage tourist economy that stakeholders in the tourist industry fear.

Recommendation 25: *Must have a broad educational drive to support transformation from a subsistence economy to an outward orientated service economy. This should focus on language and management skills with a strong programme of encouraging knowledge and appreciation of external markets.*

Marketing

Tour operators are highly skilled at promoting tourism services. But they restrict their promotion to the form of tourism that they recognise and offer – which in Cape Verde is currently mainly a middle range sun and sea experience.

Until recently this was not a major problem, as this was the only product that Cape Verde could offer to the market. However, with the opening of international airports at Boa Vista, Santiago and Sao Vicente and the development of domestic and diaspora tourism – there are some interesting markets developing which are less conventional. In particular, the scope for cultural tourism has been greatly enhanced with the upgrading of the airport to international standards in Mindelo and Praia.

The diaspora are becoming an increasingly significant group of stakeholders as tourists, as investors and as a group of people who could bring scarce skills and knowledge from international markets back to Cape Verde.

Recommendation 26: *DG Tourism, in consultation with the private sector, develop a marketing strategy to promote the changing face of Cape Verdean tourism to tour operators, the diaspora and domestic tourists.*

Competing models of tourist development?

Cape Verde offers a number of competing models of tourist development across the different islands. These are characterised as the:

- Sal model of unregulated sun and sea tourism;
- Boa Vista model of more upmarket sun and sea tourism;
- Cultural tourism in Praia and Sao Vicente; and
- Community-based tourism in Santo Antao.

The most important point is that these are different forms of tourism but not necessarily competing ones. For instance, until the development of alternative international airports, Sal had a vital role as a distribution hub for all foreign tourists flying into Cape Verde. So all parts of the tourism system depend upon the other parts functioning. Even now with the air transport infrastructure improvements on the other islands, Sal is likely to generate a large numbers of excursions to Sao Vicente simply because this island will remain the tourism hub of Cape Verde for some time yet.

Similarly, community-based tourism initiatives in Saint Antao are likely to be very dependent upon the international airport at Sao Vicente as the key distribution channel for tourists.

The Sal model of tourist development is widely-regarded in Cape Verde as a mistake. There are legitimate concerns about the environmental impact of seemingly haphazard, large-scale, duty-free tourist resorts. However, the analysis in Section 4

found that this type of development does bring significant benefits to Cape Verde and people from poor backgrounds. In addition, the scale and speed of tourist development in Sal has encouraged mainstream tour operators and scheduled flights to start operations in Cape Verde. Without these mass distribution channels, there is little chance that tourism in Cape Verde would have developed at the rate experienced and begun to transform the economy in a meaningful way. In turn, this would have made justifying the public and private sector investments to disperse tourism activity away from Sal difficult to sustain.

The Boa Vista model marks a significant improvement on the Sal model in terms of the development process itself. The compulsory purchase of land in tourism zones and the centralisation of development control decisions in central government may be a pragmatic response to the need for rapid implementation of projects. However, it is provocative for local government and communities and – as tourist stakeholders are finding in Sal – trying to develop a long-term relationship with an alienated municipality is a challenge. The increased emphasis on master planning and environmental standards by STDBVM is also welcome, although whether this will actually change the pattern of development remains to be seen. The facilitation of direct community benefits from tourist developers to the local community on Boa Vista is an important positive feature of the STDBVM model. Almost all tourist stakeholders in Sal suggested such an approach because it provides some social licence for tourist companies to operate and provides the basis for a good relationship to develop between tourism product owners and local government.

Cultural tourism is a broad label in Cape Verde and tends to be applied to tourism that looks different from Sal and Boa Vista. Cultural tourism takes place in locations such as Sao Vicente and Praia which are major concentrations of urban Cape Verdeans. Because of this there are facilities such as restaurants, music clubs and historical sites that already exist and are attractive to tourists – rather than having to create attractions to lure tourists out of their resorts. The promise of cultural tourism is that it will present a tourist product with the Cape Verdeans in it. It certainly should present a picture of tourism that is distinctively Cape Verdean and more attractive to a segment of the traditional source markets than another sun and sand experience just beyond the Eurozone. The development of this type of tourism may, however, generate its own paradoxes. For instance, the local economic linkages between tourists and the local community are likely to be stronger in a location like Mindelo where there is a local economy that pre-dated tourism than on a remote sandy island, like Sal. However, wage rates are much lower in Sao Vicente than Sal (because workers are not all migrants facing very high costs, as is the case in Sal) – so the importance of the wages of tourist workers may be less significant than in the traditional tourist locations. Also, because of the extent of imports in Cape Verde generally (40% of GDP) it may be that the tourism in Sao Vicente or Praia is rather less embedded in the local economy than stakeholders may think.

Finally, community based tourism is not the panacea for tourism in Cape Verde. There certainly are impressive examples of NGO-supported community schemes on Santo Antao (the Atilier Mar project in Lajedos) or the more commercially-led Pedracin Village project near Ribeira Grande. The NGO project successfully extract the maximum benefit from relatively modest tourist flows and positively impact upon large number of poor beneficiaries in these very poor rural environments - through village home-stays, the cooking of traditional food and craft sales. There is a great deal to be learned from such projects and elements of them can be applied in completely different contexts.

However, to suggest that community-based tourism is an alternative to mainstream tourism is flawed. Successful community tourism projects need the kind of tourism

flows generated by mainstream tourism and need the physical and distribution infrastructure associated with conventional tourism flows. CBT needs mainstream tourism and visa versa – because local hoteliers and tour operators need well organised community projects as an excursion to offer to their guests. Finally, and there was insufficient time to assess this hypothesis at Lajedos, but generally CBT schemes tend to benefit communities less in a financial sense than commercial schemes (because 100% of the benefits of a relatively modest CBT project usually amounts to less than, say, 20% local content on a much larger commercial project.

More successful than trying to create an ‘alternative’ form of tourism in the form of CBT is likely to be the adoption of more modest initiatives designed to make incremental changes to mainstream tourist flows. It is in this light that the Millennium Challenge Fund linkage programme should be viewed. This initiative seeks to facilitate linkages between large tourism operators and Cape Verdean businesses through a range of demand and supply side interventions and establishing a linkage unit to facilitate the interface between supply and demand¹⁶.

Similarly, the World Hotel Link is an intervention which provides a direct linkage between the international independent traveller and Cape Verdean-owned accommodation providers¹⁷. Here the focus is on improving benefit and local content through a broad range of different types of accommodation – rather than finding a single ‘magic wand’ solution.

6. Recommendations

¹⁶ IFC (2008) Cape Verde Programme to Mobilise Investment: Tourism Component.

¹⁷ WHL (2007) Mission report for Cape Verde

Annex A: Terms of Reference

INTEGRATED FRAMEWORK FOR TRADE RELATED TECHNICAL ASSISTANCE TO LEAST DEVELOPED COUNTRIES (IF)

UNDP GENEVA
UNDP CAPE VERDE

CONSULTANT TERMS OF REFERENCE

CAPE VERDE DIAGNOSTIC TRADE INTEGRATION STUDY

Subject: Tourism Consultant

I. BACKGROUND

The IF process. The Integrated Framework (IF) has two major objectives: (i) to mainstream trade into LDCs' national development plans and the poverty reduction strategies and (ii) to assist in the coordinated delivery of trade-related technical assistance in response to meet the trade capacity gaps identified by LDCs.

The main IF collaborating agencies are the International Monetary Fund (IMF), the International Trade Center (ITC), the United Nations Conference for Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the World Bank (WB) and World Trade Organization (WTO).

The first stage of the IF process is the preparation of a Diagnostic Trade Integration Study (DTIS) to provide the analytical basis for setting priorities. The DTIS has a strong emphasis on making trade contribute to poverty reduction and human development.

Cape Verde DTIS. UNDP has been asked to take the lead in assisting the government of Cape Verde in conducting this study, in coordination with the IF agencies and interested donors.

A preliminary mission was held in September 2007 to discuss government priorities and to consult stakeholders in order to prepare an Aide Memoire. A Concept Note, which sets out the specific focus and scope of the Cape Verde DTIS, was subsequently drafted and reviewed by Government (November 2007). The agreed Concept Note will be posted on the IF website. The Preliminary Table of Contents of the DTIS is in Annex I.

The main mission (lasting 8-10 days) will be organized (tentative date 12-19 April 2008) in order to consult with stakeholders in the field, gather additional information (complementing what is already available beforehand) and conduct analysis. The draft DTIS report will be discussed with the government, IF agencies and donors, and once it has been finalized, a national validation workshop will be held with the stakeholders. Implementation is scheduled to start in January 2009.

Tourism in Cape Verde. *Cape Verde is between 4 and 6 hours' flight from Europe, the largest potential tourist market in the world, and from which most of the tourists to Cape Verde presently come. The islands have a pleasant climate all year round and are outside the hurricane belt. Several islands, in particular Sal, Boavista and Maio, have beautiful white sandy beaches and what many consider to be among the best windsurfing waters in the world. Cape Verde has a friendly population, a certain cultural appeal as the starting point of Portuguese exploration of Africa, as well as a rich musical heritage.*

Recovering quickly from the 9/11 effect, tourism has already overtaken remittances (and ODA) as a foreign exchange earner. It is fast becoming the backbone of the Cape Verdian

economy, with a pluri-sectoral dimension. In contrast with the sluggishness or stagnation of almost all other productive sectors, it is achieving spectacular expansion. Cape Verde received 235,000 tourists in 2005, 26.4 per cent more than 2004. In 2006, the BCV reports that tourist receipts increased by 23 per cent over the previous year, and that tourism sector represented 18 per cent of GDP, 75 per cent of exports of services and more than 95 per cent of foreign investment. A particular feature of tourist development has been investment in real estate which is booming, leading to alleged land speculation.

According to projections, by 2015, the number of tourists would reach one million, contribute 30 per cent to GDP and employ some 53,000 persons. Developing the skills to match this expansion is a challenge. The first Tourism and Hotel school in the country is about to open in 2008. Current threats to tourism are the recent upward trends in drug consumption, urban crime and violence and sexual exploitation. This can be directly linked to both the increased use of Cape Verde as a transit base for international trafficking, and the growing relevance of the tourism itself. There are several good consultants' reports on the Cape Verdian Tourism Industry, which the Government is using to develop a national strategy and plan, through an intensive consultation process with all stakeholders.

II. CONSULTANT TASKS AND DELIVERABLES

Not later than 3 weeks after the DTIS mission, the consultant should produce a report, not longer than 90 pages covering the tourist sector.

The report should investigate:

Tourism contemporary trends: Collate the available information about arrivals and source markets, package arrangements, air access, ownership of tourism plant, length of stay and yield and any tourist attitude data available. Official information should be verified with data from hotels and other sources. This should provide an understanding of what are the drivers of change, how these may operate in the future and what may be the limits to tourist growth

Current / potential linkages: the potential for tourism demand triggering a broader-based expansion across the non-tourist economy through indirect and dynamic effects. It will seek to provide an understanding of what the current linkages are and what are both the realistic developmental impact and also likelihood of success for existing linkages to be deepened or new links made. Linkages would include handicrafts, food processing, other services (including cultural tourism-art, music carnivals).

Pro-poor impact: Provide an assessment of the pro-poor impact of tourism. Document the extent to which poor people (and/or women and/or minority populations) currently benefit from tourism expenditure, and propose an approach to increase the pro-poor impact of tourism, while limiting any undesirable effect (e.g.on the environment).

Enabling Environment: Examine the critical role of the state in influencing the scale and pattern of tourism development. It will deal with the various state initiatives (hotel school, trying to constrain flow of illicit drugs, control of land speculation, environmental and zoning policies) which support a more benign and sustainable pattern of tourist development, and the governance, including institutional environment of the sector. The report should indicate areas where existing policy is flawed (or lacking) and where there is an inappropriate use of time and effort.

On the basis of a situation analysis, including working with government and stakeholders to understand their approach and ideas, the report should make recommendations on how to develop the realistic potential of the sector and to improve linkages between tourism and the local economy – and then develop a programme to support to help these potentials to be realised.

These recommendations may be in the form of improved governance, exploiting Cape Verde's network and strategic relationships, human capacity building, and infrastructure.

At the end of the report should contain a portfolio of feasible interventions, including a list of up to 12 concrete, executable recommendations, with some prioritizing. The recommendations should bear in mind both potential and ease of implementation to avoid an undue focus on interventions that would be developmentally very significant but are very difficult and time consuming to operationalise.

These recommendations should take into account ongoing support (and expected pipeline) from donors. Whenever possible, the approximate cost of recommendations and time frame for implementation should be mentioned, as well as possible partners (or agencies) that might be expected to intervene.

The analysis should not repeat in descriptive manner well-known facts (archipelagic character of the country, diaspora living abroad, etc...).

Preparation of the report will involve:

Before the DTIS mission, obtaining available data and assessing existing work done in this area in Cape Verde. (Some info is on the web. Help with a bibliography of studies and key policy documents will be provided by the IF focal point/team leader/local consultant). The report should build as much as possible on existing work and reports regarding tourism in Cape Verde, and avoid duplicating.

In Cape Verde, completing the gathering of the most recent data and documentation; discussing priorities, approaches and ideas with relevant stakeholders, in Government, the business sector, the União Nacional dos Operadores Turísticos de Cabo Verde (UNOTUR), and directly interested donors. so as to develop a portfolio of feasible interventions .(May need to travel outside Santiago).

7-9 days mission to Cape Verde with DTIS team. Work prior to the mission: briefing/consultation. Subsequent report writing; further analysis and/or changes as requested by the DTIS Team Leader.

Annex B: Stakeholders consulted

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Boa Vista		
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Victor de Figueiredo	GM Djadsal Holiday Club Hotel	Vfigueiredo@hoteldjadsal.com
Sao Vincente		
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Other		
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Annex C: Hotel survey

Interviewer / date:

Interviewee / Job Title / Mobile Telephone #

Hotel / Lodge Name Quality Rating No. Rooms No. Beds

Staff Numbers:

Grade:	Low Season Nos. FTE Staff	High Season Nos. FTE Staff	Monthly Salary Average (US\$)
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Managerial

Other

Total

Any expatriate workers?

Typical tips as % of contracted salary for hotel staff % of total salary

Occupancy:

Figures for 2007	Low Season 2007 %	High Season 2007 %	Average for 2007 %
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Room occupancy

What % of your guests are from:

Domestic residents)	(incl. European (details)	Other international	Total
			100%

Breakdown of non-African international to EU / USA / Other.....

Tour Operators:

What Operators does hotel work with?

% of total business contracted from tour operators

Typical prices standard room:	for	Independent: US\$ per room per day	Package: US\$ per room per day
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High Season

Low Season

Average for 2008

Comments about room rate negotiations with tour operators:

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Cost Structure of Hotel Operations:

	% of total operating costs (if financial figures not given)	% of good by value from:		
		Specific island	Cape Verde	Elsewhere (details)
Staff	%	%	%	%
Power & utilities (electricity, gas, water & sewerage)	%	%	%	%
Food & Beverages	%	%	%	%
Utilities	%			
Other	%			
Total Costs				

Furniture and equipment expenditure & plans:

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Revenue:

2005:		Revenue:
Room revenue	\$	
Food & beverages	\$	
Other	\$	
Total (or just total if all inclusive service provided)	\$	

Ideas about how to increase local linkages...?

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Thank you!

Annex D: