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**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**PROGRAM DOCUMENT**

**FOR A**

**PROPOSED FIRST POVERTY REDUCTION SUPPORT CREDIT**

**IN THE AMOUNT OF SDR 9.7 MILLION**

**(US\$15 MILLION EQUIVALENT)**

**TO THE REPUBLIC OF CAPE VERDE**

**January 26, 2005**

**Human Development 2 (AFTH2)  
Public Sector Reform and Capacity Building (AFTPR)  
Africa Poverty Reduction and Economic Management, Poverty Reduction and  
Economic Management - (AFTP4)  
Country Department 14  
Africa Region**

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US\$1 = 85 ECV (September 2004)

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**ABBREVIATIONS AND ACRONYMS**

ADB	African Development Bank
ADR	Alternative Dispute Resolution
AGECABO	<i>Agência Cabo-Verdiana de Promoção do Emprego e do Desenvolvimento Local</i> (Agency for Promotion of Employment and Local Development)
AP	<i>Administração Pública</i> (Public Administration)
BDEO	<i>Base do Dados Estatísticos e Operacionais</i> (Statistical Data Base)
CAS	Country Assistance Strategy
CBOs	Community Based Organizations
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Review
CPIA	Country Policy and Institutional Assessment
GPRSP	Document for Economic Growth and Poverty Reduction (PRSP)
DECRP	<i>Documento de Estratégia de Crescimento e de Redução da Pobreza</i> (Growth and Poverty Reduction Strategy) - also referred to with English acronym, GPRSP
DGAM	General Directorate for Asset Management at the MOFP
DGCI	General Directorate for Income Tax
DGP	General Directorate for Planning
DPR	Development Policy Review
EFA	Education for All
ESP	Education Strategic Plan
ESW	Economic and Sector Work
EU	European Union
FAIMO	<i>Frente de Alta Intensidade de Mão de Obra</i> (labor-intensive public works)
FMS	Financial Management System
GCP	Growth and Competitiveness Project
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GNFS	Goods and Non-Factor Services
GOP	<i>Grandes Opções do Plano</i> (Major Planning Options)
GPRSP	Growth and Poverty Reduction Strategy Paper - also referred to with Portuguese acronym DECRP
HIV/AIDS	Human Immune-deficiency Virus/Acquired Immune Deficient Syndrome
IBRD	International Bank for Reconstruction and Development
IEFP	Professional Training and Employment Institute
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IGF	<i>Inspecção Geral das Finanças</i> (General Inspectorate for Finances)
ILO	International Labor Office
IMF	International Monetary Fund
INE	<i>Instituto Nacional de Estatísticas</i> (National Statistics Institute)
INPS	<i>Instituto Nacional da Previdência Social</i> (National Institute for Social Protection)
ICA	Investment Climate Assessment
IT	Information Technology

## FOR OFFICIAL USE ONLY

JSA	Joint Staff Assessment
MCA	Millennium Challenge Account
MDGs	Millennium Development Goals
MFA	Ministry of Foreign Affairs
MIGA	Multilateral Investment Guarantee Agency
MIT	Ministry of Infrastructure and Transport
MOFP	Ministry of Finance and Planning
MOE	Ministry of Education
MOH	Ministry of Health
MSHARP	Multi-Sectoral HIV-AIDS Response Project
MREAP	<i>Ministério da Reforma do Estado e Administração Pública</i> (Ministry for State Reform and Public Administration)
MTEF	Medium-Term Expenditure Framework
MTS	<i>Ministério do Trabalho e Solidariedade</i> (Ministry of Labor and Solidarity)
NDP	National Development Plan
NGOs	Non Governmental Organizations
NOSI	<i>Núcleo Operacional da Sociedade da Informação</i> (Operational Nucleus for Information Systems)
OPCS	Operational Policies and Country Services
PA	Poverty Assessment
PANA	<i>Programa de Acção Nacional para o Ambiente</i> (National Environmental Action Plan)
PCCS	<i>Plano dos Cargos, Carreiras e Salários</i> (Career and Salary System)
PEM	Public Expenditure Management
PER	Public Expenditure Review
PIU	Project Implementation Unit
PRCBWE	Privatization and Regulatory Capacity Building and Water and Energy
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PRSPS	<i>Programa – Reformar o Sistema para Promover a Saúde</i> (Health Reform Strategy)
PSM	<i>Pensão Social Mínima</i> (Minimum Social Pension)
PTAP	Privatization Technical Assistance Project
SAC	Structural Adjustment Credit
SDR	Special Drawing Rights
SME	Small and Medium Enterprises
SMP	Statistical Master Plan
SSDP	Social Sector Development Project
TACV	<i>Transportes Aéreos de Cabo Verde</i> (Cape Verde Airlines)
STAD	<i>Secretariado Técnico de Apoio ao Desenvolvimento</i> (Technical Secretariat for Development Assistance)
TdC	<i>Tribunal de Contas</i> (Independent General Audit Office)
UNDP	United Nations Development Programme
VAT	Value Added Tax
WBI	World Bank Institute
WTO	World Trade Organization

Vice President:	Gobind T. Nankani
Country Director:	Madani M. Tall
Sector Director:	Dzinai B. Mutumbuka, Acting
Sector Manager:	Alexandre V. Abrantes (AFTH2), Helga W. Muller (AFTPR), Robert R. Blake (AFTP4)
Task Team Leaders:	Helene Grandvoinet (AFTPR) Julie Van Domelen (AFTH2) Jean Van Houtte (AFTP4)

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**THE REPUBLIC OF CAPE VERDE**  
**FIRST POVERTY REDUCTION SUPPORT CREDIT**

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<sup>1</sup> The PRSC team is co-led by Julie Van Domelen (AFTH2 co-TTL), Helene Grandvoinet (AFTPR co-TTL) and Jean van Houtte (AFTP4 co-TTL) and comprised of Beatrice Alperte (AFTPR), Johanne Angers, Michael Drabble, Geraldo Martins, Laura Rose (AFTH2), Soukeyna Kane, Fily Sissoko (AFTFM), Ghislaine Delaine (AFTQK), Laurent Mehdi Brito, Bourama Diaite (AFTPC), Markus Repnik, John Factora (OPCCS), Isabella Micali-Drossos, (LEGLA), Eduardo Brito (LEGAF), Suzane Morris (LOAG2) and Suzanne Otis (HRSLO). PRSC Peer reviewers are: Shanta Devarajan (SARVP), Phillip Goldman (ECSHD) and Catherine Laurent (MNSD). Astou Diaw-Ba (AFTSN) and Renata d'Almeida Maia (AFTH2) are team assistants.

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**Map of Cape Verde (IBRD 33383)**

**THE REPUBLIC OF CAPE VERDE**  
**FIRST POVERTY REDUCTION SUPPORT CREDIT**

**Credit and Program Summary**

<b>Borrower:</b>	The Republic of Cape Verde
<b>Amount:</b>	SDR 9.7 million (US\$15 million equivalent)
<b>Terms:</b>	Standard IDA terms: 40-year maturity with a 10-year grace period
<b>Description:</b>	<p>The Poverty Reduction Support Credit (PRSC-1) will support the implementation of Cape Verde’s Growth and Poverty Reduction Strategy (GPRSP). This one-tranche operation would be the first of a planned series of three annual PRSCs. The financial support provided through the PRSC will narrow the gap between the cost of implementing key elements of the GPRSP and resources available from Government’s own domestic revenues and other donor support. A policy dialogue and results-based framework under PRSC-1 will focus on the following pillars of the GPRSP: (i) promote good governance, (ii) develop human capital in the areas of education and health, and (iii) improve the effectiveness and sustainability of the social protection system.</p>
<b>Benefits:</b>	<p>In terms of benefits, the value added of the PRSC lies in both the nature of the instrument and the results that are expected: (i) improved functioning of national budget systems, (ii) reduced transaction costs and distortions due to international assistance, (iii) better linkages between sectors and cross-cutting issues, (iv) improved service delivery for the poor, and (v) improved well-being of the population.</p>
<b>Risks:</b>	<p>There are several risks associated with PRSC-1: (i) macroeconomic shocks could undermine stability and growth, (ii) the electoral cycle could bring about fiscal slippages and stall implementation of the more sensitive policy reforms, and (iii) there could be a short-term reduction in aid effectiveness in the shift to using national budget and administrative systems.</p>
<b>Estimated Disbursements:</b>	SDR 9.7 million (US\$15 million equivalent) will be disbursed upon Credit effectiveness.
<b>Project ID Number:</b>	P078860





**INTERNATIONAL DEVELOPMENT ASSOCIATION  
PROGRAM DOCUMENT FOR A PROPOSED  
FIRST POVERTY REDUCTION SUPPORT CREDIT  
TO THE REPUBLIC OF CAPE VERDE**

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**I. INTRODUCTION**

1. The proposed Poverty Reduction Support Credit (PRSC-1) to Cape Verde for SDR 9.7 million (US\$15 million equivalent) on standard International Development Association (IDA) terms supports the implementation of the Government's poverty reduction strategy, as presented in the document Growth and Poverty Reduction Strategy Paper (GPRSP)<sup>2</sup> and summarized in the Letter of Development Policy in Annex 1. PRSC-1 is the first in a series of three annual single-tranche operations.

2. The proposed PRSC-1 is a response to the Government's request for their external partners to align with national strategies and systems for poverty reduction, as agreed at the Donor's Roundtable Meeting in Praia, in April 2003. The move to supporting poverty reduction through programmatic lending is consistent with Cape Verde's level of institutional, economic and political development and acknowledges the country's strong and sustained performance in recent years.

3. The reform program associated with this operation is at the core of IDA's FY05-08 Country Assistance Strategy (CAS).<sup>3</sup> The PRSC series would account for about 60 percent of proposed base case and high case new IDA lending over the next four years. The CAS will maintain flexibility to employ other Bank instruments in support of the GPRSP, such as sectoral investment projects in transport, infrastructure and HIV/AIDS, notably.

4. As agreed during regional review, the proposed operation of SDR 9.7 million (US\$15 million equivalent) is above the IDA ceiling for the country. This is justified by its specificity as a small island economy, its consistently high CPIA ratings, and the opportunity of programmatic lending to serve as a key leverage for donor coordination.

5. The objective of the project is to support the Government to (a) meet the objectives of its GPRSP; and (b) improve the efficiency, effectiveness and transparency of the national budget process as the central mechanism for channeling resources toward poverty reduction. The proposed PRSC would engage the Bank in policy and technical dialogue in three of the five pillars of the GPRSP, based on division of labor with other IDA and donor projects and comparative advantage of the PRSC:

- (a) Promote good governance, reinforcing effectiveness and guaranteeing equity – centered on reforms in public expenditure management, civil service, the judiciary and decentralization;
- (b) Develop and enhance human capital, with a focus on health and education; and
- (c) Strengthen the effectiveness and sustainability of the social protection system.

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<sup>2</sup> A draft GPRSP was presented in April 2004 and the final version transmitted in September 2004.

<sup>3</sup> FY05 – to be presented to the Board together with this operation.

## **II. RECENT PROGRESS AND KEY DEVELOPMENT CHALLENGES**

### **A. Country Overview**

6. Cape Verde is a small Portuguese-speaking archipelago located off the coast of West Africa. Half of the total population of 450,000 lives on the island of Santiago, of which half lives in the capital city, Praia. Due to the country's Sahelian climate, the rural economy frequently suffers from drought and only one-tenth of the land is arable. The vulnerabilities of its ecological base and the related devastating famines have led to a history of out-migration, with a large diaspora residing in Europe and the U.S.A.

7. Cape Verde is a success story among African nations.<sup>4</sup> Following a shift from a socialist to a market-oriented model in the late 1980s, Cape Verde's growth performance has raised it to the ranks of lower middle income countries, with a GNI per capita of US\$ 1,400 in 2002. Recent economic growth of around 4 percent per capita has been sustained through public and private investment based on high levels of donor support, strong private capital flows and remittances. This growth has enabled poverty to decline by one-fourth over the last decade. The index of human development has increased from 0.59 in 1990 to 0.67 in 2003. Literacy rates are high and life expectancy at birth is the third highest in Africa.

8. Political openness has accompanied this economic and social progress. Since the adoption of a multi-party system in 1991, there have been three national elections and two orderly changes in government. A free press and media further support the building of an open society. The next presidential elections will be in early 2006.

9. But challenges remain. As a small, open economy, Cape Verde's vulnerabilities to external shocks are high. The country relies heavily on remittances and foreign aid. Despite improvements in the unemployment rate in the 1990s, unemployment remains stubbornly high at about 17 percent. Income inequality has risen and is generally worse than in countries of comparable income levels, creating a potential drag on growth and threatening social cohesion. Geographical dispersion drives internal inequities and raises the cost of service delivery. As rural populations flee entrenched poverty, urbanization is causing increasing social ills and puts pressure on basic services. Overall, the ecological capacity to support large-scale expansion in tourism, industry and construction may be at risk if not adequately managed.

### **B. Macroeconomic and Fiscal Performance**

10. Recent macroeconomic performance has been favorable. Table 1 presents selected economic indicators. Despite a drastic fiscal contraction in 2001 to reassert control over public expenditure after pre-election over-spending, annual growth has remained above 4 percent. The current account deficit remains stable since 2001, reflecting effective demand management, low import growth, sustained inflows of remittances of almost 20 percent of GDP, and better management of the country's

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<sup>4</sup>See "Cape Verde at a Glance", Annex 2.

exposure to external shocks like oil price increases. Foreign direct investment and donor disbursements have also helped to increase reserves at the Central Bank to 2 months of imports, higher than the original target for the three-year PRGF program.

**Table 1: Selected Economic Indicators**

	1999	2000	2001	2002	2003
<b>Annual average inflation (%)</b>	4.4	-2.4	3.8	1.8	3.0
<b>National Accounts (growth rates, %)</b>					
Agriculture	27.3	3.9	3.3	2.5	3.2
Industry	2.6	2.4	4.3	3.5	4.2
Services	2.6	2.4	4.3	3.5	4.2
GDP at market prices	8.6	6.6	5.1	4.3	5.0
Real per capita GDP	6.6	4.6	3.1	2.3	3.0
<b>National Accounts (% of GDP at current market prices)</b>					
Gross domestic investment	20.9	19.3	18.3	20.9	20.2
Public investment	14.5	12.5	10.8	13.0	9.8
Private investment	6.4	7.2	7.5	7.9	10.4
Gross domestic savings	-17.6	-13.3	-14.4	-15.0	-14.0
<b>Balance of Payments (% of GDP at current market prices)</b>					
Current account balance (including budgetary and project grants)	-12.4	-11.2	-10.7	-11.2	-10.3
Current account balance (excluding projects grants)	-14.9	-10.6	-10.3	-11.5	-9.7
<b>External Indicators</b>					
Total debt service paid/Exports	20.8	5.3	7.3	6.2	2.3
Gross Official Reserves in months of imports	1.6	1.0	1.4	2.0	2.0
<b>Government finance (% of GDP at current market prices)</b>					
Domestic revenue	26.4 <sup>5</sup>	20.8	21.9	23.1	22.5
Current expenditures	26.6	34.2	21.9	21.3	20.9
Overall fiscal balance excluding capital grants	-14.8	-25.9	-10.9	-9.9	-8.1
Overall fiscal balance including all grants	-9.9	-19.8	-4.8	-2.7	-3.5
External borrowing (net)	2.3	3.8	3.1	1.6	2.6
Domestic borrowing (net)	1.1	14.6	2.0	0.3	1.0
<b>Monetary indicators</b>					
Broad money (M2) (% annual growth)	19.2	12.77	9.8	14.3	7.8
M2/GDP (% of GDP at current market prices)	61.2	65.6	67.5	72.5	72.4
<b>Current social expenditure (% of GDP at current market prices)</b>					
Education	6.9	8.8	8.5	7.9	7.6
Health	2.2	2.4	2.5	2.5	2.8
<b>Memo: GDP at current market prices (billions of LCU)</b>	60.4	63.6	70.5	75.4	81.2
<b>Nominal average exchange rate (LCU per US\$)</b>	102.7	115.9	123.2	117.3	100.0

Sources: World Bank and IMF databases

11. Economic growth for 2004 is projected at 4 percent and inflation is around 1.5 percent. Contrary to most of Sub-Saharan Africa, the economy relies primarily on services, which account for 72 percent of GDP. The main source of growth is expected to be tourism, with increases in related services, such as hotels and restaurants, transport, and communication. The medium-term GDP growth rate is projected at 5 percent with an inflation rate under 2 percent. The current account deficit (excluding

<sup>5</sup> Includes 6.6 percent of GDP from privatizations

grants) is expected to remain steady at 10 percent of GDP, based on continued inflows of remittances and fiscal prudence. However, this scenario could be jeopardized by contingent liabilities of autonomous institutes, State-owned enterprises and utilities.

12. Contingent liabilities may be accumulating in State-owned enterprises, utilities, municipalities or other autonomous public institutions, and there is a risk that the Government may refrain from taking rapid action to curtail their impact on the budget, thus causing (a) diversions of expenditure away from key sectors of intervention, or (b) increased domestic borrowing and crowding out of private sector credit. Either of these developments would affect negatively the medium term fiscal framework and attainment of the Government's poverty reduction objectives.

13. Given its high vulnerability to external shocks, fiscal discipline is central to macroeconomic stability. The fixed exchange rate regime (pegged to the Euro) is one of the mainstays of macroeconomic stability and growth. It contributes to a sound investment climate, and helps sustain the flow of remittances that fuel investments and consumption. However, the regime limits monetary policy, which in turns constrains fiscal policy. Public expenditures are high at 31 percent of GDP in 2003 and conditions do not allow for much room to expand. Fiscal performance has improved markedly since the slippages of 1999/2000. As a result of expenditure cuts and renewed donor engagement, the deficit (including grants) is estimated to be 3.5 percent of GDP in 2003. However, pressure for increased expenditures will come from expansion in secondary education and an aging population that demands health services. Furthermore, space will need to be found for complementary poverty interventions anticipated in the GPRSP in order to alleviate the impact of inequalities and ensure that the poor can engage in the opportunities afforded by economic growth.

### **C. Poverty Trends and Progress Towards the MDGs**

14. With a strong record of economic growth and social investment, Cape Verde is on target to reach most MDGs by 2015 (Table 2). If GDP continues to grow at the same rate, poverty may be reduced by half in 2015. However, the remaining poverty is likely to be more entrenched and growth alone may be insufficient. MDG education targets have already largely been met, and health indicators are on track, with the exception of immunization rates where more efforts are needed. Meeting the provision of water and sanitation will entail significant investment, but urbanization will ease meeting this goal. In all cases, however, overall national progress conceals important geographic variations.

15. The share of the population in poverty has fallen by one-fourth in the 1990s from 49 to 37 percent, with the population in extreme poverty estimated at 21 percent. The share of total household consumption devoted to food was reduced from 50 percent to 35 percent, reflecting a reduction in the number of poor vulnerable to basic food insecurity. However, while poverty was reduced, inequality has increased. The Gini index for per capita expenditure rose from to 0.50 in 1988 to 0.53 in 2002, exacerbating the already high concentration of consumption among the richest.

16. About half of the rural population is poor and about one-quarter of urban dwellers are below the poverty line. The most rural islands, like Santo Antão, Fogo and Brava, have significantly higher poverty rates. They are also the most isolated islands, with especially high transport costs and, for Brava, no regular air links. More limited access to quality education and health care, isolation due to bad roads, and low productivity agriculture contribute to the entrenched nature of rural poverty. At the household level, the main determinants of poverty are size of household, education levels, employment, gender and lack of access to migrant remittances.

**Table 2: Cape Verde's Progress Towards the MDGs**

	1990	1995	2001	2002
<b>1 Eradicate extreme poverty and hunger</b>	2015 target = halve 1990 \$1/day poverty and malnutrition rates			
Population below \$1 a day (%)	49 (1988)	..	..	36.7
Prevalence of child malnutrition (% of children under 5)	16.0	13.5	..	..
<b>2 Achieve universal primary education</b>	2015 target = net enrollment to 100			
Net primary enrollment ratio (% of relevant age group)	71.5	88.2	95.1	95.1
Percentage of cohort reaching grade 5 (%)	64.0	85.0	90	90
Youth literacy rate (% ages 15-24)	81.5	85.0	88.6	89.1
<b>3 Promote gender equality</b>	2015 target = education ratio to 100			
Ratio of girls to boys in primary and secondary education (%)	94.0	94.8	99.0	..
Ratio of young literate females to males (% ages 15-24)	87.5	90.4	93.3	93.8
Share of women employed in the nonagricultural sector (%)	50.0	..	..	..
<b>4 Reduce child mortality</b>	2015 target = reduce 1990 under 5 mortality by two-thirds			
Under 5 mortality rate (per 1,000)	60.0	50.0	40.0	38.0
Infant mortality rate (per 1,000 live births)	45.0	37.0	30.0	29.0
Immunization, measles (% of children under 12 months)	79.0	66.0	72.0	85.0
<b>5 Improve maternal health</b>	2015 target = reduce 1990 maternal mortality by 3/4			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	55.4	76.1	..
Births attended by skilled health staff (% of total)	..	54.0	..	..
<b>6 Combat HIV/AIDS, malaria and other diseases</b>	2015 target = halt, and begin to reverse, AIDS, etc.			
Incidence of tuberculosis (per 100,000 people)	..	60.3	65.8	61.8
Tuberculosis cases detected under DOTS (%)	..	..	40.0	30.6
<b>7 Ensure environmental sustainability</b>				
Access to an improved water source (% of population)	52.0	..	74.0	82.0
Access to improved sanitation (% of population)	..	..	71.0	..
<b>8 Develop a Global Partnership for Development</b>				
Fixed line and mobile telephones (per 1,000 people)	24.1	55.7	214.8	257.7
Personal computers (per 1,000 people)	..	3.7	68.6	79.7

Sources: World Development Indicators database, April 2004, and WB reports. Note: In some cases the data are for earlier or later years than those stated.

## D. Key Development Challenges

### Encourage private sector development

17. The business climate has improved since the early 1990s, but entrepreneurs still face constraints, such as lengthy procedures to establish a business, inadequate infrastructure (e.g., energy, water) and limited access to finance, particularly for small enterprises, agriculture, and fisheries. The banking sector does not appear to face

significant systemic risk, but interest rates remain high at an average 13 percent and competition is limited since the two leading commercial banks hold more than 90 percent of all assets. Small and medium-sized enterprises (SME's), a critical segment for poverty reduction, suffer from well-documented problems in securing access to credit, which typically translate into higher interest rates. To lower the lending rate, the Government is (a) limiting its domestic financing requirements to almost nil for the past two years; (b) promoting financial sector competition by banking with an expanded number of banks; (c) improving contract-enforcement mechanisms; and (d) developing a central credit registry. To improve the creditworthiness of SME's specifically, it is (a) inviting the two chambers of commerce to develop outreach programs to improve the financial literacy of SME's, with a view to opening a bank account, and improving the presentation of their financial information; (b) promoting the use of the banking system to make tax payments; and (c) providing direct support to SME's through a matching grant mechanism, to help strengthen enterprises through technical assistance.

18. Faster progress in implementing key private sector development reforms is crucial. The implementation of the divestiture program remains incomplete. There has been a notable slowdown in pursuing the program during the past five years, and key pending divestitures include EMPROFAC, TACV and the ENAPOR, enterprises involved in drugs and transport services. They constitute fiscal liabilities, and the large annual subsidies to TACV may drain resources from more pro-poor expenditures.

19. Trade policy reforms should continue. Reforms implemented in early 2004 have improved tariff structures and shifted revenue instruments to VAT and excise taxes. Tariffs still remain high by international standards (7 bands between 0 and 50 percent) and contribute to the high cost of economic activity. Further trade liberalization is expected in the context of Cape Verde's accession to WTO.

20. The formal labor market is too rigid. Unions are strong in ports, the public sector and parastatals, transport, and utilities. The effective cost of labor imposed by labor regulations remains excessive and pension and severance provisions hinder flexibility. The Government is drafting a new labor code to improve labor mobility.

### **Improve coverage and management of basic infrastructure**

21. Since Cape Verde consists of sparsely-populated islands, transport and other infrastructure costs are high, which is an issue both for international competitiveness and for the cost of living of the population within the country. The introduction of private participation in all infrastructure sectors has improved service delivery, even though more remote communities continue to face access problems, particularly in the mountainous interior of some of the larger islands. Since privatization, teledensity has increased and water generation and distribution has expanded. However, partly reflecting the small and segmented domestic market, the cost of these services is quite high. Despite IDA support, efforts have yet to yield an effective utility regulation mechanism. This is due to some politicization of the process as well as indecision on the appropriate institutional arrangements.

## Improve the efficiency and effectiveness of the public sector

22. With respect to governance, the country receives relatively high marks for political stability, rule of law, and voice and accountability, while further efforts are needed in other areas, such as Government effectiveness and quality of the regulatory regime. Of note, unlike in many countries in the sub-region, the residents of Cape Verde do not perceive corruption as a major issue, as shown in the 2004 Afrobarometer surveys.<sup>6</sup> In addition analysis by WBI<sup>7</sup> shows that the control of corruption in Cape Verde is about twice higher than other sub-Saharan countries, and converging towards European norms. Despite difficulties with the implementation of financial management procedures, including delays in the annual review of general accounts of the State by the *Tribunal das Contas* (TdC, Auditor General Office), public monies appear to have been managed transparently, and in the general interest. This perception of low corruption is corroborated by budget execution figures that are close to original allocations, little divergence between the State's accounts, its log of treasury operations, and the record of transactions on its account at the Central Bank, and general information gathered from private and public sector operators. Nonetheless, the public finance reforms proposed will further reinforce transparency.

23. Recent analysis (CFAA, PER and CPAR) confirms the general soundness of public expenditure management, although its underlying systems need improvement and modernization in key areas, such as: (a) further integrating investment and expenditure budgets, developing a Medium-Term Expenditure Framework (MTEF) to guide resource allocation and linking sector budgets to programmatic outcomes, (b) reinforcing financial controls, including more timely audits, (c) more effective tax administration through improved information management; (d) development of adequate procurement legislation; and (e) control of contingent liabilities.

24. The central Government generally has a strong record of delivering a good mix of quality and quantity of public services. While the need for decentralization in a population of 450,000 may not be immediately obvious, the island structure of Cape Verde, including four islands with under 15,000 population calls for moving the locus of decision-making and monitoring of service provision to the local level. Current proposals for strengthening decentralization to the municipalities underpin the intended goal to further improve policy responsiveness and implementation, as well as increase citizen access to information in order to increase local accountability.

25. A top priority of the Government will be to integrate public sector reform priorities focused on the main bottlenecks to a modern administration. In the absence of such an integrated strategy, ad-hoc institutional reforms are threatening the ability of the Government to coordinate its actions and undermining accountability, as is the case with the proliferation of autonomous institutions with specific missions and their own revenue streams, and the creation of special frameworks to retain critical staff, instead

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<sup>6</sup> Afrobarometer, Working Paper No. 34, March 2004

<sup>7</sup> D. Kaufmann, A. Kraay, and M. Mastruzzi 2003: Governance Matters III: Governance Indicators for 1996-2002.

of a more comprehensive civil service reform. Another priority will be to raise citizen awareness of and access to the judicial system, particularly for the poor, and to develop alternative dispute resolution mechanisms to improve efficiency of the overall legal and judicial system.

### **Develop human capital**

26. The Government sees expansion in access to and improved quality of educational opportunities as central to long-term poverty reduction. Demand for pre-school is very high, with positive impacts both of child development and women's potential access to the labor market. Universal enrollment at the primary level has created a surge in demand for secondary education. Enrollment figures in secondary increased three-fold from 16,000 in 1994 to about 50,000 students in 2002-2003, a figure that is expected to grow to 64,000 in 2009/2010. While the Government has instituted fees for secondary education, its unit costs are more than 2.5 times that of primary education. Expanding access to both pre-school and tertiary education will further test the financial framework of the sector. Revamping professional training and the apprenticeship system is important for providing opportunities of further education to a growing number of students who only completed primary education and do not have the skills needed to enter the job market.

27. Despite impressive strides in health outcomes, such as the eradication of many contagious diseases that undermine development on the African continent, non-communicable diseases are becoming more prevalent, and claim an increasing share of the health care budget. This strains the financial sustainability of the health system. The main challenges for the Government will be to develop a sustainable health financing framework including expansion of insurance coverage, and address inequities in access to services including medicines for the poor.

### **Create a sustainable social protection system**

28. A further challenge will be to reduce vulnerability and social exclusion, particularly among those least able to avoid or cope with shocks. The long-term risk of drought has led generations of Cape Verdians to mitigate this risk through labor migrations. The remaining rural population has been supported by labor-intensive public works schemes (FAIMO - *Frente de Alta Intensidade de Mão de Obra*), but the system requires reform to create a springboard out of poverty through better accumulation of skills, stimulus of the private sector, more efficient and transparent management, and increased impact of infrastructure created to boost rural productivity and access to services. Management of risks to health, livelihood and access to services by vulnerable groups (e.g., elderly, children and youth at risk, and single mothers) are addressed through a patchwork of social assistance programs by both public and NGO providers, with little overall coordination of the quality, targeting or impact of these services. In terms of formal social security systems, the aging ex-FAIMO workforce and indigent elderly have selective access to small pensions through non-contributory schemes and formal sector workers and civil servants through contributory schemes. Coverage is limited and targeting of the non-contributory scheme needs improvement.



Pensioners in the contributory schemes enjoy generous entitlements, but both schemes require changes to make them sustainable given Cape Verde's demographic evolution.

### **III. CAPE VERDE'S POVERTY REDUCTION STRATEGY (2005-2007)**

#### **A. The Government's Strategy to Reduce Poverty**

29. Cape Verde's GPRSP (2005-2007) final version in Portuguese (*Documento Estratégico de Crescimento e Redução da Pobreza - DECRP*) was received by IDA on September 21, 2004.<sup>8</sup> The GPRSP builds on a well-articulated set of strategies and priorities that address Cape Verde's main development challenges. These policy documents include: (a) the Major Planning Options (GOP - approved in 2001); (b) the 2002-2005 National Development Plan (NDP - approved in April 2003); and (c) an Interim Poverty Reduction Strategy Paper (PRSP - presented to IDA's Board in April 2002). Based on the strategic principles outlined in the GOP, the NDP proposes a series of specific policy measures, monitorable indicators and a detailed investment program. The GPRSP complements the policy coverage of the NDP with an emphasis on core actions to support poverty reduction and extends the time horizon. The GPRSP rests on an updated analysis of poverty based on the 2002 national household income and expenditure survey.

30. The GPRSP acknowledges that growth is central to the alleviation of poverty, and therefore complements its proposals for sector strategies with a direct impact on poverty (e.g. health, education, social security interventions) with strategies promoting private sector development (e.g. infrastructure, financial sector). The GPRSP underscores the importance of a modernized and effective administration to implement its priority programs. The priorities of the Government are presented along five major axes of intervention (or "pillars"): (a) good governance and reform of the State; (b) private sector development; (c) human development; (iv) infrastructure development for the integration of the archipelago; and (d) social security and solidarity.

31. The first pillar aims to improve on governance by modernizing government procedures and institutions and increasing its interface with citizens. Accountability and equity will be enhanced through more direct participation of citizens, better financial management practices, improvements in tax policies, a firmer regulatory role in the economy, judicial reform, simplified administrative procedures, expanded use of information technology (IT), and increased decentralization of responsibilities and resources. The GPRSP discusses a broad reform agenda and refers explicitly to the recommendations of the CFAA, PER, and CPAR.

32. The second pillar reflects the Government's acknowledgement that fighting poverty requires economic growth, built on sound and sustainable development of the private sector. The proposed policy interventions focus on the sectors with potential to

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<sup>8</sup> In April 2004, staff had the opportunity to discuss a first draft of the GPRSP which informed the preparation of the PRSP, as well as an unofficial final version transmitted to the World Bank in July 2004.

generate employment and reduce poverty. Employment policy would benefit from improved labor market conditions; market failures in micro-enterprise financing would be addressed; drip irrigation technology would be disseminated to improve agriculture productivity; infrastructure in the fisheries sector would be modernized; and tourism marketing and basic infrastructure development would be enhanced.

33. The third pillar, human development, seeks to improve the education and health status of the population. Aligned with its Education Reform Strategy, the GPRSP aims to improve the employability and skills of the labor force to support economic growth and alleviate poverty in Cape Verde. In particular, the Government seeks to: (a) reduce barriers that prevent the poorest from accessing secondary education; (b) increase the education system's internal efficiency; (c) reinforce linkages between the education system and the labor market by ensuring that the skills and knowledge acquired are those needed by the economy; (d) expand access to early childhood education; and (e) develop tertiary education, in particular supporting science and technology, thus contributing to creating the skill levels needed for highly qualified jobs.

34. In the case of health policy, the Government's sectoral reform strategy (*Programa – Reformar o Sistema para Promover a Saúde 2002-2005*), has been summarized in the GPRSP, and identifies several priorities which together are assumed to have a significant impact on poverty. Mindful of increasing costs, health care will focus on an expansion of the network of health facilities, limit treatment overseas by improving local alternatives, improve human resource management through decentralization, strengthen health information system, and reinforce citizen participation in health promotion and disease prevention. Health financing issues will be addressed in the planned reforms of the social insurance system.

35. The fourth pillar, infrastructure and regional development, is central to Cape Verde's development plans. Although private sector development has outpaced public sector growth in the past 12 years, large infrastructure projects have remained prominent with either public or private financing. Energy, water and sanitation are expected to expand their networks through a public/private partnership. Air and maritime transportation are the focus of a domestic and regional hub strategy, while the road network will be strengthened with user-financed maintenance. This pillar also proposes to develop environmental protection and conservation measures, to be implemented through increased community involvement.

36. The fifth pillar, social protection, reflects the challenges of curbing the increasing income inequality and the growing realization that existing schemes in the area of active labor market interventions, social assistance, pensions and social security, community development and food security require reforms to ensure sustainability and broaden coverage. The Government's reform strategy seeks to move from the more reactive, coping strategies of the past to increased attention to risk mitigation and prevention measures, and to decentralize and contract out service delivery in line with the broader reforms of the State underway in Cape Verde. The GPRSP prioritizes five medium-term objectives that support the reform strategies underway, namely: (a) developing institutional capacity in social protection, (b) strengthening and extending programs that reach disadvantaged groups (including social pensions, social

assistance and health insurance programs); (c) promoting local initiatives and community development; (d) promoting the rights of children, and (e) improving mechanisms to prevent and manage food crises and strengthen food security.

37. For each of these pillars, the GPRSP provides a cost estimate (above current allocations) over the next three years: US\$459 million, of which 4 percent is allocated to governance, 14 percent to private sector development, 19 percent to the social sectors, 51 percent to infrastructure, and 13 percent to social protection.

38. The macroeconomic framework of Cape Verde's GPRSP proposes an average real economic growth of 6.5 percent per annum over the 2005-2007 period, with inflation projected at 2 percent (in line with euro zone projections, due to the fixed exchange rate regime). Most of the additional growth in the short term is expected to come from higher investment levels. Public investment is expected to increase by 1.6 percent of GDP to 7.1 percent through the GPRSP period. Private investment including foreign direct investment is projected to increase from 14.7 percent of GDP in 2004 to 16.0 percent by the end of the GPRSP period. In the longer term, investment-driven growth should gradually make way for export-driven growth. Exports GNFS should gradually increase to more than 38 percent of GDP, up from the current figure of 30 percent. Fiscal discipline will underpin private sector confidence. The deficit (after grants) is expected to grow to no more than 4.8 percent of GDP, with some of the programmed expenditure only occurring if external financing materializes.

39. Overall coordination is overseen by a GPRSP Coordinating Commission comprised of representatives from ministries, municipal governments, the central bank, the National Statistics Institute, the private sector and NGOs. Consultative commissions at the decentralized level are headed by mayors. The Technical Secretariat to Support Development (*Secretariado Técnico de Apoio ao Desenvolvimento* - STAD) under the General Direction of Planning has day-to-day responsibilities to provide technical guidance, monitor program performance including reporting on the core set of monitoring indicators, and inform internal and external partners of progress.

40. The GPRSP has provided an opportunity for Cape Verde to develop a national integrated approach to monitoring and evaluation, control, statistics and information that, if successfully implemented over the next 3 years, would become a flagship for Africa. This system would unite the National Statistics System under the National Statistics Institute (*Instituto Nacional de Estatísticas, INE*), the automated Budget and Financial Management Information System in the Ministry of Finance, the national planning process under the General Directorate of Planning (DGP), the Government's information technology network implemented by NOSI (*Núcleo Operacional da Sociedade da Informação* - Operational Nucleus for Information Systems), and the sectoral planning units within the line ministries. The main features of the system are integration of the budget and financial management system with the technical aspects of programs and service delivery, development of a unified technological platform through NOSI, open access to users to the main data warehouses on national statistics at INE and the database on policies and projects at DGP, and the restructuring and strengthening of sectoral units within the ministries. While ambitious, the proposed

system builds on existing systems and information technology (IT) platforms which are well advanced and have been implemented by permanent teams in the Government. Technical assistance needs and financing have been identified, including support from the Netherlands, the EU, UNDP, and the ongoing support from the Government of Portugal to improve statistical capacity, as well as a Trust Fund for Statistical Capacity Building and a possible PRSP Implementation Trust Fund through the World Bank.

### **B. Joint IMF/IDA Staff Advisory Note of the GPRSP**

41. The GPRSP was developed through a broad, participatory process under the guidance of the GPRSP Steering Committee supported in its activities by the STAD. The GPRSP has a matrix approach of pillars in strategic areas and cross-cutting policies (macroeconomic stability, decentralization, employment policy, etc.) which results in a comprehensive view of poverty reduction.

42. The growth projections of the GPRSP are slightly more optimistic than those of the PRGF-supported program (6.5 percent real annual growth vs. 5 percent), but their underpinnings are clear and realistic. Much of the additional growth would come from higher domestic investment levels (at 23 percent, 3 percentage points above the PRGF-supported program). Half of the additional investment would be in the tourism sector, while the other half would be foreign concessional financing for the GPRSP.

43. The policy mix described in the GPRSP is likely to lead to a sustainable improvement in the country's growth prospects. Investments in energy and roads are needed to bring the country up to par with the standards of a middle income country. Proposed public support to education, health and social protection represents a reasonable compromise between expanding coverage and ensuring financial sustainability. While the GPRSP does not make a clear statement on the priorities between and within pillars, the dominant portion of proposed infrastructure spending provides a partial key to the Government's priorities. Since most infrastructure investment is usually externally-financed through autonomous projects, such investment will be undertaken based on availability of external project financing. At about 7.5 percent of GDP per year, the complete financing of the priority expenditures in the other pillars is ambitious but realistic.

44. Important risks to the GPRSP remain. Potential risks stem from the challenge of designing and implementing the decentralization process and an unchecked proliferation of autonomous institutes, the volatility of donor contributions compounded by inadequate donor coordination mechanisms, inadequate mitigation of the side-effects of growth based on tourism, and a credibility problem for the GPRSP in the absence of results. These risks can be mitigated by a strong and visible political commitment to policy reform, evidenced by a sustained pace of actions to strengthen public sector performance, and improvements to the investment climate. Specific actions highlighted in the GPRSP, and supported under this PRSC, include actions towards civil service reform, the introduction of an MTEF, and timely audits by the independent Court of Accounts.

### C. Links with Country Assistance Strategy

45. The FY05-08 Country Assistance Strategy for Cape Verde is presented to the Board together with this document. The thrust of the Bank's future program is twofold: (a) to assist Cape Verde in implementing its Poverty Reduction Strategy; and (b) to improve aid effectiveness by shifting the form of assistance for this small, island State towards programmatic support and sharpening focus on results.<sup>9</sup> The proposed CAS is aligned with all five GPRSP pillars. IDA supports the achievement of the GPRSP goals through its existing lending portfolio, the planned CAS program of lending, advisory services, and capacity building for monitoring and evaluation. IDA's assistance strategy (FY05-08) aligns with the GPRSP priorities as follows in Table 3.

46. The proposed PRSCs are central to the Bank's CAS. This emphasis on programmatic lending is consistent with Cape Verde's strong performance in implementation of the previous CAS, its level of economic and institutional development, and the unique characteristics of a well-managed, small State. The CAS deems the PRSC to be the preferred lending instrument to (a) provide predictable resource flows, particularly important given Cape Verde's reliance on donor financing; (b) strengthen the Government's own public administration and public expenditure management systems, with spill-over benefits to non-IDA resources; and (c) harmonize donors and reduce the potential distortions and transaction costs of external assistance.

**Table 3: Alignment of On-going and Proposed IDA lending with Cape Verde GPRSP**

<b>GPRSP Pillars</b>	<b>IDA Lending<sup>10</sup></b>
<b>Good Governance</b>	<ul style="list-style-type: none"> <li>• <b>The proposed PRSC series (1)</b> will focus on public expenditure management, civil service reform, decentralization and judicial reform</li> </ul>
<b>Economic Growth and Employment Creation</b>	<ul style="list-style-type: none"> <li>• <b>The ongoing Growth and Competitiveness Project</b> (US\$11.5 million, FY03) supports appropriate regulatory frameworks for private sector investment, broaden the base of private sector growth, enhance private sector competitiveness</li> <li>• <b>The proposed multi-sector private infrastructure project</b> (US\$5 million, FY07) would promote tourism, rural development, utilities and transport</li> </ul>
<b>Human Capital</b>	<ul style="list-style-type: none"> <li>• <b>The ongoing HIV/AIDS Project</b> (US\$9 million, FY02) supports the goal of the national strategy to reduce the spread of HIV. A US\$ 5.0 million follow-up is planned</li> <li>• <b>The proposed PRSC series</b> will provide programmatic support for education and health policy reforms</li> </ul>
<b>Infrastructure and Environmental Protection</b>	<ul style="list-style-type: none"> <li>• <b>The ongoing Energy and Water Sector Reform and Development Project</b> (US\$17.5 million, FY99) improves the supply, efficiency and management of power, water and sanitation systems</li> <li>• <b>The proposed road project</b> (US\$15 million equivalent, FY06) would fill critical network gaps and strengthen institutional capacity</li> <li>• <b>A proposed GEF Grant</b> (US\$5 million, FY07) for fisheries and coastal management</li> </ul>
<b>Social Protection</b>	<ul style="list-style-type: none"> <li>• <b>The proposed PRSC series</b> would support improvement in the coverage, targeting, effectiveness and financial sustainability of the social protection system</li> </ul>

(1) PRSC-1 (base case) US\$15 million in FY05, PRSC-2 US\$7.5 million (base case) in FY06, PRSC-3 US\$7.5 million (base case) or US\$12.5 million (high case) in FY07; and PRSC 4 (high case) US\$9 million in FY08. Details of the reform program are provided in Section V and technical annexes.

<sup>9</sup> see Annex 3 – Status of IDA Operations in Cape Verde

<sup>10</sup> The Social Sector Development Project Supplemental Credit is scheduled to close in March 2005 and is therefore not included in this table.

## **IV. DESIGN OF THE PROPOSED PRSC**

### **A. Objectives and Scope of the PRSC**

47. The proposed PRSC is a response to the Government's request for their external partners to align with national strategies and systems for poverty reduction, as agreed at the Donor's Roundtable Meeting in Praia in April 2003. This move to supporting poverty reduction through the national budget process is consistent with Cape Verde's level of institutional, economic and political development, acknowledges the country's strong and sustained performance in recent years and is consistent with recommendations of core diagnostic work (PER, CFAA, CPAR).

48. The objectives of the proposed PRSC series are to:

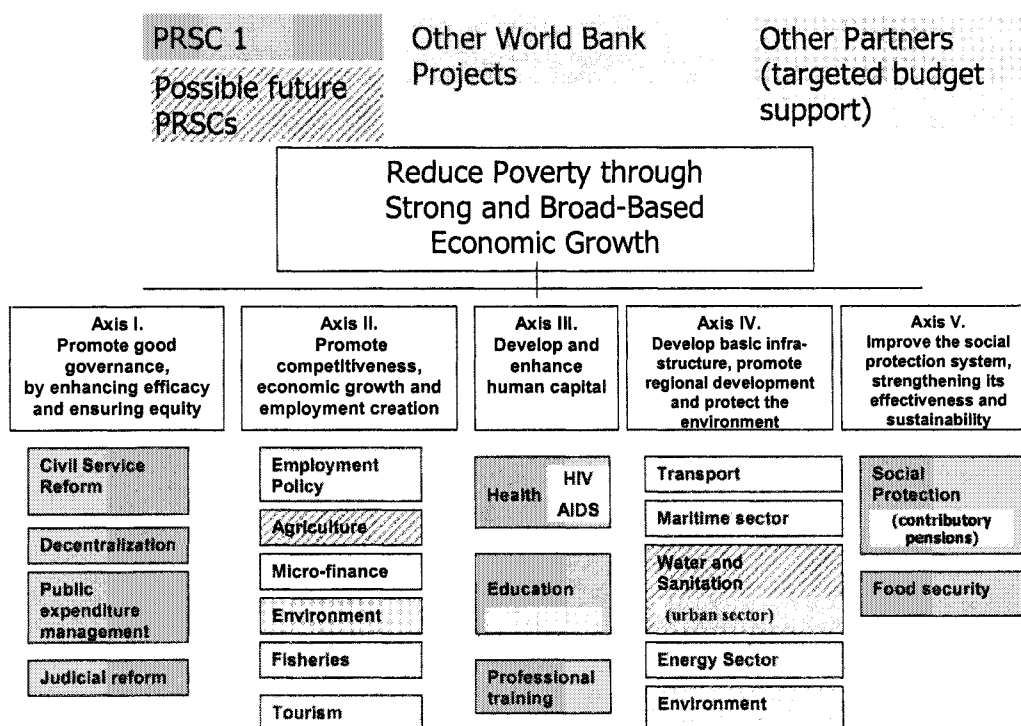
- (a) support the policies and reforms set forth in the Government's GPRSP in order to achieve sustained improvements in well-being of the population;
- (b) develop an improved form of external assistance that reduces distortions and transaction costs associated with project-based aid (particularly acute given Cape Verde's small size) and increases Government capacity to plan, execute and monitor its efforts to address poverty;
- (c) harmonize donor support around the GPRSP, including alignment with other multilateral and bilateral donors (EU, Dutch Cooperation) involved in or planning budget support operations;
- (d) provide predictable support to the budget cycle to consolidate and smooth resource transfers, particularly important given its external vulnerabilities; and
- (e) improve access to and quality of key social services.

49. The proposed PRSC would allow IDA to consolidate its lending operations and engage in policy and technical dialogue in three of the five GPRSP pillars, namely good governance (decentralization, public finances, civil service reform, judicial reform), enhancement of human resources (education and health), and strengthening of the social protection system. This choice of pillars matches IDA's comparative advantage and division of labor with investment projects in the portfolio, and reflects selectivity with other donor support. Figure 1 illustrates proposed coverage by the PRSC series, other IDA lending and budget support from other partners.

50. Selection of the first pillar, good governance, is central to the PRSC instrument itself, as it supports the use of national budget and fiduciary systems as the main vehicle for channeling resources to GPRSP priorities. It also addresses cross-cutting issues like civil service and judicial reform and citizen access to information that are essential underpinnings of improved service delivery. IDA has had investment projects in the area of public sector reform and economic management and has a strong track record of analytical work including recent fiduciary assessments.

51. In the third pillar – education and health - IDA has just closed a successful Basic Education Project, and has been administering the Dutch Trust Fund for budget support to the education sector. Analytical work on education has been included in the PERs, the DPR and the Poverty Assessment. The health sector is included under the PRSC even though there has been little previous experience in health sector investments. For health, the only IDA activity has been an ongoing multi-sectoral investment project on HIV/AIDS and the construction of rural health posts through the Social Sector Development Project.. The PRSC presents a real opportunity for IDA to engage in a policy dialogue on the health system. This is particularly important given that the issues facing the health sector are not easily addressed through investment lending, in particular financial framework issues, including insurance mechanisms. Recent analytical work in the PER, DPR and PA has analyzed the health sector.

Figure 1 : PRSC Coverage and Selectivity



52. The fifth pillar, the social protection system, has benefited both from an investment project (Social Sector Development Project scheduled to close in March 2005) and from an intensive technical dialogue and technical assistance to Cape Verde through the WBI Capacity Building for Social Protection Strategies in Africa since 2002. While the Growth and Competitiveness Project supports reform of the pension system for civil servants and the formal private sector, the PRSC will focus on the non-

contributory schemes, social assistance, community development and food security. The PA has done initial analysis on targeting and coverage to underpin the dialogue.

53. Subsequent PRSCs may gradually expand coverage on the basis of IDA's (and the PRSC's) comparative advantage and availability of resources. Tentative areas of interest for future PRSC's include agriculture, sanitation, and rural development. However, Cape Verde has been invited to present a proposal to the US-financed Millennium Challenge Account which will concentrate mainly in boosting rural productivity and infrastructure and may represent significant levels of new funding. The new CAS plans a Rural Development Assessment to build an analytical basis for potential incorporation of these issues into later PRSCs.

## B. Financial Framework

Table 4: Cape Verde - Financing requirements 2003-2007

	(in % of GDP)				
	2003	2004	2005	2006	2007
		Proj.	Proj.	Proj.	Proj.
<b>Overall deficit excluding grants</b>	-9.0	-9.9	-10.3	-10.8	-10.8
Grants	7.0	5.6	5.8	6.0	6.0
<b>Overall deficit including grants</b>	-2.0	-4.3	-4.5	-4.8	-4.8
<b>Foreign</b>	1.8	1.9	-3.1	-3.1	-3.1
Drawings	4.4	5.0	0.0	0.0	0.0
Amortization due	-2.6	-3.1	-3.1	-3.1	-3.1
<b>Domestic</b>	0.2	-0.5	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	-2.9	-7.6	-7.9	-7.9
<i>Of which : proposed PRSC</i>	-	-	1.4	1.0	0.9
Memo item:					
<i>GDP at current market prices (billion LCU)</i>	81.2	87.5	94.5	102.1	110.2

Sources: World Bank and IMF staff estimates

54. The proposed PRSC will provide US\$15 million to the Government's 2005 budget of about US\$300 million. PRSC-1 financing is equivalent to 8 percent of the proposed first year GPRSP expenditures in the three pillars of PRSC focus, or about 19 percent of the unidentified financing requirements. In the later years, the PRSC contributions to budget support would be about US\$ 8.5 million per year (Table 4). There is no earmarking of activities to be financed, giving the Government flexibility in orienting resources in line with GPRSP priorities. With the support of the PRSC, the Government will be able to provide financing for various activities that can be tracked through line items in the budget including teachers and materials for basic education, broader coverage of the non-contributory pension schemes, and more even coverage of health services across the islands.



### C. Key Analytical Underpinnings

55. The analytical foundations of the PRSC seek to assess whether government policies and institutions target poverty reduction adequately; and whether the systems and procedures for channeling resources to support these strategies are effective. IDA is relying on core ESW, including a PER, CFAA, CPAR, DPR and Poverty Assessment as well as a study on the role of the State. Main conclusions of this analytical work are described in the technical annexes. With support from UNDP, the Government has analyzed the likelihood of achieving the MDGs. Table 5 presents current status of these analytical underpinnings.

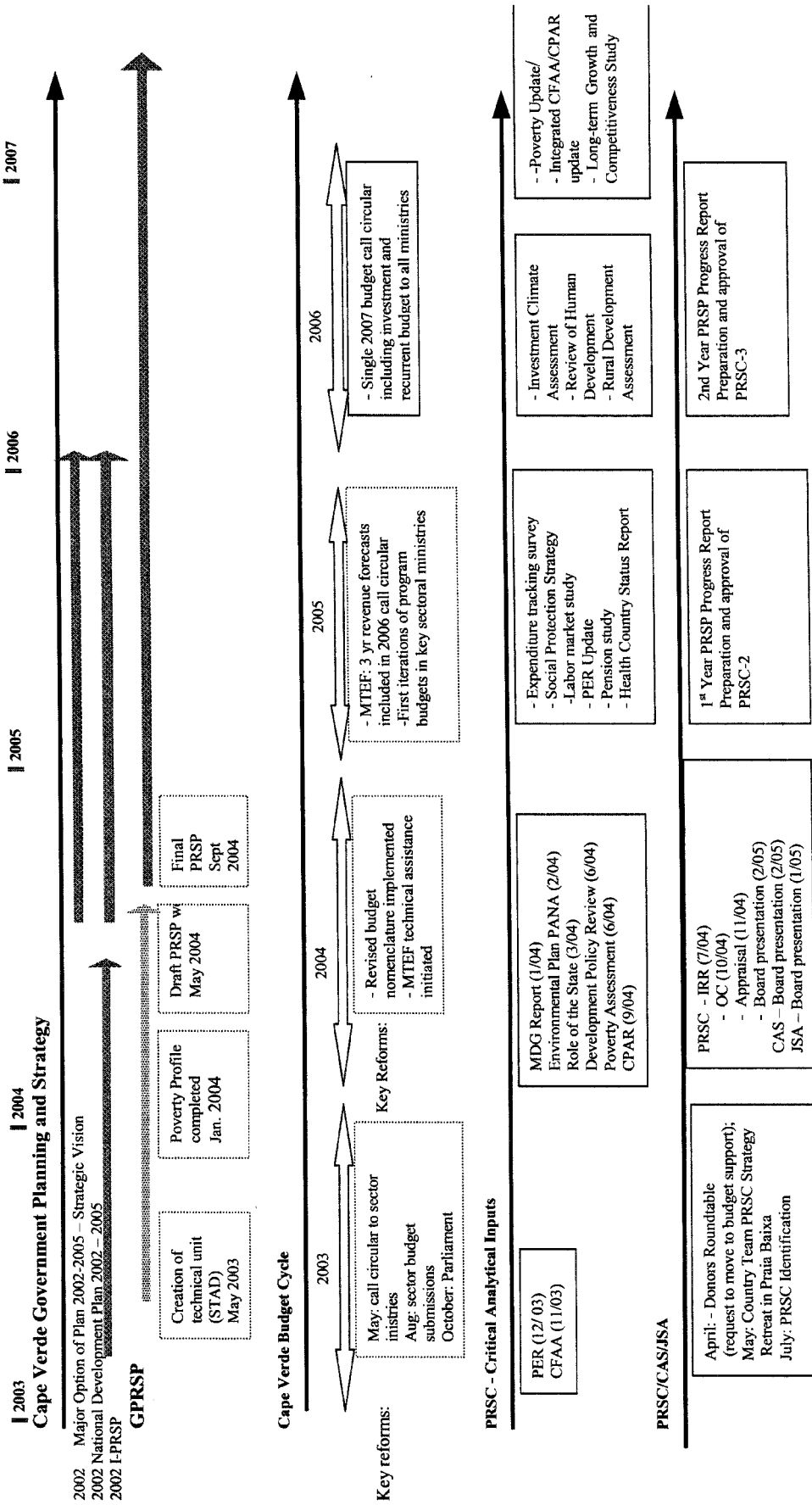
**Table 5: Status of Key Analytical Underpinnings**

Area	Topic	Status	Summary Findings
<b>Development Policies</b>	Sustainable economic growth strategy and analysis of structural and social policies	Development Policy Review (DPR) (7/04)	Main text, Section II
	MDG Report	Completed 01/04	Main Text
	Poverty Assessment	Completed 7/2004	Main text, Section II
	Governance	Role of State ESW (3/04)	Annex 6
	Education and Training	10-year Education Strategic Plan already developed	Annex 7
	Social Protection Strategy	To be finalized 2/05	Annex 9
	Environmental Policies	National Environmental Action Plan 2004-2014 (2/04)	
<b>Fiduciary Assessments</b>	Public Expenditure Review	Completed 9/03	Annex 6
	Country Financial Accountability Assessment (CFAA)	Completed, action Plan validated	Annex 6
	Country Procurement Assessment Review (CPAR)	Report finalized	Annex 6
	Expenditure tracking surveys	Ongoing	

### D. Timeline of Bank and Government Critical Activities

56. Figure 2 presents the sequencing of key Government and Bank activities. One of the main thrusts is to put PRSC financing in place upfront in the GPRSP process, which is critical to build credibility for the GPRSP as well as avoid significant shortfalls in financing at a time when investment projects are closing and IDA lending strategy is shifting to programmatic support. A period of no more than six months is anticipated between the approval of the GPRSP and the effectiveness of the first PRSC. The PRSC series supports the on-going process of budget reforms, with PRSC disbursements matched to budget cycles. Upstream analytical work will strengthen the technical dialogue underpinning future PRSCs.

Figure 2: Cape Verde PRSC – Timeline of Critical Activities



## V. CONTENT OF THE REFORM PROGRAM

### A. Results Focus

57. The approach of the PRSC adopts the results focus of the GPRSP. Cape Verde has a national planning process that identifies objectives, targets and monitorable output and outcome indicators linked to the NDP. The GPRSP was derived from this basis. For each of the main areas of the PRSC, a results chain has been developed which identifies key activities and outputs that will result in PRSC period outcomes with specific indicators, all supporting long-term strategic goals of the GPRSP (see Results Chains in Annex 5)<sup>11</sup>. The PRSC is underpinned by a draft policy matrix (Attachment A) derived largely from the GPRSP matrix. Details of each programmatic area are presented below and in the technical annexes.

### B. Promote Good Governance, Reinforcing Effectiveness and Guaranteeing Equity

58. During the past 15 years, Cape Verde has moved on various fronts to reform its public administration, including: (a) progressive disengagement of the State from the production system, (b) introduction of a new career and salary system (PCCS) to strengthen professionalism of the workforce, (c) launch of a series of reforms of public expenditure management in order to strengthen control and improve planning and execution of expenditures, and (d) political devolution of some service delivery functions to seventeen elected municipalities. Results to date have been uneven. Lack of further progress in public sector reforms could trap Cape Verde in a cycle of fiscal slippages and impede progress in improving service delivery and governance. Annex 6 details issues and challenges.

#### B1. Public Expenditure Management Reforms

59. The Government's reform agenda is based on the diagnostics of the CFAA, PER, and CPAR. Together, these analytical pieces provide a comprehensive overview of the critical weaknesses in the public expenditure management system.

#### Key Issues

60. Key issues affecting public expenditure management that will be addressed include:
- (a) Fiscal policy is at risk from an accumulation of contingent liabilities and mandatory expenditure programs. In the absence of rapid action, expenditure could increase unsustainably and crowd out other priority expenditures.
  - (b) Budget formulation is hampered by insufficient guidance in the call circular on the main priorities, and is not linked to medium-term resource projections. The budget is elaborated on separate tracks for capital and recurrent expenditures.
  - (c) Tax administration capacity is mixed. While customs administration is strong, the General Directorate for Income Tax (DGCI) at the Ministry of Finance and Planning

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<sup>11</sup> During PRSP preparation, the Government of Cape Verde's PRSP Steering Committee and IDA PRSC team benefited from a series of Multi-Sectoral Team Learning-sponsored joint videoconference training sessions to harmonize this results-based approach across the various sectors and participating teams.

- (MOFP) is underperforming. The taxpayer registries are old, often not up-to-date, and not reconciled. Follow-up by the DGCI is hampered by limited capacity, and an outdated IT system, which does not permit adequate information flows with the banks.
- (d) The new IT-based Financial Management System (FMS) has been deployed only within the Ministry of Finance and Planning, and its potential to deconcentrate the expenditure chain has not yet been exploited. Expenditure commitments are still in effect being vetted by the MOFP, along with liquidation requests. Moreover, the absence of a procedure manual to support day-to-day operations is a fiduciary risk.
  - (e) Most of the investment budget is financed through donor projects, with self-accounting status and insufficiencies in reporting. This issue can only be successfully tackled by a more assertive and structured Government role in donor coordination, which is hampered by being managed out of two separate ministries (the MOFP for multilaterals, and the Ministry of Foreign Affairs for bilaterals).
  - (f) There are persistent delays in closing accounts for the previous budget period. The supplementary period is currently as long as three months, and causes problems in reconciling the Government's accounts with its cash position. Debt management is not linked through IT with the Treasury, which limits the ability of the Treasury to program payments. Moreover, public debt instruments are not streamlined or fully regularized, which compromises the accuracy of debt figures.
  - (g) External controls are still inadequate. The independent Court of Accounts (TdC) has yet to receive for review from Parliament the State's accounts for the period 1998-2003, due to failure to officially close accounts and transmit them to Parliament. While there is no indication that Parliament has in the past received misleading information from Government, the failure of the TdC to perform this statutory task poses a significant fiduciary risk in the medium term. Internal controls are also weak due to inadequate capacity at the General Inspectorate for Finances (IGF).
  - (h) While procurement operations are basically sound, there is a lack of an overarching legal framework to support and harmonize procurement activities and there is limited capacity in the country to provide adequate advice.

### **Expected Results of PRSC Program**

61. By the end of the PRSC period (3 years), the Government expects to have attained the following outcomes:
- (a) Improved fiscal management and budget allocations - contingent liabilities are controlled as witnessed by a reduction in recourse to extraordinary expenditures;
  - (b) Improved budget planning and preparation as reflected in further integration of the investment and recurrent budgets, the adoption of budgets that respect MTEF ceilings and sector allocations in line with the priorities of the GPRSP;
  - (c) Improved management and control of tax proceeds resulting in an increase in the number of contributors and amounts collected, as well as number of audits;
  - (d) Improved budget execution via the introduction of financial controllers and deconcentration of expenditure responsibilities to at least six ministries;
  - (e) Improved monitoring of public resources as evidenced in a decrease in the supplementary budget period and better coverage of autonomous institutes;

- (f) Reinforced internal and external controls, with more timely presentation of executed budgets to Parliament and review by the TdC; and increased activity of the IGF;
- (g) Improved procurement systems which result in greater transparency, reduced unit costs of government purchases and better stimulus of the private sector.

### **Recent Progress, PRSC-1 Prior Actions and PRSC-2 Triggers**

62. The Government has already launched several initiatives under each of the building blocks of public expenditure management. They include (a) a study to compile all debts and contingent liabilities of the State; (b) technical assistance to develop a MTEF; (c) work on an equivalent classification between recurrent and investment classifications of the budget; (d) a macroeconomic model to provide revenue projections; (e) the introduction of the VAT; (f) the creation of a task force to close past due accounts of the State; (g) the regularization of arrears; (h) the integration of domestic and external debt management with treasury operations; (h) an action plan for the CPAR; and (i) the preparation of laws on decentralization.

63. PRSC-1 identifies the following prior actions in the public expenditure management area as critical for implementation success:

- (a) 2005 budget law takes into account, *inter alia*, adequate funding of DECRP priorities, cross-cutting reforms for public administration and public expenditure management. This prior action aims at ensuring that the fungibility of resources does not undermine priority programs supported by the PRSC;
- (b) Completed final draft of a study compiling all debts and contingent liabilities of municipalities, autonomous institutes and State-owned enterprises. This prior action ensures that the medium-term fiscal assumptions are not threatened by unforeseen demands on the budget;
- (c) Presentation of an action plan to process the 1998-2003 state general accounts and submission to Parliament of the State General Accounts for 1998 and 1999. The current backlog shows an excessive gap between the executive branch of Government and those in charge of monitoring its actions. Reinstating regular checks-and-balances is a *sine qua non* reform to satisfy donor fiduciary requirements.
- (d) CPAR action plan adopted by the MOFP. Clarity and organization in the procurement framework are equally important to satisfy donor fiduciary requirements.

64. To support the momentum of the reform program, the triggers for PRSC-2 could include: (a) draft 2006 budget law takes into account *inter alia*, adequate funding of DECRP priorities, cross-cutting reforms for public administration and public expenditure management; (b) plan for the settlement of contingent liabilities and debts approved by MOFP, (c) as part of preparation of the MTEF, provide a 3-year revenue forecast, and, for at least 2 sector ministries, prepare sectoral MTEF integrating capital and recurrent budget (d) 2000-2003 State General Accounts submitted to Parliament; and (e) approval by the Council of Ministers<sup>12</sup> of

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<sup>12</sup> The Borrower's Council of Ministers is headed by the Prime Minister and comprised the heads of the following Ministries: (i) Culture; (ii) Defense and Parliamentary Affairs; (iii) Economy, Growth and Competitiveness; (iv) Education and Valorization of Human Resources; (v) Environment, Agriculture and Fisheries; (vi) Finance and Planning; (vii) Foreign Affairs, International Communities and Cooperation; (viii) Health; (ix) Internal Administration; (x) Justice; (xi) Labor and Solidarity; (xii) State Reform and Public Administration; and (xiii) Transport and Infrastructure

draft National Procurement Code and preparation of Standard Bidding Documents for procurement of works, goods and services and Manual of Procedures.

## **B2. Civil Service, Decentralization and Judicial Reform**

### **Key Issues**

65. Annex 6 describes status and challenges of public sector reform in more details. Main issues are:

- (a) Uneven progress in public sector reform due to the absence of an integrated strategic framework and appropriate structures for coordinating the reforms, creating a disconnect between various initiatives.
- (b) Civil service reform has not progressed much. Human resource management remains centralized. Implementation of merit-based recruitment and evaluation is lagging. Careers are not attractive for high-level professionals, which leads to a significant turnover at managerial positions. Job descriptions are lacking and there is no formal policy for professional training. In lieu of a comprehensive reform, ad hoc solutions have been introduced comprised of specific schemes of services for individual ministries or parts thereof, which has led to large variations of salaries for similar positions between ministries or between central and local governments, and contributed to low morale.
- (c) Creation of autonomous institutes has been used as a short-sighted solution to larger public administration problems, multiplying semi-independent bodies with more attractive benefits and working conditions to carry on some of the mandates of various ministries. This creates distortions in public sector performance, potential hidden liabilities, and a dilution of the Government's core responsibilities.
- (d) Decentralization of responsibilities and resources to the 17 municipalities is one of the key vehicles chosen by the Government to improve service delivery. Public works, local roads and social promotion (pre-schools and other community services) are now the responsibility of municipalities. However, municipal prerogatives and financing are currently defined under an outdated set of laws, which is being updated. Further transfers will need to be based on an adequate identification of respective responsibilities and resource needs. Moreover, mechanisms to better coordinate municipal, central and deconcentrated government activities need to be developed. Capacity building activities for municipalities need to occur within an updated framework for human resource management at the local level that attempts to stabilize key staff. Training is currently provided mostly by bilateral donors.
- (e) Financial autonomy of the municipalities is weakened by financing uncertainties. Their asset base is not firmly established, and transfers from the Government come in various forms and not always at planned intervals. The formula-based transfer system is being reviewed – currently it cannot exceed 7 percent of all taxes. Formula-based transfers plus other central transfers amounted to 5 percent of the State budget in 2002.
- (f) The financial management capacity of municipalities is uneven. Turnover of skilled staff is an issue across all municipalities and affects their financial management processes, which are also undermined by the absence of standard procedures.
- (g) In a country setting where insularity adds specific challenges to responsive service delivery, citizens continue to perceive public administration as inefficient.

- (h) Lack of legal knowledge and difficulties in accessing judicial remedies continue to impair most vulnerable populations (including vulnerable female single-headed households) to benefit from legal security and protection.

### **PRSC Focus and Expected Results**

66. The policy matrix was prepared with staff from the Ministry of State Reform and Public Administration (MREAP), the MOFP and the Ministry of Justice. Following the GPRSP priorities, the PRSC prioritizes key medium-term objectives, namely: (a) improve and integrate public sector reform management; (b) clarify respective mandates of central and deconcentrated administration and municipalities and improve the financing of municipalities; (c) improve human resource management and capacity; and (d) enhance legal and judicial knowledge and efficiency and promote access to justice.

67. By the end of the PRSC period (3 years), the Government of Cape Verde expects to have attained the following outputs:

- (a) Overall decentralization framework is more conducive to progress in service delivery outcomes, with clear repartition of functions and improved financial flows, including timeliness and volume of transfers,<sup>13</sup>
- (b) Adequate tools for human resource management are developed and operational, and various stakeholders are briefed on possible options for the reform of the civil service, in order to forge consensus on a strategy to promote a qualified, motivated and accountable civil service;
- (c) Local capacity for training is improved and professional training institutionalized;
- (d) Some of the most demanded services are more easily accessed by citizens; and
- (e) Knowledge of the law and access to justice are broadened especially for the most vulnerable populations, through establishment of a Judicial Aid Fund and promotion of Alternative Dispute Resolution (ADR) mechanisms.

### **Recent Progress, PRSC-1 Prior Actions and PRSC-2 Triggers**

68. To achieve these results, the Government has made recent progress in its reform agenda. A Reform Commission with representatives from key ministries was established under the chairmanship of the MREAP. The finalization of the civil servants database, for which data were collected in 2002, is continuing and seen as key to provide a modern management instrument for human resources, together with needed analysis to reform the civil service. Key on the reform agenda is the fusion of investment and recurrent budget departments in ministries, in order to create resource management units with a clear mandate on managing resources and a capacity to monitor and evaluate activities. The creation of a “public manager” career will provide various administrations with specialists in public management, who would lead the restructured resource management units. Another focus is

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<sup>13</sup> This overall framework for decentralization of service delivery will be further supported by specific sectoral strategies such as development of an early childhood education strategy, development of revised protocol agreements for social assistance, and identification of decentralization priorities in the health sector, all of which must be determined in collaboration between the central and local governments. These areas are described in greater detail in the following sectoral sections and technical annexes.

the creation of a “Citizen’s House”, that would allow for key public services to be accessible following a one-stop-shop model. Use of IT would help overcome some of the difficulties linked to insularity while linking-up the country with its expatriate community.

69. PRSC-1 identifies the following prior action in public sector reform: Civil servant’s database updated, including *inter alia* validated individual information on grade and salary history for at least one-half of civil servants in the database. This is critical for implementation success because completion of the database, long overdue, will allow for better management of human resources and elaboration of civil service reform options.

70. In moving to the PRSC-2, priority triggers expected to be completed could include: (a) submit basic law (*lei quadro*) on decentralization to Parliament: this law will establish rules and methodology for transferring responsibilities to local governments, and establish the principle of concomitant transfer of resources and responsibilities, thus establishing a more secure and conducive environment for further progress on decentralization; (b) civil servant’s database operational and up to date to be used to elaborate civil service reform options: this will reinforce the PRSC-1 prior action, and continue the progressive approach to civil service reform; (c) Citizen’s House model validated and implementation started (d) Law on judicial assistance creating a Judicial Aid Fund approved and published: this will contribute to expand access to formal legal services to the poorest segments of the population; and (e) Law on Alternative Dispute Resolution (ADR) mechanisms approved and published: this law will regulate and contribute to promoting ADR, with an expected positive impact on speed and access to redress mechanisms for citizens and businesses.

### **C. Develop and Upgrade Human Resources**

#### **C1. Education and Professional Training**

##### **Key Issues**

71. Cape Verde’s education achievements rank among the top of Sub-Saharan Africa countries and other countries at the lower middle income level, and it has virtually achieved the MDGs in education (for more details see Annex 7). Several studies have been completed by the Government, the Bank and others which diagnose the main issues in the education sector<sup>14</sup> and identify future challenges:

- (a) Expansion in coverage of early childhood education is becoming a pressing need. Less than 50 percent of the 3-5 year olds attend early childhood education. Regional and socio-economic disparities in access to pre-school are strong. Early childhood education is a decentralized prerogative, with program coordination carried out by the Ministry of Education (MOE).
- (b) Greater voice should be given to parents and communities in deciding how schools should be governed, managed and financed in order to foster greater accountability among school administrators and support education quality. It is expected that some

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<sup>14</sup> Two Public Expenditure Reviews (Government of Cape Verde 2002 and World Bank 2003) as well as the recent Development Policy Review have analyzed the education sector.



transfer of power and resources from the central Government to the local Governments (municipalities) will contribute to providing a better response to the needs of the people and improving the delivery of education services. Implementation of national achievement tests will provide teachers, administrators and parents with better information on education quality.

- (c) Despite one of the highest unit cost per student in the sub-region, quality is an issue. The repetition rate in primary education remains stubbornly high at 12 percent mainly due to a low level of academic qualification of the teaching staff and the deployment of untrained teachers in poorer municipalities.
- (d) Despite recent investments in school infrastructure, secondary education is ill-prepared for the growing demand from primary school graduates, with limited and unequal distribution of facilities, a shortage of teachers, and out-dated curriculum and teaching practices. More average size secondary schools are needed to provide equitable access to all the population and not only those living in or in the vicinity of major urban centers.
- (e) The professional training system should be better structured to respond to social demands and to meet the needs of the labor market. Sector rules and responsibilities are unclear and few providers are certified. Access to professional training and apprenticeship for primary graduates remains too restricted. As a result, these youths do not find employment opportunities easily and are limited in their future job prospects.
- (f) Demand for higher education will further strain resources. Support for study abroad has been reduced in recent years despite the rising number of secondary school graduates. The number and relevance of tertiary education institutions are insufficient to meet the needs of Cape Verde's economic and social development
- (g) The teaching wage bill will need to be controlled. Salaries consistently absorb about 90 percent of recurrent expenditures. While the average teacher salary relative to GDP for primary education is close to the regional average, the level for secondary education is much higher – and this is where system expansion will be concentrated.

### **PRSC Focus and Expected Results**

72. The Education Ministry contribution to the PRSC policy matrix for the education and training sectors prioritizes four main medium-term objectives for the PRSC series, namely to: (a) improve the quality and efficiency of education; (b) expand and diversify general and technical secondary education supply; (c) expand and better orient professional training service delivery; and (d) restructure higher education.

73. By the end of the PRSC period (3 years), the Government expects to have attained the following educational outcomes:

- (a) Improvements in the quality of basic education, as evidenced by significant increase in the percentage of teachers who have academic qualifications, a decrease in the repetition rate, an academic achievement test system designed and piloted, and a rise in the share of students completing primary school;
- (b) Greater efficiency of the education system, as evidenced by an increase in the student – teacher ratio in primary education and reduced drop out and repetition rates;
- (c) Expanded opportunities for children to get an earlier start in education as shown in an increase in the share of 3-5 years old enrolled in early childhood education;

- (d) Expanded and diversified general and technical secondary education supply which results in an increase in children completing 8 years of schooling, an increase in the share of students enrolled in technical secondary education and an increasing share of poor students benefiting from support;
- (e) Better preparation for labor market needs through increased numbers of students enrolled in the professional training sector and apprenticeship program and an increase in the number of accredited professional training providers; and
- (f) A tertiary education sector that allows for increased enrollment and less reliance on study abroad within a limited public finance envelope.

### **Recent Progress, PRSC-1 Prior Actions and PRSC-2 Triggers**

74. To achieve these results, the Government has made several recent advances in its reform agenda. From 1999-2004, the MOE implemented an IDA-financed project to consolidate and modernize the education and training sector, mainly through the construction and equipment of new classrooms, the provision of textbooks, and in-service teacher training. In the training sector, the project financed apprenticeship and professional training in order to increase the employability of the workforce and of school dropouts. Finally, the project financed technical assistance, studies and pilot testing that contributed to reinforcing the MOE's knowledge base and analytical skills (e.g. preparation of the education and training sector's diagnostic and education strategic plan). In November 2003, Cape Verde received a US\$6.9 million grant from the Netherlands Government, administered by IDA, to provide resources channeled through the MOE's budget and allocated mainly to early childhood development; basic education and capacity building.

75. In terms of recent achievements, the MOE has taken some measures aimed specifically at improving the quality and efficiency of basic education. They include the elaboration of new training modules and use of new pedagogical approach for in-service teacher training. In terms of efficiency, new decrees were promulgated to reform the graduating system in primary and secondary education. This will reduce unnecessary repetition of a grade which is costly and often leads to dropping out. Finally, confronted with rising costs due to the rapid growth of enrollment, the MOE established a progressive parent's financial contribution to secondary education based on household income.

76. PRSC-1 identifies the following prior actions in the education sector as critical for implementation success:

- (a) Teacher training priorities for public teachers in basic education identified and three year action plan prepared; and
- (b) Elaboration and publication of the professional training diagnostic, including *inter alia* economic and labor market analysis, identification of training providers and institutional framework for professional training.

77. In moving to PRSC-2, triggers expected to be completed could include: (a) at least twenty percent of the teacher training action plan for basic education has been implemented; and (b) elaboration and publication of the professional training strategic plan, including *inter alia*, number of courses, modalities, financing and timeframe.

## C2. Health Sector

### Key Issues

78. Compared to other countries in Africa, Cape Verde's coverage of health services is good and the country is on track to achieve the MDGs. However, these good indicators mask significant regional disparities and are based on an unsustainable financial framework (for more details see Annex 8). Several studies have been completed by the Bank and others which diagnose the following main issues in the health sector (PER, DPR):

- (a) Inequities in health outcomes and access to health services persist. Access is limited primarily by geographic constraints and approximately 44 percent of the population does not use health services when ill. Medical evacuations are used extensively, accounting for nearly 13 percent of total expenditures of the National Institute for Social Protection (*Instituto Nacional da Providência Social*, INPS) and 5 percent of the Ministry of Health (MOH).<sup>15</sup> Differences in immunization coverage rates, which range from 91 percent in Sal to 41 percent in Paul, are an indication of inequities in health services.
- (b) Problems with human resources limit the effectiveness of the health system. These include: (i) an insufficient number of doctors, particularly of specialists, due in part to migration; (ii) poor distribution of staff, with more than 80 percent of doctors practicing in the two general hospitals; (iii) lack of incentives in the payment mechanism to maximize efficiency, focus on the poor, prioritize certain services, or avoid over referral; and (iv) a growing number of public sector doctors working in an unregulated private sector. Civil service reform at the national level may address some of these issues.
- (c) Management of the system, including monitoring and evaluation, is hampered by the lack of a functioning health information system. Health information is especially important for both monitoring the progress towards achieving the MDGs as well as the increase in non communicable diseases. Basic data such as service utilization rates are not available.
- (d) Non-communicable diseases significantly hinder economic growth. Cape Verde is passing through an epidemiologic transition where increase in life expectancy and decrease in infant and child mortality rates over the last decade have led to an aging population. On average, men lose 13.6 years of productive life and women 11.3 years, due to illness. There will be increasing pressure on expenditures as the population ages and demands higher quality services – a trend observed worldwide.
- (e) The public sector health system is in financial crisis, even though total government health spending in Cape Verde is generous and financing by donors is the second highest per capita in Africa at about US\$10 per capita. The main causes of the financial crisis are: (i) a growing deficit at the INPS, which reached US\$13 million in 2002 (compared to an annual budget of US\$8 million in 2002)<sup>16</sup>, (ii) a very high and rapidly increasing rate of expenditures on pharmaceuticals, and (iii) increases in demand as incomes improve and the population ages. In 2002, total health expenditures equaled approximately US\$29 million (4.5 percent of GDP) with an average total expenditure per capita around US\$64.

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<sup>15</sup> Medical evacuations are both within the country when more serious cases are referred to the two main hospitals, and outside of the country, primarily for services which do not exist in Cape Verde. The majority of evacuations are for cancers and cardio-vascular diseases.

<sup>16</sup> In fact, on an annual basis this deficit is covered by the current surplus in the pension fund.

Eighty-two percent of expenditures were public (MOH and INPS), equal to about 10 percent of total government expenditures. Private, out of pocket expenditures accounted for 18 percent of total health expenditures and 1 percent of total household expenditures. This suggests that there may be limits to the extent to which public sector health expenditures can grow. There is some room for out-of-pocket expenditures to increase, as well as potential savings from better management of pharmaceuticals.

- (f) Issues outside the control of the MOH, like inadequate and unsafe water, poor nutrition, and lack of transport, are major contributors to health outcomes. Only 11 percent of the poor have access to public water supplies compared with 51 percent of the non-poor. Poor children are also more likely to be malnourished, with 13 percent of those under the age of one suffering from malnutrition versus 6 percent of the non-poor.
- (g) Financial protection is needed for the indigent. According to the recent household expenditure survey, approximately 5 percent of the population had health expenditures greater than 10 percent of their income with health care expenses causing approximately 1 percent of the population to become poor. Ninety percent of total health spending by the poor is to purchase medicines.
- (h) Eventual decentralization of health services to municipalities is under discussion although details have yet to be determined. Currently under discussion, a new law is being formulated that would define the powers and jurisdiction of the municipalities in such areas as health, education, and the environment. Decentralization of health services could potentially have a significant impact on utilization of health services and health outcomes by focusing more on the demand side rather than only supply as is suggested by some of the reforms proposed above. Under the PRSC, assessing the impact of decentralization on health service delivery is included in the review of the overall decentralization program.

79. The total cost of health programs to be implemented under the GPRSP is expected to be US\$ 40.5 million in 2005-2007, of which US\$21 million is to build new health facilities, refurbish existing facilities, and equipment and US\$10 million for HIV/AIDS. For 2005, GPRSP expenditures are expected to total US\$18.5 in comparison to a MOH 2005 budget of US\$32 million. In the GPRSP, the increases in capital investment are accompanied by increased allocations for recurrent costs for the first year only, after which it is assumed they will be included in the regular budget. The Government assumes the GPRSP will not entail any increase in staff costs since many of these positions are already included in the budget, even if currently vacant. The Government also assumes that some savings can be achieved through improved services in health centers and primary referral health structures, thus limiting referrals to more expensive hospitals. Other cost savings include strengthened preventive care for chronic diseases, improved management of health structures, supported by a reinforced health information system, and introduction of lowest-cost, standardized care protocols for key diseases, and control of drug costs by opening the drug market to competition.

### **PRSC Focus and Expected Results**

80. The PRSC policy matrix, which has been prepared by the Ministry of Health in collaboration with its main partners, reflects the priority activities described above. The main

objectives are to reduce the inequities in health outcomes and ensure financial protection for the poor. Specific results include:

81. Improvements in access to quality health services by the poor: This will be achieved by expanding health infrastructure, particularly in remote areas, and training and deploying health personnel to these areas. Other reforms planned for the civil service, such as introduction of incentives, will also improve health staffing in poor areas. Not only will these activities have a direct impact on health outcomes, but reforms such as the reduction of medical evacuations and improvements in prescribing practices, will reduce the cost of services.

82. Inequities in health outcomes will also be addressed by prioritizing the financing and provision of services for those diseases that have the most impact on the poor. The most vulnerable women and children will continue to have access to vaccinations, pre-natal and post natal care, prevention and treatment of TB and HIV/AIDS. Surveillance of these programs will be a priority in order to ensure their effectiveness and impact on the poor. A push to ensure attended deliveries will attempt to reduce the discrepancies between rich and poor, with the poor much more likely to deliver at home. The growth in non-communicable diseases is a priority given their growing prevalence. Introduction of health prevention and promotion programs is likely to have the largest impact on health expenditures in the future, particularly for the poor who are least able to afford treatment. Participation of the population in health promotion and disease prevention is a priority, to be achieved in part by strengthening cooperation across sectors and with civil society organizations.

83. Improvements in health protection for the poor: Several policies are proposed to protect the poor from the high cost of illness. Introduction of user fees will allow more money to be allocated to the poor assuming a system of exemptions is put in place. Expansion of the existing social insurance program, INPS, is also proposed with several options for covering the poor under discussion.

### **Recent Progress, PRSC-1 Prior Actions and PRSC-2 Triggers**

84. The Government has begun to address issues concerning access of health services by constructing and rehabilitating selected health facilities in rural areas and training physicians in underrepresented specialties such as surgery, neurology, neonatology, public health, and health administration. Programs oriented towards pregnant women and children are underway and include training of health staff, elaborating norms, and acquiring necessary equipment and supplies. Already an increase in vaccination coverage rates has been noted. A system of surveillance of some priority diseases such as TB, polio, and malaria has been introduced and is supported by a new network of laboratories. Strategies for HIV/AIDS and TB have been approved. The national pharmaceutical policy has been revised to improve the availability of essential drugs and privatization of EMPROFAC is underway. INPS has implemented initial measures to reduce its pharmaceutical costs. Finally, a study of health expenditures has been completed and data from the national household survey is being analyzed to assess inequalities in the provision and financing of health services.

85. Given the fiscal importance of the INPS programs – both health and pensions – a prior action for PRSC-1 is the approval by the Council of Ministers of a Decree-law to regulate

employee's and employers' social security contributions to INPS. This reform was approved by the Council of Ministers on February 16, 2004 (decree-law 5/2004) and began in April of 2004. A further prior action is the completion of the first draft of a Health Human Resources Strategy to improve the recruitment, training and deployment of technical staff in the public health sector.

86. The following activities should be completed during the PRSC-2 time period: (a) initiation of rehabilitation and equipping of health facilities, with a priority to rural areas; (b) initiation of implementation of the Health Information System strategy; (c) continued implementation of priority health programs; (d) completion of a plan of action for non-communicable diseases; (e) initiation of implementation of the human resources strategy; and (f) development of a medium term strategy for INPS coverage and financing. Of these, the expected PRSC-2 trigger is the formulation of a medium-term strategy for INPS addressing, *inter alia*, financial sustainability. This would address both the health and pension funds due to the large fiscal consequences and linkages between the existing programs.

#### **D. Improve the Effectiveness and Sustainability of the Social Protection System**

##### **Key Issues**

87. The Government's social protection strategy seeks to help vulnerable households to better manage risks and become less susceptible to potentially damaging welfare losses through a variety of mechanisms, including labor market interventions, formal social security systems, social assistance programs and food security measures (for more details see Annex 9). Cape Verde has a relatively developed social protection system for Africa, so the basic issues have more to do with reforms of existing programs in order to increase efficiency, equity and coverage as well as fill in specific gaps. The main issues to be addressed are:

- (a) Faced with recurrent drought and long-term reduction in soil productivity, the creation of temporary employment through labor-intensive public works schemes was a key feature of rural survival in Cape Verde in the 1970-80s. Originally this temporary employment financed by food aid provided a minimum safety net for the rural poor. Over time the FAIMO program was equated with people showing up to check their names off the lists, with limited impact of investments, low labor productivity and little skills accumulation;
- (b) Overall, about 21 percent of households report receiving a pension – 15 percent through national programs (INPS, AP and non-contributory pensions) and 6 percent from abroad. The long-run financial solvency of contributory social security schemes is at risk. The two main systems, the *Administração Pública* (AP) for civil servants and the INPS for private firms and some autonomous institutes provide pensions, health insurance and other benefits, covering about one quarter of the labor force. The sustainability of both systems is in question due to generous benefits and cross-subsidies from the pension to the health insurance;
- (c) The Government's intention to expand the non-contributory pension schemes, including the Social Solidarity Pensions for ex-FAIMO workers and the PSM (*Pensão Social Mínima*, Minimum Social Pension) for needy elderly and disabled, will need to be embedded in better selection and monitoring of beneficiaries, modernization of program

administration included new identity cards, and coherence in the overall fiscal envelope. Evidence from the recent household survey shows that the targeting of the PSM needs improvement. Screening and selection processes and criteria used by the local governments has been ad-hoc and administration of the system needs strengthening;

- (d) Cape Verde is an example of good collaboration between central, municipal and non-governmental organizations for the co-production of social assistance services, including the use of formal service contracts. Municipal governments routinely contract with local associations for the day-to-day management and operation of nursery schools, training programs and other services. The central level has experimented with both contracting of NGO service providers, as well as use of direct financing of community groups and farmer's cooperatives for development efforts. The challenge is to build on this experience, creating better systems for monitoring performance and impacts; and
- (e) With little arable land, recurrent drought and declining soil fertility, food security has been a key motive of migration to urban areas and outside the country. Overall, 14 percent of children from 0-5 are stunted. Market-oriented reforms have removed public sector management of importation of food stuffs. While prices have fallen significantly, the risk of sudden food shortages on certain islands remains, and requires a coordinated policy approach, supported by the National Food Security Agency.

### **PRSC Focus and Expected Results**

88. Under the coordination of the Ministry of Labor and Solidarity (MTS), the Government has prepared a policy matrix in consultation with other ministries, autonomous agencies and NGOs. The matrix prioritizes: (a) 'Protection, Integration and Social Insertion', to redefine the regulatory framework for decentralized service delivery, improve planning and management instruments, improve management and coverage of non-contributory pensions, increase access of at-risk groups to education and professional training, health services, and nutritional support, and promotion and support for local community development initiatives; (b) 'Protection of Children's Rights', to strengthen institutional mechanisms and reinforce technical capacity of NGOs involved in youth and child protection issues; and (c) 'Food Security', to prevent and manage food crises and strengthen the institutional framework of food security issues.

89. By the end of the PRSC period, the Government expects to have attained the following social protection outcomes. These targets are ambitious but are anchored in existing programs:

- (a) Improved ability to plan and monitor social assistance services as evidenced by complete and up-to-date information on coverage and utilization;
- (b) A greater share and better geographical distribution of social services targeted to low-income and vulnerable groups through contracts with local governments and NGOs, with modest increases in utilization rates (already at 85 percent) of existing infrastructure;
- (c) Expanded coverage and better targeting of the non-contributory pensions schemes, as seen in increased participation rates by the poor, with expenditures within the MTEF;
- (d) Increased coverage and quality of NGO programs for children at risk;
- (e) Increased access by the poor to education and health services, resulting in higher attendance rates in secondary education and better nutrition rates;
- (f) Less utilization of emergency coping strategies for food security through better prevention and management of food crises.

## **Recent Progress, PRSC-1 Prior Actions and PRSC-2 Triggers**

90. Measures proposed under the GPRSP would continue and deepen reform efforts underway. The FAIMO system is revamped by (a) monitorable contracts with municipal governments for delivery of infrastructure investments, (b) the introduction of efficient contracting and execution of public works to private firms through delegated contract management (AGECABO)<sup>17</sup> financed by IDA; and (c) support to rural community-based organizations to directly execute small-scale infrastructure and income generating projects financed by IFAD and the US Government. In the social security system, a framework law passed in January 2001 set out the broad reform parameters of the contributory pension scheme and a study of the targeting, administration and financial sustainability of the non-contributory pension system is underway.<sup>18</sup> The Government is requiring tighter eligibility criteria of the PSM. In social assistance, the MTS is piloting service contracts with 6 NGOs. Targeted subsidies to encourage access to education and health by the poor are being tested, including subsidies for secondary school fees and access to medicines by the indigent. And, the institutional response to food crises is under reform, which started with the creation of the National Food Security Commission in 1996 and the adoption by law in 2004 of the National Food Security Strategy. Cape Verde presented its action plan towards a national social protection strategy for international peer review at the WBI-sponsored Workshop on Social Protection Strategies in Africa in Finland in July 2004.

91. PRSC-1 identifies collection and processing of data for the database on social services (Social Services Map) as a critical prior action in social protection as it will allow for better targeting and management of decentralized social services. In moving to PRSC-2, priority triggers expected to be completed include: (a) amendments, as needed, and implementation of new protocol agreements for decentralized social promotion services in all municipalities; (b) improved identification cards issued to all non-contributory pension recipients and tracked through MTS; and (c) food security information system decentralized and functional in rural areas. These triggers represent significant milestones of improved program management tools.

## **VI. IMPLEMENTATION OF THE PROPOSED PRSC**

### **A. Implementation of the Credit**

92. The proposed operation would focus on implementing a medium-term policy agenda, with triggers and monitorable actions tied to completion of GPRSP targets. PRSC-1 will proceed following IDA and IMF's favorable assessment of the GPRSP and the attainment of critical prior actions. Box 1 summarizes prior actions for PRSC-1 and proposed triggers for PRSC-2. The triggers for PRSC-2 are indicative and will be refined during PRSC-2 identification and preparation. As illustrated by Annex 5 (Result Chains) and the Policy Matrix in Attachment A, the focus is not only on key reform actions, but the results and impacts of these actions on Government performance and improved service delivery.

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<sup>17</sup> The reconversion of FAIMO and the creation of AGECABO have been supported through the IDA-financed Social Sector Development Project scheduled to close March 2005.

<sup>18</sup> Reform of contributory pensions is supported through the Growth and Competitiveness Project (Cr. 37550-CV)



**Box 1: Summary Tables, PRSC-1 Prior Actions and PRSC-2 Triggers**

Prior Actions PRSC-1	Potential PRSC-2 Triggers
<b>GPRSP Pillar # 1: Promote Good Governance, Reinforce Effectiveness and Guarantee Equity</b>	
1. Fiscal policy: 2005 budget law takes into account, <i>inter alia</i> , adequate funding of DECRP priorities, cross-cutting reforms for public administration and public expenditure management	1. Fiscal policy: Draft 2006 budget law takes into account <i>inter alia</i> , adequate funding of DECRP priorities, cross-cutting reforms for public administration and public expenditure management
2. Fiscal policy: Completed final draft of a study compiling all debts and contingent liabilities of municipalities, autonomous institutes and State-owned enterprises.	2. Fiscal policy: Plan for settlement of contingent liabilities and debt approved by MOFP
	3. PEM: Prepare MTEF: Provide 3-year revenue forecast, and, for at least 2 sector ministries, prepare sectoral MTEF integrating capital and recurrent budget
3. PEM: Presentation of an action plan to process the 1998-2003 state general accounts. Submission to Parliament of State General Accounts for 1998 and 1999	4. PEM: 2000-2003 State General Accounts submitted to Parliament
4. PEM: Procurement: CPAR action plan adopted by MOFP	5. PEM: Approval by the Council of Ministers of draft National Procurement Code and preparation of Standard Bidding Documents for procurement of works, goods and services and Manual of Procedures
	6. Public sector reform: Submit basic law ( <i>lei quadro</i> ) on decentralization to Parliament
5. Public sector reform: Civil servant's database, including <i>inter alia</i> validated individual information on grade and salary history for at least ½ of civil servants	7. Public sector reform: Civil servant's database operational and up to date to be used to elaborate Civil service reform options
	8. Public sector reform Citizen's House model validated and implementation started
	9. Public sector reform: Law on judicial assistance creating a Judicial Aid Fund approved and published
	10. Public sector reform: Law on Alternative Dispute Resolution (ADR) mechanisms approved and published
<b>GPRSP Pillar #3: Develop and Upgrade Human Capital</b>	
6. Education: Teacher training priorities for public teachers in basic education identified and three year action plan prepared	11. Education: At least twenty percent of the teacher training action plan for basic education has been implemented
7. Education: Elaboration and publication of the professional training diagnostic, including <i>inter alia</i> economic and labor market analysis, identification of training providers and institutional framework for professional training.	12. Education: Elaboration and publication of the professional training strategic plan, including <i>inter alia</i> , number of courses, modalities, financing and timeframe
8. Health: Completion of a first draft of a Health Human Resources (HRH) Strategy	
9. Health: Approval by Council of Ministers of decree-law number 5/2004 to regulate employee's and employers' social security contributions to INPS.	13. Health: Formulation of a medium-term strategy for INPS addressing, <i>inter alia</i> , financial sustainability
<b>GPRSP Pillar #5: Improve the effectiveness and sustainability of the social protection system</b>	
10. Social protection: Collection and processing of data for database on social services (Social Services Map)	14. Social protection: Amendments as needed and implementation of new protocol agreements for decentralized social promotion services in all municipalities
	15. Social protection: Improved identification cards issued to all non-contributory pension recipients and tracked by MTS
	16. Social protection: Food security information system decentralized and functional in rural areas

## **B. Administration and Disbursement Procedures**

93. A single tranche credit of SDR 9.7 million (US\$15 million equivalent) would be made available to the Republic of Cape Verde upon credit effectiveness, anticipated for March 2005. The closing date of the operation would be March 31, 2006. It is envisaged that the follow-on PRSC-2 will support the implementation of the GPRSP in calendar year 2006.

94. The operation will follow IDA's simplified disbursement procedures for adjustment operations and will be disbursed in compliance with the stipulated single-tranche release conditions. Disbursement will not be linked to any specific purchases, and no procurement requirements are needed. Once the Credit is approved by the Board and becomes effective, the Borrower would open and maintain a dedicated deposit account in US Dollars for the Borrower's use. The proceeds of the Credit would be deposited by IDA in an account at the Central Bank of Cape Verde at the request of the Borrower. If, after depositing in this account, the proceeds of the credit are used for ineligible purposes as defined in the Credit Agreement, IDA would require the Borrower to either: (a) return the amount to the account for use for eligible purposes, or (b) refund the amount directly to IDA.

95. Through the Ministry of Finance, the borrower will (a) report the exact sum received into the deposit account; (b) ensure that all withdrawals from the deposit account are for budgeted public expenditures, except for purposes such as military expenditures or for other items on IDA's negative list; (c) provide to IDA evidence that the ECV equivalent of the Credit proceeds were credited to the Consolidated Fund account and disbursements from that account were for budgeted public expenditures. Within four months of a request by IDA, the deposit account will be independently audited on terms of reference acceptable to IDA. For subsequent PRSCs, it is expected that the TdC will provide IDA with its annual report on the public accounts to parliament by the end of the year following the execution of the budget. This reflects the schedule agreed upon with the IMF and in the context of the CFAA action plan to clear the backlog of presentation of public accounts to Parliament.

## **C. Coordination with the IMF and Donors**

96. Cape Verde currently is supported by over one hundred different external partners providing financial and/or technical support. The General Directorate for International Development Cooperation (Ministry for Foreign Affairs) has mapped out and prioritized these external partners, classifying 19 of them as first priority partners. Among these first priority partners are IDA, AfDB, the European Commission, Portugal (the traditional and still largest bilateral partner), Luxembourg, the Netherlands Cooperation and the United States.

97. The GPRSP marks a notable shift towards budget support. The World Bank, the European Commission, and the Netherlands are moving towards coordinated budget support, and the combined amount of this budget support represents a significant share of overall assistance. And the US, via its new Millennium Challenge Account (MCA), is poised to become a major donor.

98. The PRSC has been developed in close coordination with the GPRSP process, and was based on a highly participatory exercise comprising all key ministries in Government, civil society, the private sector and donors (see Annex 10 on donor harmonization). The STAD organized workshops in October 2003 and in May 2004 to refine the strategic focus of the GPRSP, discuss proposals for the PRSC's selective support, link the frameworks of the GPRSP and the PRSC; and seek consensus between donors on selectivity of support and harmonization of procedures.

99. Coordination between IDA, the Netherlands and the European Union has been especially strong, since all three donors are preparing budget support operations. This collaboration was initiated with joint support for key analytical underpinnings, including the PERs, the CFAA, and the CPAR. By agreeing on the findings and recommendations of these due diligence ESWs, the three donors have built an important technical basis to harmonize policies and support. During preparation of the PRSC, the Netherlands and IDA carried out joint pre-appraisal and appraisal missions, in consultation with the European Union. This harmonization process will be carried forward through a Memorandum of Understanding to be signed between the Government, IDA, the EU and the Dutch Cooperation entitled "Partnership Framework between Budget Support Partners and the Government of Cape Verde for the provision of Budget Support". The Partnership Framework commits the parties to joint reviews, harmonization of indicators and prior actions, and synchronization with Government budget cycles with a view to reducing the transaction costs of assistance to the Government (see draft MOU in Annex 6).

100. The PRSC has been prepared in parallel with the IMF's PRGF<sup>19</sup> reviews, following the agreed institutional division of labor. The IMF is taking the lead on macroeconomic issues while IDA takes the lead on structural and social issues. In a number of areas where the mandates of the two institutions overlap, such as public finance, the work is being closely coordinated to ensure that consistent advice is provided to the authorities. IDA will rely on program reviews by the IMF to reach conclusions on the adequacy of macro/fiscal performance, and the IMF will rely on IDA review of public expenditure management to support the implementation of macroeconomic policies supported by the PRGF.

#### **D. Monitoring and Evaluation**

101. The objective of an M&E system for the PRSC would be to ensure timely access to relevant data in order to monitor progress, evaluate the impact of the poverty reduction strategy and help define new orientations or make changes based on analysis of current data. The monitoring and evaluation program for the PRSC builds from the proposals for an integrated national M&E system (Annex 11), the structure of which is shown in Figure 3.

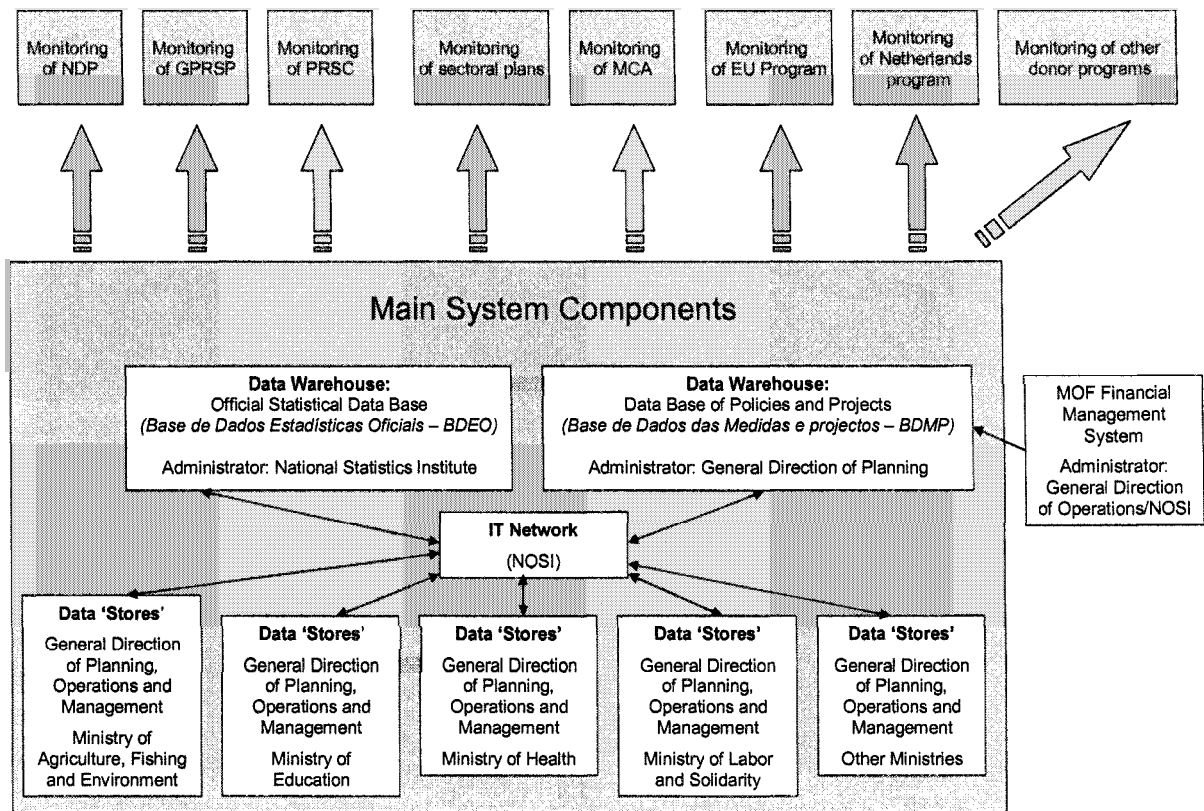
102. The specific monitoring and evaluation activities under the proposed PRSC will be based on, and reinforce, the system proposed for the monitoring and evaluation of the GPRSP discussed previously. They will include: (a) annual GPRSP progress reports; (b) periodic reporting on achievement of MDGs (supported by UNDP); (c) overall annual budget monitoring through public expenditure reviews; (e) annual sectoral budget execution and

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<sup>19</sup> Cape Verde's current three-year PRGF arrangement was approved by the IMF Board on April 10, 2002.

service delivery targets prepared by line ministries; (f) periodic follow-up household surveys to track poverty and access to services carried out by the National Statistics Institute (INE), (g) stakeholder surveys and qualitative monitoring of government performance and poverty impacts contracted through the STAD; (h) analysis of fiduciary performance; and (i) sectoral studies. Overall PRSC monitoring will be the responsibility of the STAD of the Directorate for Planning. A detailed M& E action plan covering the PRSC series is included in Annex 11.<sup>20</sup> A core set of PRSC monitoring indicators are presented in Annex 12 and are drawn (primarily) from NDP, MDG and GPRSP indicators.

Figure 3: Management Information System for Monitoring and Evaluation of Cape Verde’s Social and Economic Development



103. The PRSC will reinforce a results-based M&E system. Although implementing the system and making it fully operational are a longer term process than the time-horizon of the current PRSC allows, this initiative will help set up the basis for such a system and support a

<sup>20</sup> A results chain for the PRSC M&E system is included in Annex 5.

culture of change in the way the government and its partners work for the global development of the country.

## **E. Issues of Special Attention**

### **Capacity Building**

104. Achieving the results expected from the PRSC series will require strengthening the capacity of several of the Government agencies and ministries involved in its implementation. Some of the specific training costs associated with implementing reforms will be included in the annual government budget cycle. Several of the donors have either expressed interest or are already engaged in significant capacity building efforts, including the WHO in developing sectoral approaches in health, the Government of Portugal in strengthening the national statistics system among other areas, the European Union in the development of budget planning mechanisms, the Dutch cooperation in the implementation of the CFAA/CPAR action plans, the French Government in supporting decentralization and municipal strengthening and IFAD, the ADB and USAID in strengthening local associations and community-driven development approaches. The PRSC complements these efforts. The Government itself financed a number of technical assistance and capacity building efforts in preparation for PRSC-1, including expenditure tracking surveys in health and education, strategy and development of instruments in the social protection system, implementation of critical CFAA recommendations and studies, and institutionalization and analysis of the civil service database, all of which will strengthen the capacity of the Government agencies to carry out the PRSC.

105. The World Bank will remain closely involved in capacity building through three main channels: (a) technical advice from members of the core PRSC team, through the policy dialogue in the context of the PRSC or through background analytical work; (b) financial support through relevant TA components of existing projects (e.g. the Growth and Competitiveness Project, the HIV/AIDS Project), and a new PRSP Trust Fund of up to US\$500,000 projected for 2006; and (c) complementary analytical work or financial support from other donors. In the context of one of the most effective collaborations, the Netherlands have committed Euro 2 million for the implementation of the CFAA and CPAR action plans. The EU has also earmarked over Euro 1 million for TA in the context of the upcoming FED program. The UNDP will help organize the next Donor Roundtable, scheduled in mid 2005, during which support for TA as well as financial support will be discussed.

### **Environmental Sustainability**

106. Vulnerability of its climate and rainfall cycles, limited fresh water supplies, and reliance on tourism as an engine of development puts sustainable use of resources and protection of the environment as central to poverty reduction. The Government, with support from the Netherlands cooperation and UNDP, has developed the National Environmental Plan (PANA, 2004-2014) through a multi-sectoral planning process completed in February 2004. PANA identifies policies, institutional and legislative mechanisms, investments and results indicators to promote environmental sustainability in the areas of: management of hydraulic resources, pollution control and waste management, protection of Cape Verde's unique

biodiversity, tourism expansion, maritime and land resources, utilization of efficient and renewable energy systems, and environmental guidelines for industry and commerce PANA provides a strategic orientation for the rational use of natural resources and the sustainable management of economic activities. Its basic premise is that the sustainable use of resources and environmental protection are central to poverty reduction through the safeguard of environmental assets, improved food security, and employment opportunities. The Plan is comprehensive and is the result of broad consultations. It emphasizes sectoral linkages and management of the environment at the municipal level and identifies three main environmental issues that match the MDGs in the areas of water supply; sanitation, and marine and terrestrial biodiversity. Implementation of the Plan will be overseen by the Department of the Environment, which was established in 2002 within the Ministry of Environment, Agriculture and Fisheries.

107. Within the fourth GPRSP pillar, “Develop basic infrastructure, promote rational land use and safeguard the environment”, the Government reiterates its commitment to PANA implementation. The Government of the Netherlands is currently preparing a budget support program targeted to the environmental sector. This would finance national level structures and policies as well as municipal level environmental action plans that have been developed within PANA. Critical prior actions and a set of monitorable results indicators have been identified. Based on reporting activities outlined in the budget support partner MOU, IDA will be apprised of on-going progress in the environmental sector.

108. This first PRSC focuses on policy measures with little direct physical impact on the environment, confirmed by the judgment of the PRSC Working Group (OPCS, PREM, ENV, LEG) that PRSC-1 conforms to the content of an adjustment operation (rather than a sectoral adjustment operation). Therefore, the requirements of Operational Directive 8.60 apply and no specific environmental assessment actions are required. The PANA and other environmental documentation will be reviewed by the Africa Region Safeguards Unit for feedback on the adequacy of the national framework to support any future PRSC that may be designated as sectoral adjustment operation.

## **Gender Issues**

109. Women are more likely to be poor than men in Cape Verde. Although a formal gender assessment has not yet been carried out for Cape Verde, a revised poverty and gender profile has been generated based on analysis of the 2002 household survey. Despite impressive gains for women in basic education and falling fertility rates, almost half of adult women in rural areas cannot read, and domestic violence is an issue. Women are more likely to be unemployed and when employed to earn less than men, even at similar levels of education and experience.

110. Gender issues are mainstreamed throughout the PRSC. Gender disaggregated performance indicators will be tracked in all relevant sectors. Specific priority interventions are included as monitorable targets in the PRSC policy matrix. By the end of the PRSC period (3 years), the Government expects to have attained the following monitorable outcomes:

- (a) Within education, gender parity achieved in primary education would continue at the secondary level;
- (b) Within health, to have improved access of poor women to health services, and specifically to have increased the presence of trained staff including midwives in poor districts;
- (c) Within social protection, to have increased the number of women benefiting from decentralized social services, as well as poor women receiving social pensions and support for essential medicines; and
- (d) Within justice, women will have benefited from community-based program on knowledge of law, and from judicial aid and alternative disputes resolutions.

## **F. Benefits and Risks**

111. In terms of benefits, the value added of the PRSC lies in both the nature of the instrument and the policy results that are expected:

- (a) Improved functioning of institutional framework, including national budget systems. The PRSC increases the incentives to the Government to improve the design and management of public expenditure and fiduciary systems. The benefits of better budget planning, execution and control will have spill-over benefits beyond the PRSC itself as these systems are used to channel national Treasury funds as well as other donor budget support operations. Increased transparency and efficiency of the public sector also sends important signals to the private sector, through better contracting processes and respect for rule-based transactions.
- (b) Reduced transaction costs and distortions of international assistance. As a small country with many donors, Cape Verde's public sector can be overwhelmed with the many coordination demands and its staffing patterns disrupted through the creation of multiple project units. The PRSC will put a premium on donor harmonization and coordination, reducing the burden of multiple monitoring systems and multiple and uncoordinated donor reviews of Government performance. In addition, the PRSC offers added flexibility to the Government to finance key parts of the GPRSP, including expansion of secondary education teaching staff, minimum social pensions for the indigent, or targeted support for medicines to the poor, that would be difficult to finance through an investment loan or a single sector adjustment project.
- (c) Better linkages between sectors and cross-cutting issues. In shifting from a sectoral investment project focus to the PRSC, the ability to embed sector policy within cross-cutting issues, including decentralization, improved expenditure management, and civil service reform will increase the sustainability and impact on service delivery. For example, the development of a MTEF and its extension to sectoral areas based on programmatic objectives is an innovation in Cape Verde and one that would be less likely to achieve without the PRSC.
- (d) Improved service delivery for the poor. The PRSC would provide incremental resources to finance GPRSP priorities, which should translate into improved services to the poor. Specifically the PRSC will help support better schools through teacher training, educational materials, and classroom improvements, health promotion services, equipping and rehabilitation of health centers in poor areas, better distribution of health

personnel better targeted social pensions, and an increase in the quality and supply of social services like daycare centers and programs for the elderly at the municipal level.

- (e) Improved well-being of the population. Better service delivery should translate into improved outcome indicators over time, such as higher secondary enrollment rates, better health status, and increased public satisfaction with services.

112. The following risks and risk mitigation strategies have been identified:

- (a) Macroeconomic shocks could undermine stability and growth. Cape Verde, as a small, island nation is particularly vulnerable to external shocks, including weather conditions and increases in world market prices for oil. Internally, macroeconomic stability is threatened by contingent liabilities discussed previously. These risks could threaten the fixed peg as a macroeconomic policy anchor and crowd out GPRSP priorities. To mitigate these risks, the Government has managed to insulate the budget by phasing out oil subsidies for retail sales (except for natural gas) and liquidating certain non-performing State-owned enterprises. Control of contingent liabilities is a key feature of PEM reforms. Completion of an inventory of existing contingent liabilities of autonomous institutions, municipalities or State-owned enterprises is a prior action.
- (b) The electoral cycle could bring about fiscal slippages and stall implementation of the more sensitive policy reforms. Legislative and presidential elections are scheduled for early 2006. Prior to the latest national elections, the Government significantly increased its spending which caused some fiscal slippage. Another risk is that the electoral period may create some reluctance from the Government to carry out politically difficult reforms in an election year. The PRSC process will seek to shield the investment budget from the cuts it may suffer if fiscal contractions are required. The full effect of the 2006 presidential elections will more likely be felt during the PRSC-2 period, when triggers and prior actions will address the risks of over-spending. Some potentially sensitive reforms have been pushed back to after the election period (e.g., adoption of the new career and salary strategy).
- (c) Impact of shift to using national budget and administrative systems. The shift to programmatic lending calls for reliance on Government systems, as opposed to project implementation units, to implement key programs that are becoming more ambitious and complex. While the pay-off to this approach in the medium to long term appears high, lack of adequate capacity in the public administration in the short to medium term could become a bottleneck. This risk is being mitigated in a number of ways, including civil service reform as a core area of the PRSC, attention to building better budget systems in the context of the PRSC, focusing reform efforts on systems and programs already well under implementation, increasing the complexity of programs progressively over time, and substantial capacity enhancement activities, many of which are supported by donors.



Attachment A: Cape Verde PRSC I Program Document – Policy Matrix.

Medium Term Objectives	POLICY ACTIONS			Indicators	Base (Year) 2004 if not otherwise indicated	Benchmarks			Responsible Entity
	PRSC 1 (prior actions <b>bolded</b> )	PRSC 2 (triggers are <b>bolded</b> )	PRSC 3			2005	2006	2007	
<b>DECRP Pillar # 1: Promote Good Governance, Reinforcing Effectiveness and Guaranteeing Equity</b>									
<b>A. Fiscal Policy</b>									
Support priority sectors and cross-cutting functions	2005 budget law takes into account, <i>inter alia</i> , adequate funding of DECRP priorities, cross-cutting reforms for public administration and public expenditure management	Draft 2006 budget law takes into account, <i>inter alia</i> , adequate funding of DECRP priorities, cross-cutting reforms for public administration and public expenditure management	Draft 2007 budget law takes into account, <i>inter alia</i> , adequate funding of DECRP priorities, cross-cutting reforms for public administration and public expenditure management	Positive JSA of DECRP Prog. Rpt Education as % of budget	20%	positive JSA 22%	positive JSA 22.5%	positive JSA 23%	MFP, <i>Conselho de Ministros</i> (budget reports)
Control Contingent Expenditure	Completed final draft of a study compiling all debts and contingent liabilities of municipalities, autonomous institutes and State-owned enterprises	Executed 2005 budget consistent with approved 2005 budget	Executed 2006 budget consistent with approved 2006 budget	Health as % of budget	6.3%	>6.5%	>7.0%	>7.0%	MFP (studies)
<b>B. Budget Planning and Preparation</b>									
Improve budget planning	Draft laws on budget planning and preparation	Adoption of laws on budget planning and preparation	Prepare MTEF: Single 2007 budget call circular including investment and recurrent budget to all ministries, with ceilings and DECRP priorities	Extraordinary expenditure as % of GDP	0.8% (2003)	1.5%	1.5%	1.5%	MFP (DECRP Progress Report Budget call circular TA reports)
	Prepare MTEF: Develop equivalent budget classification.	Prepare MTEF: Provide 3-year revenue forecast and, for at least two sector ministries, prepare sectoral MTEF integrating capital and recurrent budget.	INPS and other autonomous institutes included in budget	# of ministries working with full or partial MTEF	0	0	2	5	
				% of institutes w/ own budgets presented in the annual budget	54% (20 out of 37)	54%	>67%	>90%	
<b>C. Management and Control of Tax Proceeds</b>									

Attachment A: Cape Verde PRSC I Program Document – Policy Matrix.

Medium Term Objectives	POLICY ACTIONS			Indicators	Base (Year) 2004 if not otherwise indicated	Benchmarks			Responsible Entity
	PRSC 1 (prior actions <b>bolded</b> )	PRSC 2 (triggers are <b>bolded</b> )	PRSC 3			2005	2006	2007	
Improve legal framework/enhance relationship with tax payers	Regulate the relationship between DGCI/DGT and financial intermediaries for tax collection	Revise tax law on income tax (PC&PS), General Tax Code and Fiscal Processes Code	Amend stamp tax law as needed and agreed during preparation of PRSC 2	Number of tax complaints	2000	<2000	<1650	<1400	MFP (DGCI)
Expansion of Tax Base	Finalization of identification of tax payers for VAT	Attribute single identification number and finalize updating of NIF file	Implement new single NIF across all taxpayer registries (DGCI, Customs and recording)	# of registered taxpayers (individuals and companies)	9,000	17,000	20,000	22,000	MFP (DGCI)
Improve efficiency and effectiveness of tax administration	Internal audit function in place in DGCI per law and flow of financial information reconciled between DGCI, BOCV and DGT	Improvement of tax controls	Implement the follow-up program of tax payers in arrear and impose required penalties	Tax arrears as % of total tax due	40%	35%	30%	25%	MFP (DGCI)
<b>D. Budget Execution and Reporting</b>									
Amend the structure of the expenditure chain to reinforce checks and balances	Design deconcentrated FM system for expenditure commitment and liquidation	Deconcentrate the expenditure commitment and liquidation process through IT in at least 3 ministries	Deconcentrate the expenditure commitment and liquidation process through IT in at least 3 more ministries	# of ministries working with deconcentrated FM system	0	>3	>6	>6	NOSI, MFP, Sector Ministry
Improve comprehensiveness and timeliness of expenditure data	Prepare draft law creating and regulating function of "financial controller"	Submit to Parliament law creating and regulating the function of "financial controller"	Financial controllers active in at least 2 ministries	# of financial controllers recruited and trained	0	10	10	10	MFP (OG)
	Expand use of NOSI-based public accounting for autonomous institutes	Limit supplementary budget period to 2 months for 2004 budget. Institute quarterly elaboration of accounts	Limit supplementary budget period to less than 2 months for 2005 budget	# of months for supplementary budget period	>3	<2	<2	<2	MFP (administrative docs)
<b>E. Improve Cash and Debt Management</b>									
Integrate public debt management with treasury management and the budget	Convert existing protocols into Treasury Obligations of Treasury Bills	Implement IT links to treasury management and budget management systems	Integration of public debt management with budget management	# of autonomous institutes participating in consolidated treasury management	0	0	2	>15	NOSI, MFP
		Initiate treasury management through Central Treasury Account in autonomous institutes	Increase number of autonomous institutes with treasury management through the Central Treasury Account						

Attachment A: Cape Verde PRSC I Program Document -- Policy Matrix.

Medium Term Objectives	POLICY ACTIONS			Indicators	Base (Year) 2004 if not otherwise indicated	Benchmarks			Responsible Entity	
	PRSC 1 (prior actions <b>bolded</b> )	PRSC 2 (triggers are <b>bolded</b> )	PRSC 3			2005	2006	2007		
<b>F. Improve Internal and External Controls</b>										
Improve impact of external control	<b>Presentation of an action plan to process the 1998-2003 state general accounts. Submission to Parliament of State General Accounts for 1998 and 1999.</b>  Present to Council of Ministers law(s) on reorganization and competencies of TdC  Submit to Parliament laws on organization, financial autonomy of the <i>Inspecao Geral das Financas</i> (IGF, internal audit) and systems of financial controls	<b>2000-2003 State General Accounts submitted to Parliament</b>  Adopt Law and regulating decrees on reorganization and competencies of TdC	2004 State General Accounts submitted to Parliament  TdC reorganized as per regulating decrees	# of days before presentation to Parliament of executed budget of the previous year.	6 months	<6 months	<6 months	<6 months	MFP, <i>Conselho de Ministros</i>	
		Increase the number of missions carried by IGF in the technical ministries, autonomous institutions, or municipalities	Performance of IGF sustained or improving	# missions by IGF	32	35	40	42	MFP	
<b>G. Procurement System</b>										
Streamline and codify procurement methods	<b>CPAR Action plan adopted</b>  Identify resource needs	<b>Approval by the Council of Ministers of draft National Procurement Code and preparation of Standard Bidding Documents for procurement of works, goods and services and Manual of Procedures</b>  Study on training strategy approved by authorities	(i) Adoption of the National Procurement Code, (ii) promulgation of application decrees, (iii) new institutional framework in place and (iv) effective use of standard bidding documents and manual of procedures  First training modules for procurement officers delivered at INAG	# of ministries publishing their procurement opportunities	0	3	9	15	MFP, MIT, (admin. Docs)	
		Submit basic law ( <i>lei quadro</i> ) on decentralization to Parliament	Review current arrangements on the basis of the basic law ( <i>lei quadro</i> ) on decentralization	Administrative actions	NA	NA	NA	NA	NA	
<b>H. Decentralization</b>										
Clarify repartition of competencies between State and municipalities	Draft the basic law ( <i>lei quadro</i> ) on decentralization re. transfer of competences to municipalities	Submit basic law ( <i>lei quadro</i> ) on decentralization to Parliament	Review current arrangements on the basis of the basic law ( <i>lei quadro</i> ) on decentralization	Administrative actions	NA	NA	NA	NA	MAL, Municipalities	
		Identify resource needs	First training modules for procurement officers delivered at INAG	# of procurement officers trained	0	+20	+20	+20	MFP, Min Infra, MREAP (admin. docs)	

Attachment A: Cape Verde PRSC I Program Document -- Policy Matrix.

Medium Term Objectives	POLICY ACTIONS		Indicators	Base (Year) 2004 if not otherwise indicated	Benchmarks			Responsible Entity
	PRSC 1 (prior actions <b>bolded</b> )	PRSC 2 (triggers are <b>bolded</b> )			PRSC 3	2005	2006	
Improve municipalities financing (timeliness of transfers and volume)	Submit to Parliament new local finances law and issue implementation decrees	New financing mechanisms operational and implemented	% of State resources transferred to municipalities through FEF	<7% of total tax income	Idem	>7	>7	MAI, Municipalities
Improve budget execution and reporting for municipalities	3 municipalities working with IT-based (NOSI-supported) expenditure procedures & systems	At least 2 more municipalities working with IT-based expenditure procedures & systems	Increase in number of municipalities working with IT-based expenditure procedures & systems	12	<12	<6	<6	MFP, NOSI, Municipalities
<b>I. Public Administration</b>								
Improve and integrate public sector reform management	Define operational mechanism for public sector reforms coordination and implementation	Put in place operational mechanisms for public sector reforms coordination and implementation	Operational mechanism for public sector reforms coordination and implementation fully functional	NA	NA	NA	NA	MREAP and other public institutions
Rationalize public administrations structures	Define "public manager" position	Implement dispositions of 2004 Decree on Administrative Structures and 2004 Decree on Public Managers in priority ministries (Health, Education, Agriculture)	Continuation and monitoring of public manager position	0	4	>4		MREAP, MFP
Improve human resource management and capacity	Civil servant's database, including <i>inter alia</i> validated individual information on grade and salary history for at least ½ of civil servants in the database	Civil servant's database operational and up to date to be used to elaborate civil service reform options	Civil service database operational and up to date	10	50	100	100	MREAP and all ministries
	Define and validate successive thresholds to reach adequate training budget calculated as a % of wage Bill (cf. Art. 24 of Decree 86/92)	Human resources capacity evaluation and training plans finalized for key institutions	Training plans implemented	Second threshold reached	0,5%	0,7%	0,8%	MFP, MREAP

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Medium Term Objectives	POLICY ACTIONS			Indicators	Base (Year) 2004 if not otherwise indicated	Benchmarks			Responsible Entity
	PRSC 1 (prior actions <b>bolded</b> )	PRSC 2 (triggers are <b>bolded</b> )	PRSC 3			2005	2006	2007	
Improve rapid access to key public services for users	Define model for Citizen's House (single window for most used services)	<b>Citizen's House model validated and implementation started</b>	Citizen's House established in Praia	# of citizens houses	0	0	0	1	MREAP, NOSI, Ministres, municipalities
<b>J. Justice</b>									
Promote sensitization and communication campaigns to enhance knowledge and adequacy to the rule of law	Prepare and sign Protocols between the Ministry of Justice, Municipalities and other local stakeholders	17 regional communication programs elaborated and finalized	Financing mechanisms for communication initiatives of local communities established and operational	Number of Protocols signed	0	>17	>17	>17	MJ, municipalities
Insure free and easy access to justice for the poor	Draft law on judicial assistance creating a Judicial Aid Fund presented for approval to the Parliament	<b>Law on judicial assistance creating a Judicial Aid Fund approved and published</b>	Judicial Aid Fund operational	Judicial Aid Fund established	0	No	No	Yes	MJ
Create and promote alternative dispute resolution (ADR) mechanisms	Draft law on ADR mechanisms presented for approval to the Parliament	<b>Law on ADR mechanisms approved and published</b>	MOJ resolution establishing rules and by-laws for mediation centers adopted and published and training program for mediators carried out	# mediators trained	0	0	100	200	MJ
<b>DEC RP Pillar #3: Develop and Upgrade Human Capital</b>									
A. Education Improve quality and efficiency of basic education	Elaborate a plan for the revision of the basic education curriculum	Curriculum revised in the first sub-cycle of basic education (grade 1 & 2)	Curriculum revised in the second and third sub-cycles of basic education (grades 3 to 6)	Repetition rate in basic education	12%	<11%	<8%	<8%	MOE - Statistical Unit
		Teacher training priorities for public teachers in basic education identified and three year action plan prepared		At least 20% of the teacher training action plan for basic education has been implemented	% students who complete basic education in 6 yrs	44.6%	46.6%	47.3%	48%
		At least 50% of the teacher training action plan have been implemented		Intake rate in secondary education	81.5%	82%	82.5%	83%	MOE - Statistical Unit
				Pupil-teacher ratio in primary	27 (2003/04)	28	30	31	MOE and pedagogical institute
				% of basic education teachers without formal pedagogic training	23%	19%	19%	17%	

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Medium Term Objectives	POLICY ACTIONS			Indicators	Base (Year) 2004 if not otherwise indicated	Benchmarks			Responsible Entity
	PRSC 1 (prior actions <b>bolded</b> )	PRSC 2 (triggers are <b>bolded</b> )	PRSC 3			2005	2006	2007	
Expand and diversify the supply of general and technical secondary education	Identify priority areas for the construction and equipping of secondary schools	Expand coverage of early childhood education	Continue expansion of early childhood education	% of basic education teachers with incomplete training	27%	24%	22%	21%	MOE – Statistical Unit
	Initiate the implementation of programs aimed at strengthening secondary technical education	At least 20% of the program of extension and improvement of secondary schools implemented	At least 50% of the program of extension and improvement of secondary schools implemented	% of 3-5 years old enrolled in preschool	56%	58%	60%	62%	MOE – Civil Works Division
		At least 25% of the activities included in the secondary technical education program implemented	At least 50% of the activities included in the secondary technical education program implemented	% of children completing 8 years of schooling	50%	53%	56%	60%	MOE – Basic and Secondary Ed. Division
Expand and diversify professional training service delivery	Elaboration and publication of the professional training diagnostic including <i>inter alia</i> economic and labor market analysis, identification of training providers and institutional framework for professional training	Expand the school welfare program for secondary students from poor households	Continue the expansion of the school welfare program for secondary students from poor households	Number of students receiving aid to attend secondary school	3.7%	4.0%	4.5%	5.0%	MOE – Basic and Sec.Ed.Div, ICASE.
		Elaboration and publication of the professional training strategic plan, including <i>inter alia</i> , number of courses, modalities, financing and timeframe	At least 20% of activities included in the professional training strategic plan implemented	Number of professional training providers accredited	10,000	11,000	12,000	13,000	IEFP (Professional Training and Employment Institute), MOE
<b>B. Health</b>									
Structural Issues: Improve access and quality of health services	Health facilities map completed and implementation begun	Health facilities rehabilitation and equipping continued	Health facilities rehabilitation and equipping completed	% of the total population with easy access to health services	35% (2004)	47%	76%	80%	MOH, Min of Infrastructure Municipal (Surveys and routine reports)

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Medium Term Objectives	POLICY ACTIONS			Indicators	Base (Year) 2004 if not otherwise indicated	Benchmarks			Responsible Entity
	PRSC 1 (prior actions <b>bolded</b> )	PRSC 2 (triggers are <b>bolded</b> )	PRSC 3			2005	2006	2007	
Reproductive and Child Health and Prevention of communicable and non communicable diseases: Improve capacity to identify, prevent, and treat communicable and non communicable diseases	Diagnosis of Health Information System (HIS) completed and 80% of action plan developed	HIS action plan completed (1 <sup>st</sup> trimester of 2005) and implementation initiated	HIS action plan implementation continued	Publication of annual report of health statistics	---	morbidity all illnesses	National health accounts	MOH, INE (Routine reports)	
	Implementation of priority health programs continued and financing included in the 2005 budget	Priority health programs implemented	Priority health programs implemented	Annual % of children under the age of 1 who are fully vaccinated	73.7 (2003)	80%	85%	MOH Routine reports	
	Planned NCD activities for 2005 (including studies) fully financed in 2005 budget	Studies on NCDs completed, results published, and Plan of Action developed	NCD Plan of Action implemented	Prevalence of HIV/AIDS in women during assisted deliveries	1.1% (2003)	1.1%	1.1%	MOH Routine reports	
Human Resources: Improve the planning and management of human resources	Completion of a first draft of a Health Human Resources (HRH) Strategy for the public health sector	Implementation of HRH strategy initiated	Human resources strategy implementation continued	# of nurses/habitant # of doctors/habitant	N/A	studies and plans available	tbd	MOH Surveys	
Financial Protection: Improve the financial access and sustainability of health services	Approval by Council of Ministers of decree-law number 5/2004 to regulate employee's and employers' social security contributions to INPS	Formulation of a medium-term strategy for INPS addressing, <i>inter alia</i> , financial sustainability	Reform of INPS/health continued	Annual debt of INPS/health reduced	1:1205 (2002) 1:2682 (2002)	1/1967 1/1920	1/1004 1/1685	MOH, MOE, MREAP Routine statistics, rpts	
<b>DECRRP Pillar #5: Improve the Effectiveness and Sustainability of the Social Protection System</b>									
<b>A. Protection, Integration and Social Insertion</b>									
Redefine regulatory framework for decentralized service delivery	Design of revised protocol agreements for the decentralized of social promotion services	Amendment, as needed, and implementation of new protocol agreements for decentralized social promotion services in all municipalities	Implementation of revised protocol agreements	# of revised agreements signed	0	17	17	MTS, municipalities (annual rpts)	

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Medium Term Objectives	POLICY ACTIONS			Indicators	Base (Year) 2004 if not otherwise indicated	Benchmarks			Responsible Entity
	PRSC 1 (prior actions <b>bolded</b> )	PRSC 2 (triggers are <b>bolded</b> )	PRSC 3			2005	2006	2007	
Improve planning and management instruments	<b>Collection and processing of data for database on social services (Social Services Map)</b>	Routine updating of Social Service Map data	Routine updating of Social Service Map data	# Beneficiaries of social services % of capacity utilized (of functioning facilities) % of facilities functioning % w/ ID card	23,838 85% 86% 0	+ 90% 95% 100%	+ 90% 95% 100%	+ 90% 95% 100%	INE MTS, NGOs municipalities(a nual rept
Improve management and coverage of non-contributory pensions	Analysis of reform options for non-contributory pension system (Pensao Social Minima and Pensao de Solidaridade)	Approval by MTS of final design of non-contributory pension program administration <b>Improved identification cards issued to all non-contributory pension recipients and tracked through MTS</b>	Implementation and monitoring of non-contributory pension system	# of recipients of Min. Social Pension # of beneficiaries of Soc. Solid. Pension	6514 (2004) 9473 (2004)	+15% +22%	+7% +9%	+6% +8%	MTS, MOF (annual report and budget monitoring)
Increase access of at-risk groups to education and professional training	Analysis of poverty and educational access (based on IDRF)	Implementation and monitoring of actions	Implementation and monitoring of actions	# of poor students that benefit from school support	100	250	450	700	MTS, NGOs, ICASE, IFP, municipalities
Increase access of at-risk groups to health services	Design of program for access of indigent to medicines	Program implemented and operational for access of indigent to medicines	Program implemented and accounting system operational for access of indigent to medicines	% of target pop (PSM, PSS, etc.) w/ access to medicines	0	--	50%	50%	MTS, MOH, INPS, NGOs (sector rept)
Increase access of at-risk groups to nutritional support	Analyze nutritional situation using IDRF	Strengthening and expansion of nutrition programs for children and elderly	Strengthening and expansion of nutrition programs for children and elderly	# of at-risk children with access # of at-risk elderly with access # of contracts assigned	1,552 (ICM + MTS) t.b.d. (C.S.) 6	+10% +5% 10	+10% +5% 12	+10% +5% 14	ICM/MTS, NGOs, municip.
Promotion and support for local community development initiatives	Assign protocol agreements between MTS and NGOs for local community development initiatives	Implementation and monitoring of service contracts between MTS and NGOs for local community development initiatives	Implementation and monitoring of service contracts between MTS and NGOs for local community development initiatives	# beneficiaries	2,560	+10%	+10%	+10%	MTS, Plataforma, (sector rept)

**B. Protection of Children's Rights**



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Medium Term Objectives	POLICY ACTIONS			Indicators	Base (Year) 2004 if not otherwise indicated	Benchmarks			Responsible Entity	
	PRSC 1 (prior actions <b>bolded</b> )	PRSC 2 (triggers are <b>bolded</b> )	PRSC 3			2005	2006	2007		
Strengthen institutional mechanisms	Analysis and evaluation of existing institutional mechanisms to prioritize, regulate and coordinate interventions in children's rights	Definition and approval of institutional and normative framework for agencies dealing in children's rights	Implementation of normative activities for agencies dealing in children's rights	% of organizations followed up	0	10%	50%	100%	ICM, MTS, Plataforma	
Reinforce technical capacity of NGOs involved in youth issues	Identification of training needs of NGOs and CBOs	Design and implementation of institutional strengthening	Expansion of programs of NGOs involved in youth issues	# of projects executed # of children with access to NGO services	0 t.b.d. (CS)	10 +10%	15 +10%	20 +10%	ICM, MTS, INE, Plataforma	
<b>C. Food Security</b>										
Improve prevention and management of food crises and strengthen the institutional framework of food security issues	Completion of design of decentralized food security information system (SISA)	<b>SISA decentralized and functional in rural areas</b>	SISA decentralized and functional in urban areas	# food security bulletins # months between data collection and publication of alerts	4 (2004) -----	12 <1	12 <1	12 <1	CNASA, DSSA, INE (Boletim Oficial)	
	Approval of National Food Security Strategy and reform of National Food Security Commission (NASA) to integrate food security and poverty reduction issues	Creation of new institutional mechanisms to integrate food security and poverty reduction issues	Implementation of harmonization mechanisms to integrate food security and poverty reduction issues	Regular commission meetings	0	1 nat 2 loc	1 nat 2 loc	1 nat 2 loc	NASA rept, DECRP rept DSSA	

Annex 1

Letter of Development Policy



REPUBLICA DE CABO VERDE  
MINISTERIO DAS FINANÇAS E PLANEAMENTO  
GABINETE DO MINISTRO

Praia, January 11<sup>h</sup>, 2005

Mr James D. Wolfensohn,  
President of the World Bank,

1818 Street, N.W.  
Washington, D.C.  
20433. U.S.A.

Our Ref. n° 017/GMFP/05

**SUBJECT:** *Letter of Development Policy for Poverty Reduction Support Credit (PRSC)*

Dear Mr Wolfensohn

1. I am writing on behalf of the Government of Cape Verde to request a credit in the amount of US\$ 15 million from the International Development Association, to continue supporting the Government of Cape Verde's structural reform program.
2. This Letter of Development Policy (LDP) is a summary of the Growth and Poverty Reduction Strategy Paper (GPRSP), and that the details of this program is embedded in said GPRSP.
3. The aforementioned credit will help to meet financing requirements that Cape Verde faces to implement its Growth and Poverty Reduction Strategy (GPRS).
4. The new initiative GPRS, is expected to run from 2005-2007 and will be a continuation of the earlier programs documented in IPRSP. These are **The Grand Options Plan (GOP)** 2002-2005, which emphasised on growth, poverty and income inequity reduction among the households. To strengthen GOP, the GoCV in the same period initiated the **National Development Plan (NDP)** 2002-2005 that aimed at maintenance of the macroeconomic balances; strengthening and consolidation of the structural reforms; developing competitive advantages for the economy; promotion of the economic growth and employment.

**Recent developments**

5. Cape Verde's economic performance has improved substantially over the past few years. Real GDP per capita is estimated at US\$ 1,420 (2002), which shows a significant improvement since independence (1975), at which time it was US\$ 190, or even as compared to 1990, when it was US\$ 902. The average growth rates of GDP in the years 2001 to 2003 was 5,5%. This increased slightly to 4% in the year 2004. This strong and sustained economic growth has been anchored on the private sector development and integration of Cape Verde in the world economy. Private investment – especially external private investment – played a key role in the process by replacing public investment, which dominated until then.
6. The tertiary sector became dominant in the productive structure, supported by strong growth in tourism, as well as transports, banking and trade. The primary sector moved slowly. With the growing rural population, and considering that agricultural incomes play a key role in the survival of one quarter of the labor force, the structural weakness of the primary sector had a crucial negative impact on the income and poverty risks facing rural workers



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7. This gain in the growth of the real GDP per capita is manifested by improvements of the Human Development Index (HDI). HDI rose from 0.587 to 0.670 in the years 1990 and 2002 respectively. At present, life expectancy is 72 and 66 years for women and men accordingly. In addition, Human Poverty Rate (IIPR), which reflects deficiencies in terms of life expectancy, income, education, literacy and other areas improved from 28.8% in 1990 to 17.7% in 2002.
8. Cape Verde's economic growth of the last decade resulted in an increase in the inequality of income distribution as shown by the Gini coefficient, which in 1988-89 was 0.43 and in 2001-2002 it increased to 0.57. The excessive concentration of wealth is illustrated by the fact that 10% of the very poor population has only 1% of total income. The first seven deciles (70% of the families) represent only 28% of per capita expenditure, while the last deciles (the wealthiest 10%) account for 47% of total expenditures.
9. The island of Sao Vicente has the highest concentration of wealth, with a 0.60 Gini coefficient, whereas the national average is 0.57. Next on the list are the islands of Santo Antao, Sao Nicolau, and Santiago, with 0.56.
10. The economic acceleration was accompanied by deep structural change in the economy, with services strengthening on top. This situation had an important impact in terms of resource allocation among the sectors and on factor output, and, thus, on income and wealth distribution, on a national level, as well as within each island. On the other hand, the strong expansion in income in sectors such as tourism and other services worsened the imbalances in income distribution. Increasing demographic pressure, combined with erosion of agricultural soils, led to a negative impact on rural per capita incomes, thus also contributing to increase inequalities in income distribution.
11. Causes of poverty relate essentially to living conditions in rural and peri-urban areas and to the low employability of the poor. The combination of the nature of Cape Verdean agriculture, the high population growth rate, and the random nature of the climate, explain the rural stagnation and low incomes. In fact, this process may aggravate soil erosion, which reduces their productivity and availability.
12. To overcome the lack of resources in Cape Verde, the poor turn to migration and to the informal sector. At first, migration led Cape Verdeans abroad, but later, facing increasing difficulties in the host countries, they also started moving to the urban areas within the country. A clear evidence of this is the increase in population recorded in the city of Praia, with resulting pressure on sanitation, housing, education, and health facilities.
13. The FAIMO have become the main safety net in rural areas. Subsistence animal husbandry also plays a key role in rural areas, as it represents a security factor against the crises that follow periods of drought. In urban areas, informal activities are the main way out for many families, as indicated by the surge in the informal economy. Women play a key role in this area, leading to a reduction in female poverty during the 1990s.
14. The budget deficit decreased largely from 19.1% of GDP in 2000 to only 3.2% in 2003. As a result of appropriate fiscal policies, current account deficit excluding grants dropped from 25.2% of GDP to 14.5% between 2000 and 2003. Meanwhile, the stock of external debt has decreased over the last decade. Despite this reduction, debt service remains a serious threat to any macroeconomic achievements and may impede and further delay the resilience of the economy. Moreover, external financing support to GoCV has steadily decreased from 16.5% of the GDP in 2001 to 10.3% in 2003.



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15. Inflation moved within reasonable boundaries during the period: from 3.8% in 2001 it dropped to 1.2% in 2003, which is comfortably below the reference threshold of 2.5% - 3% that is necessary to maintain price stability and competitiveness of the economy vis-a-vis the country's main partners in the euro zone.

**Program overview**

16. Cape Verde is a small country geographically as well as economically. Findings from Household Income and Expenditure Survey (HIES)/ Household Living Conditions Survey (HLCS) conducted in 2001-2002 reveals that 37% of the population is considered poor, with 62% living in rural areas. Further, about 54% of the total poor population is considered to be extremely poor, while in terms of gender, about 51% of the poor are women.
17. The Government's Growth and Poverty Reduction Strategy (GPRS), is outlined in the Poverty Reduction Strategy Document (PRSP) 2004-2007, which was prepared with support from the World Bank. Its main objective is a substantial reduction in the levels of absolute poverty in Cape Verde through the adoption of an all-around poverty reduction policy, covering macro-economic policies, public management policies, as well as sectoral and microeconomic policies targeting the poor.
18. The GPRS is part of a broader strategic planning exercise that has been under way in Cape Verde and has as main components the Grand Options of the Plan 2002-2005 (GOP) and the National Development Plan (NDP). The link between the NDP and the GPRS ensures global coherence of the planning instruments, thus facilitating management and monitoring of the various programs, and avoiding duplication of efforts and procedures. On the other hand, both the NDP and the GPRS include the same sectoral programs, thus guaranteeing coherence between the global growth and poverty reduction goals on one hand, and the sectoral policies, on the other.
19. The overall aim of the GPRS is to further reduce poverty by implementing a series of basic policies that include consolidating macroeconomic stability, decentralizing public decision-making and service provision, and promoting employment by developing agriculture and other productive sectors with a multiplier effect on employment. Additional basic policies include income distribution and social protection, and environmental protection.
20. From the above policies, the Government derived five strategic pillars setting forth the various forms of public intervention at the central and local level, using a combination of programs and policy measures. The five pillars are: (i) Promote good governance, reinforcing effectiveness and guaranteeing equity; (ii) Promote competitiveness to foster economic growth and employment creation; (iii) Develop and upgrade human capital; (iv) Improve and develop basic infrastructure, promote land use management, and protect the environment; (v) Improve the effectiveness and sustainability of the social protection system. The 2005 budget law reflects adequate funding for these five pillars

**Promote good governance, reinforcing effectiveness and guaranteeing equity**

21. The GoCV realizes that the success of GPRS initiative will depend on good governance that focuses on the effectiveness of the economic policies especially the pro-poor policies. Under this program the GoCV aims to reform the **public administration** at first place by introducing capacity building programs for the civil servants and enhancing manpower management skills. Particular emphasize will be in the area of information systems, communications technologies and human development planning. The government initiated the construction of a civil servant data base in 2004 and intends to complete it by the end of PRSC2



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22. Secondly, the objective is to reform and to strengthen the **judicial system** by enforcing the rule of law, better knowledge of their rights, establishing regional funds for legal assistance and centers for alternative resolution of conflicts are to be created. The GoCV has mandated the Ministry of Justice to coordinate all other relevant organs in Cape Verde such as the National Human Rights Committee, the Constitutional Tribunal, the Justice Promoter, Office of Attorney-General and the Cape Verdean Bar Association. At same time, the National Assembly is working to establish the Constitutional Tribunal.
23. Thirdly, the GoCV plans to continue with the reform of the State's **financial management systems** under transparent and participatory approach. The focus is on implementing the Country's Financial Accountability Assessment (CFAA), Public Expenditure Review (PER) and the Country Procurement Assessment Review (CPAR). This reform is directed into Budget Programming and Preparation, Management and Control of State Revenues, Management of the State's Treasury and the Public Debt, Conditions of Budget Execution, Management of Municipal Finances, Capacities of the General Inspectorate for Finances, Management of State Assets, Food Aid Management and Financial Reporting and finally to introduce the Public Procurement Code. The CPAR action plan is already adopted and the GoCV is taking all necessary measures for its implementation. In addition, the government is engaged in the preparation of state general accounts for the years 1998 and 1999 to submit them to Parliament and in finalizing state general accounts for the period 2000-2003. The action plan and evidence of 1998 submission sent to the Bank and the general account for the year 1999 is expected to be submitted by the end of this year. Finally, the GoCV is currently finalizing the study compiling all debts and contingent liabilities of municipalities, autonomous institutes and parastatals in order to set up a plan for managing contingent liabilities and debts approved.
24. Fourthly, is the **fiscal reform** that involves the introduction of the consumption based Value Added Tax (VAT) in January 2004 as well as the streamlining of custom tariffs. The GoCV objective with these reforms is to increase resources available for poverty reduction programs.
25. Fifth, the GoCV plans to enhance **decentralization program** that seeks to shift the decision making power to the local structures, specifically the poor. This will ensure a more equitable distribution of resource by establishing the Financial Equilibrium Fund (FEF). The plan also seeks to coordinate smoothly the operation of Civil Society Organizations (CSO) and that of Non-Governmental Organizations (NGO) in improving the municipalities' capabilities in the provision of health, education, environment, land use planning and service delivery.

**Promote competitiveness to foster economic growth and employment creation**

26. The GoCV continues with its efforts of advancing market economy by encouraging the establishment of domestic large, medium and micro enterprises, foreign direct investments, as well as promotion of partnerships with foreign investors. In view of this, the government has launched a **competition policy** that advocates entrance of new businesses and firms in all the sectors of the economy. For this purpose, the GoCV intends to continue investing in infrastructure and other basic conditions targeted to facilitate private investments.
27. In order to ensure efficiency in the provision of goods and services the GoCV will continue implementing the **privatization** program. This is expected to reduce the government deficits by eliminating subsidies, increases the government resources in the form of tax revenues and sale proceeds of the privatized structures and support the growth strategy. Moreover, the process will fulfill the government's ambition of providing the poor with more varieties of goods and services at affordable prices.



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**Develop and upgrade human capital**

28. Despite the fact that Cape Verde is considered a middle income country, still unemployment poses threat especially to the poor. In the year 2001/02 unemployment rate stood at 22% for the whole nation. About 33% of the labor force is poor based on the HLCS of 2001/02. Indeed, 20% of the total poor population has been unemployed for more than 12 months while only 10% of the non-poor population has been unemployed over the period under investigation. This implies that, **unemployment** greatly affects the poor population. In sum, the unemployment rate of the poor population is 33% while that of non-poor is about 16%.
29. To arrest the situation the GoCV has initiated successfully an **employment policy** that is expected to create more jobs and generate incomes to the poor. Attention has been directed towards programs such as public works that offer temporary employments at a lower pay in infrastructure projects: such as road construction, soil and water conservation structures and reforestation programs.
30. At the same time the GoCV under the Ministries of Labor (MoL) and Education (MoE) is coordinating various skills development programs to assist the poor in securing more jobs and increase their pays. This has led to the initiation of **the employment and the professional training policies** under the two ministries respectively.
31. Aside, the GoCV is supporting the **reform of the land tenure system** to encourage agricultural sector employment that provides a livelihood of the largest part of the population. Moreover, strategic expansion of the tourist industry is expected to increase employment and incomes of the poor especially in the islands of Sal, Boa Vista and Maio.
32. The development of human capital depends on two important ingredients namely; **education and health**. The track record is impressive but much remains to be done, particularly with regards to gender disparities between rural and urban areas. For instance, Cape Verde has attained the goal of universal primary education. However, it is necessary to improve the quality of the education system. Teacher training priorities is indentified and action plan developed. In addition, students are to be encouraged to complete secondary or professional education in order to improve their chances of successfully entering the labor market. In this regard, a white paper diagnosing professional training is prepared . Literacy rates improved significantly during the past ten years and more will be done over the coming years in this regard.
33. Another aspect of good health is the reduction of **child mortality** as well as **infant mortality**. However, the country's high health risk vulnerability calls for constant preventive and curative measures including routine vaccination and improvement of birth conditions in maternities. The goal of reducing child mortality by two thirds by the year 2015 may be achieved if past policies that led to the current results are strengthened. In this regard, the GoCV has already completed the analysis of health human resources and drafted a strategy to increase the ratio of health professionals per inhabitant.
34. The fight against **HIV/AIDS** continues to be a concern for the GoCV. The GoCV realizes that there is a need to advocate behaviour changes based on the current prevalence rate. There is a decline in the reported cases of tuberculosis and the associated deaths considerably between 1989 and 2002. Further, good results have also been achieved in treating this disease and **Malaria** is under control, except during rainy season.



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**Improve and develop basic infrastructure, promote land use management, and protect the environment**

35. The GoCV recognizes the importance of basic infrastructure development that includes sanitation, water provision, and road construction and maintenance. In terms of **sanitation**, the government plan is to enhance the collection and treatment of residual water in the cities of Praia and Mindelo and extend this to the other cities pending fund availability. There is a serious problem on drainage system that threatens the hygienic conditions of the poor and forms a major source of pollution especially of the domestic water.
36. Given the current outdated **land use policies** the government is underway to implement a comprehensive modern Municipal Urban Plans that will replace the obsolete Land Use Plans. Thus the GoCV plans to reform the current basic cartography and cadastral systems to allow for property rights enforcement and municipal boundaries useful for other infrastructure development and property tax collections.
37. The most common **environmental calamities** such as soil erosion, coastline degradation, water and air pollutions, landslides, loss of biodiversity, waste accumulation and dispersion are ubiquitous to the GoCV. To correct for the situation the GoCV has commissioned the second National Environmental Action Plan that seeks to outline the policy implications and management framework to mitigate the situation.
35. Other infrastructure development policies include road services, maritime transportation facilities and airport infrastructures. Inter-urban **road transportation** has been totally liberalized; the open policy for the **maritime transportation** policy originates from the liquidation of the state-owned maritime company "Area Verde"; and the **air code** stipulates the regulations pertaining to the principles, rules and procedures to participate in international civil aviation industry and has led to the signing of some international air freight cooperation agreements.
38. This shows that the GoCV is highly committed to introduce reforms and restructure the transportation industry that is key to cost reduction and ensures effective delivery of goods and services to the poor.

**Improve the effectiveness and sustainability of the social protection system**

39. The current system of social protection under GoCV continues to suffer from weak targeting of the poor sections of the population. This has called for a systematic strategy that involves protection and support mechanisms to the household members in a situation of need, risk vulnerability and social exclusion.
40. To counter this, efforts are already underway to implement a financially sustainable **pension scheme** and reform the **social security system**. Nevertheless, there is a need to ensure that social protection transfers need to be well targeted to the poorest strata of the population if they are to have their desired impact on reducing poverty. Preliminary data tables submitted to Bank Data under-going. Currently undergoing final quality checks of data; it will sent CD-Rom by the end of December.



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41. More specifically, the GoCV advocates the unification of the existing systems that provides **employment** such as the redefinition of the FAIMO workers' benefits system and the reinforcement of the capacity of the National Social Security Institute (INPS). Regulatory reform of INPS, including *inter alia* reform of the method of payment of worker's social security contributions, has been approved by Council of Ministry and initiated. It has been published by Decree-Law n°5/2004 in Boletim Oficial dated of 16 Feb. 2004 "Estabelece as bases de aplicacao do sistema de seguranra Social de trabalhadores por conta de Outrem".
42. Alternatively, the government emphasizes credit provision to support the poor and allow them to contribute into the production process. The aim is to promote self-employment via access to **micro-credit** that forms important sources of financial capital, which empowers the poor as an income generating activities. This has been extended to the establishment of the **financial intermediation** so as to guarantee greater coverage of the poorest zones and the neediest families.
43. With the same spirit the GoCV encourages sustainable **agricultural development** where the core of the initiative rests on the integrated enhancement of the agrarian resources and in the generalization of the micro-irrigation schemes.
44. In the area of **food security**, the GoCV provides guarantee of food availability and stability in the supply of the central and periphery markets, assuring the normal operation of the food markets and a management that involves the private commercial management in supplying the market..

**Policy guidelines and expected outcome**

45. The GPRS will be implemented in a context of macroeconomic stability. The reference scenario used to design macroeconomic policies for the coming three years assumes a 6.5% average growth rate per year. Projected growth will be driven essentially by private and public investments, and exports. Supply side sectors expected to be more dynamic are hotels, industry, energy, fisheries and construction.
46. Fiscal performance will be guided by prudence, in line with the overall policy of macroeconomic stability, sustainable growth and poverty reduction. As a result, the primary current balance will record a surplus for every year of the period, and average 3.8% of GDP for the period as a whole.
47. Monetary targets are in line with the goals of price stability and credibility of the exchange rate regime reflected in the upward trend in reserves relatively to imports of goods and services. It is also consistent with the principle of making internal resources available to finance the development effort. In this regard, credit to the economy as percentage of total credit is projected to expand.
48. The current account balance, including official transfers, is expected to evolve favourably in relative terms, leading to a significant reduction in the deficit, as a result of a relative stabilization of imports and an increase in exports during the period. The current account balance is expected to consolidate below double digits, reaching an average of -7.1% of GDP during the period. Gross international reserves are projected to reach 2.5 months of imports of goods and services. At the same time, the GoCV intends to continue the dialogue with IMF for monitoring a sustainable macro-economic stability, after the end of on-going PRGF, next April.





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**Program implementation**

49. The GPRS will be implemented within the public planning and budget systems, which are currently undergoing reforms. Implementation will be guided by strong participation of community-based organizations, decentralized entities, and private sector representatives.
50. To support the process, the Government has decided to establish, starting with the 2005 national budget, a Medium Term Expenditure Framework (MTEF) and a number of Medium Term Sectoral Expenditure Frameworks (MTSEF) within key line Ministries (Education, Health, Agriculture/Environment and Social Protection). It is expected that such a set-up will improve: i) prioritising programs and projects that directly contribute towards the GPRS objectives and the sectoral objectives; ii) budgeting of programs and projects according to resources that can be mobilized; iii) medium term (three years) budget allocation according to priorities in order to reach the established development targets.
51. To implement these guidelines, the Government has begun a number of reforms to make the public management system more efficient, more reliable and more transparent. In this regard, a number of measures are being designed to implement the recommendations from the PER, CFAA and CPAR exercises.
52. 53 The institutional framework for implementing the GPRS will consist of the existing administrative apparatus, after the necessary functional changes in structure are introduced. The National Poverty Reduction Board is an advisory body that includes the main stakeholders, drawn from public administration, the private sector, and civil society. At the central level, the General Directorate of Planning, supported by a Technical Secretariat, will be responsible for coordination and technical support. At the sectoral level, the Studies and Planning Offices within each line Ministry will prepare, monitor and evaluate priority programs and projects included in the strategy. At the local level, there will be Regional Poverty Reduction Boards, advisory bodies that will secure the input from local stakeholders.

**Program monitoring and evaluation**

53. The GoCV will set up a monitoring and evaluation system for the GPRS to guide the actions of the various actors involved in promoting growth and poverty reduction. In addition to governmental departments, the system will include organizations from civil society, as well as the development partners.
54. The Government intends to ensure the following functions in the context of the monitoring and evaluation system: (i) monitoring and analysis of trends in growth, poverty, vulnerability and inequality; (ii) monitoring the execution of programs and projects that contribute to improved growth and poverty reduction; (iii) evaluation of the impact of policies and programs related to growth and poverty reduction.
55. This system will be based on a network that is currently constructed by NOSI (Information Technology Operational Unit). The system will include three core components and two support components. The core components will be (i) a monitoring and trend analysis component, (ii) an execution component, and (iii) an impact evaluation component. The support components involve



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(i) creation of a physical, technical institutional and human environment that is conducive to better circulation of data, information and outputs between producers and users, and (ii) improving information dissemination, aiming at a participated policy dialogue among the various stakeholders and, eventually, better design and execution of public policy

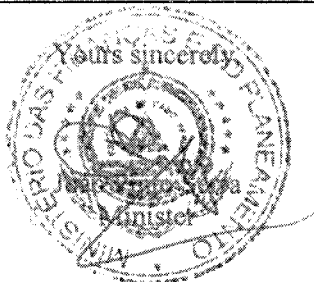
56. To guarantee smooth and efficient functioning of this monitoring and evaluation system, the Government has decided to set up the following three-tiered institutional framework for monitoring and evaluation of the GPRS:

- (a) National Poverty Reduction Board (NPRB): a broad-based entity responsible for monitoring and supporting political decisions in the areas of growth and poverty reduction. NPRB will be chaired by the cabinet member in charge of Planning and will include 17 member institutions from line ministries, civil society institutions, NGOs, private sector representatives, and labor unions.
- (b) Observatory and Analytical System (OAS): made up of two sub-systems (The National Statistical System and the National Planning System), the OAS will guarantee the necessary observation and analysis, and supply the National Poverty Reduction Board the inputs (namely studies) for monitoring and drafting growth and poverty reduction policies.
- (c) Regional Poverty Reduction Boards (RPRBs): The RPRBs play an advisory role that essentially covers, at first, approving activity proposals for the GPRS and validation of the annual GPRS progress report. They will include, in each case, the Municipality and the municipal offices of relevant line ministries as well as the regional or local stakeholders board

### Conclusion

57. The Government remains committed to its overall objective of poverty reduction through sustainable economic growth. To this end, the Government intends to bring new dynamics to the reform process, in a manner that is technically and administratively feasible and consistent with the proposed overall objective. In this matter, a switch from project aid to budget aid is desirable, at both the global and sectoral levels. It is therefore the Government's hope that IDA will grant the requested credit to assist in implementation of envisaged reform program to reduce poverty through implementation of the Growth and Poverty Reduction Strategy.

With highest consideration and esteem,



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Av. Amílcar Cabral — Praia Cabo-Verde

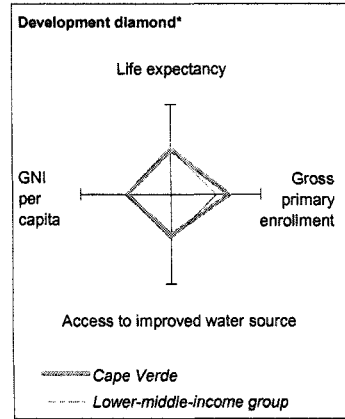
Tel. (238) 2607500 /01 Fax (238)

CAPE VERDE - Annex 2  
CAS Table A2

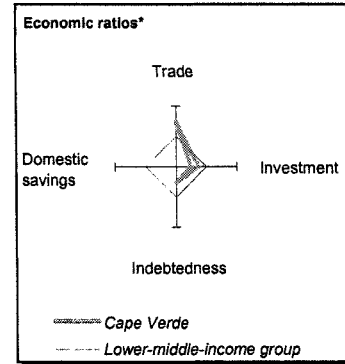
# Cape Verde at a glance

11/24/04

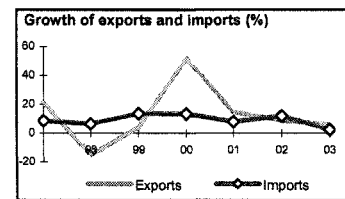
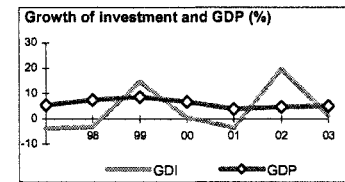
POVERTY and SOCIAL	Cape Verde	Sub-Saharan Africa	Lower-middle-income
<b>2003</b>			
Population, mid-year (millions)	0.47	703	2,655
GNI per capita (Atlas method, US\$)	1,440	490	1,480
GNI (Atlas method, US\$ billions)	0.68	347	3,934
<b>Average annual growth, 1997-03</b>			
Population (%)	2.6	2.3	0.9
Labor force (%)	3.8	2.4	1.2
<b>Most recent estimate (latest year available, 1997-03)</b>			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	68	36	50
Life expectancy at birth (years)	69	46	69
Infant mortality (per 1,000 live births)	34	103	32
Child malnutrition (% of children under 5)	..	..	11
Access to an improved water source (% of population)	74	58	81
Illiteracy (% of population age 15+)	24	35	10
Gross primary enrollment (% of school-age population)	144	87	112
Male	146	94	113
Female	143	80	111



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1983	1993	2002	2003
GDP (US\$ billions)	0.11	0.36	0.62	0.80
Gross domestic investment/GDP	54.6	39.7	20.9	20.2
Exports of goods and services/GDP	34.7	12.4	31.5	31.7
Gross domestic savings/GDP	-1.8	3.7	-15.0	-14.0
Gross national savings/GDP	24.5	26.4	10.1	10.8
Current account balance/GDP	-49.2	-9.0	-11.5	-9.7
Interest payments/GDP	1.9	0.4	0.5	0.3
Total debt/GDP	67.6	41.1	53.8	45.4
Total debt service/exports	5.1	4.8	9.1	5.3
Present value of debt/GDP	..	25.1	32.3	27.3
Present value of debt/exports	..	80.3	70.9	56.6
	<b>1983-93</b>	<b>1993-03</b>	<b>2002</b>	<b>2003</b>
(average annual growth)				
GDP	7.3	6.1	4.6	5.0
GDP per capita	5.3	3.4	1.9	2.4
Exports of goods and services	-4.3	14.9	8.5	5.9



STRUCTURE of the ECONOMY	1983	1993	2002	2003
(% of GDP)				
Agriculture	10.2	13.7	11.2	6.8
Industry	16.9	20.5	17.1	19.7
Manufacturing	..	9.6	8.2	8.0
Services	72.9	65.8	71.6	73.4
Private consumption	93.1	78.7	103.2	99.3
General government consumption	8.7	17.6	11.7	14.7
Imports of goods and services	91.0	49.3	68.1	66.3
	<b>1983-93</b>	<b>1993-03</b>	<b>2002</b>	<b>2003</b>
(average annual growth)				
Agriculture	7.9	6.1	1.5	1.5
Industry	11.3	5.5	4.5	4.5
Manufacturing	16.6	7.8	4.7	4.7
Services	6.3	6.2	5.1	5.7
Private consumption	6.2	9.0	4.7	1.0
General government consumption	15.7	2.5	9.0	31.9
Gross domestic investment	1.6	-2.5	19.5	1.5
Imports of goods and services	0.3	8.8	11.7	2.2



Note: 2003 data are preliminary estimates.

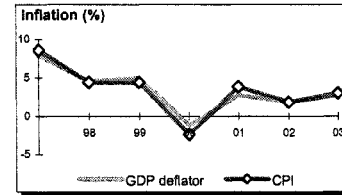
\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

**CAPE VERDE - Annex 2**  
Cape Verde at a glance (continued)

*Cape Verde*

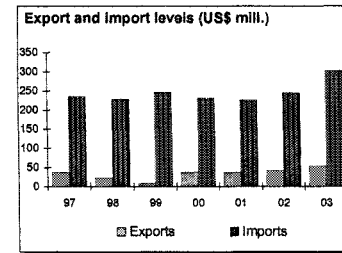
**PRICES and GOVERNMENT FINANCE**

	1983	1993	2002	2003
<b>Domestic prices</b>				
<i>(% change)</i>				
Consumer prices	..	5.8	1.8	3.0
Implicit GDP deflator	10.3	1.9	1.8	2.8
<b>Government finance</b>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	30.1	24.4	22.8
Current budget balance	..	10.3	3.1	1.8
Overall surplus/deficit	..	-9.3	-10.2	-8.4



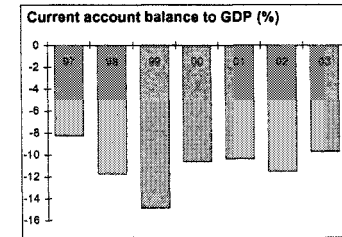
**TRADE**

	1983	1993	2002	2003
<b>TRADE</b>				
<i>(US\$ millions)</i>				
Total exports (fob)	..	4	42	53
Bananas	..	0	..	..
Fish	..	1	..	..
Manufactures	..	1	..	..
Total imports (cif)	..	154	245	303
Food	..	53	61	65
Fuel and energy	..	6	26	26
Capital goods	..	71	109	111
Export price index (1995=100)	..	89	129	133
Import price index (1995=100)	..	89	138	133
Terms of trade (1995=100)	..	100	93	100



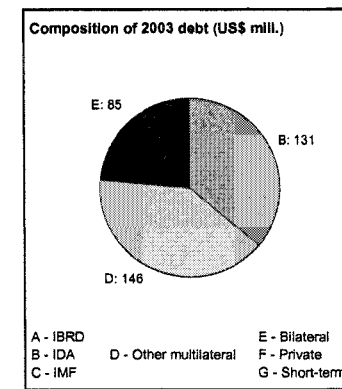
**BALANCE of PAYMENTS**

	1983	1993	2002	2003
<b>BALANCE of PAYMENTS</b>				
<i>(US\$ millions)</i>				
Exports of goods and services	37	45	194	253
Imports of goods and services	117	179	419	529
Resource balance	-80	-134	-226	-275
Net income	-7	-4	-12	-12
Net current transfers	..	105	166	210
Current account balance	-52	-33	-71	-77
Financing items (net)	55	29	94	80
Changes in net reserves	-3	4	-23	-3
<b>Memo:</b>				
Reserves including gold (US\$ millions)	46	77	72	93
Conversion rate (DEC, local/US\$)	71.7	80.4	117.2	97.7



**EXTERNAL DEBT and RESOURCE FLOWS**

	1983	1993	2002	2003
<b>EXTERNAL DEBT and RESOURCE FLOWS</b>				
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	72	149	331	362
IBRD	0	0	0	0
IDA	0	21	116	131
Total debt service	3	5	26	20
IBRD	0	0	0	0
IDA	0	0	1	1
Composition of net resource flows				
Official grants	41	58	47	59
Official creditors	16	7	10	10
Private creditors	0	0	0	0
Foreign direct investment	0	3	22	31
Portfolio equity	0	0	..	..
World Bank program				
Commitments	7	13	0	0
Disbursements	0	4	20	15
Principal repayments	0	0	0	0
Net flows	0	3	20	15
Interest payments	0	0	1	1
Net transfers	0	3	19	14



Annex 3

CAPE VERDE  
Operations Portfolio (IDA and Grants)  
As at 01/10/05

Closed Projects: 14  
(credits = 16)  
Active Projects: 4  
(credits = 5)  
Active GEF: 1

Last PSR

Project ID	Project Name	Supervision Rating /a		Fiscal Year	Original Amount in US\$ Millions			
		Development Objectives	Implementation Progress		IDA	GRANT	Cancel Undisb.	
P040990	ENERGY/WATER	U	U	1999	17.5		0.0	7.92
P074249	HIV/AIDS	HS	HS	2002	9.0		0.0	3.15
P074055	GROWTH AND COMPETITIVENESS	S	S	2003	11.5		0.0	10.85
P000432	SOCIAL SECTOR DEVT (2 credits)	U	U	1999	20.1		0.0	2.60
<b>Total</b>					<b>58.1</b>	<b>4.7</b>	<b>0.0</b>	<b>24.52</b>
P042054	ENERGY/WATER - GEF	S	U	1999		4.7	0.0	3.85

a. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter-based system was introduced (HS = highly satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory); see proposed Improvements in Project and Portfolio Performance Rating Methodology (SecM94-901), August 23, 1994.

## Annex 4

### CAPE VERDE IMF-World Bank Relations (Data as at January 10, 2005)

#### **Partnership in Cape Verde's development strategy**

1. The Government of Cape Verde's development strategy is set forth in its Growth and Poverty Reduction Strategy Paper (GPRSP). The authorities have submitted their final PRSP and the (JSAN) Joint Staff Advisory Note planned for Board presentation on January 25, 2005. The GPRSP is built on the set of strategies and priorities that address Cape Verde's main development challenges. In its strategy, the Government has put together a credible and realistic plan around the following main pillars of interventions: (i) modernization of Government; (ii) economic growth and private sector development, (iii) human capital development; (iv) infrastructure, regional development and the environment; and (v) social protection.

#### **World Bank Group strategy**

2. The objective of the World Bank Group's assistance strategy is to help Cape Verde reduce poverty by supporting the Government's PRSP. The Bank has engaged the Government in a dialogue on budget support, on the basis of sector programs presented in the forthcoming GPRSP. The Bank's current strategic focus supports efforts in the areas of (i) macroeconomic management and institutional capacity building; (ii) policy reforms in support of private sector development; and (iii) human resource development and poverty reduction. Bank-supported interventions aim at broadening the basis of private sector participation in Cape Verde's economy and enhancing private sector competitiveness. Components of the strategy include the following: 1) improving the investment climate; 2) building institutional capacity; 3) implementing pension reforms; 4) and modernizing and restructuring the financial sector.

#### **World Bank Group activities and assessment of country policies**

##### ***IDA portfolio***

3. The current World Bank portfolio focuses on capacity building in the social, public, and infrastructure sectors, and to the careful introduction of market-based incentives for private sector development. These central themes have also been identified in the country's GPRSP as key pillars on which to base the future of the country's development strategy.

4. In strengthening the country's physical infrastructure, a proposed Road Sector operation is currently under preparation. The Energy/Water Project aims to improve the supply of power, water, and sanitation systems, to increase operational and end-use efficiency in the power and water sectors, to lower the barriers to the development of renewable energy sources, and to foster the sound management of water resources. The Growth and Competitiveness Project supports the private sector development strategy.

5. In the social sectors, the Social Sector Development Supplemental Credit supports poverty reduction for the 30 percent of the population living below the poverty line by (i) assisting the Government in restructuring the labor-intensive public works program (FAIMO) by creating an institutional capacity (AGECABO) to execute public works; (ii) strengthening the capacity of municipalities, communities, and nongovernmental organizations (NGOs) in carrying out cost-effective poverty alleviation interventions; and (iii)

establishing a central capacity to coordinate, monitor, and evaluate the poverty alleviation programs. An HIV/AIDS project went into effect in 2002. The credit supports (i) mitigation of the health and socioeconomic impact of HIV/AIDS at individual, household, and community levels, thus sustaining an economically productive population, and (ii) establishment of a strong and sustainable national capacity to respond to the epidemic.

6. The Bank's medium-term approach will selectively identify some of its programs for focused assistance and advice. Financial support is expected to take the form of a Poverty Reduction Support Credit (PRSC) which will provide budgetary support on the basis of an agreed reform program. The World Bank, IFC, and MIGA will continue to coordinate their respective roles to support development activities in Cape Verde.

#### ***Assessment of country policies***

7. The authorities of Cape Verde and development partners, including the Bank, have undertaken a substantial body of analytic work over the past two years to assess key social, structural, and sectoral development policies and identify policy and institutional reform priorities for poverty reduction. Regarding strategic policymaking, the Bank has provided advice on the PRSP and sector strategies.

8. In the area of public sector management, the authorities have sought partners' advice on strengthening the administration's capabilities. In that connection, the Bank has produced a study on the role of the state and a public expenditure review, is leading a study of the pension system, has participated in a Country Financial Accountability Assessment (along with the Netherlands and the European Union) and is carrying out an assessment of the procurement mechanisms of the state, and supporting important statistical work (such as a household survey).

9. As of January 10, 2005, IDA had extended 21 credits to Cape Verde, amounting to about US\$198 million equivalent, of which about US\$174 million equivalent has been disbursed. Sixteen credits have closed, and the current portfolio includes five credits, with associated credit amounts of about US\$58 million equivalent and an undisbursed balance of about US\$25 million. The involvement of the International Finance Corporation (IFC) in Cape Verde is limited.

#### **World Bank-Fund collaboration in specific areas**

10. The Fund and the Bank continue to collaborate in many areas, including fiscal operations and tax reform; public enterprise reform and privatization; utility regulation and private sector development; and the strengthening of human resource development and the poverty reduction strategy. In close collaboration with the World Bank, the Fund staff has discussed and reached understandings on a structural reform program with the Government of Cape Verde in the context of the PRGF arrangement. The Fund and the Bank have collaborated in the areas of the privatization program, utility regulation, public expenditure management, and civil service and pension system reform.

Questions may be referred to Mr. Madani M. Tall (tel.: 221-849), Ms. Francoise Perrot (tel: 1-202-473-4465).

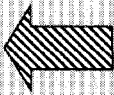
## **Annex 5**

### **Chain of Critical PRSC Areas**

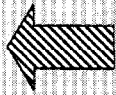
- **Good Governance: Efficient, Effective and Accountable Public Sector**
- **Good Governance: Improved Knowledge and Access to Legal and Judicial system**
- **More Developed Educational Abilities and Skills of Cape Verde's Human Capital Base**
- **Healthier Status of Cape Verde's Human Capital Base**
- **Improved Effectiveness and Sustainability of Social Protection System**
- **Effective Monitoring and Evaluation of GPRSP and PRSC**



**Strategic Goals**



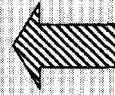
**PRSC Period Outcomes**



**Intermediate Outcomes Indicators**



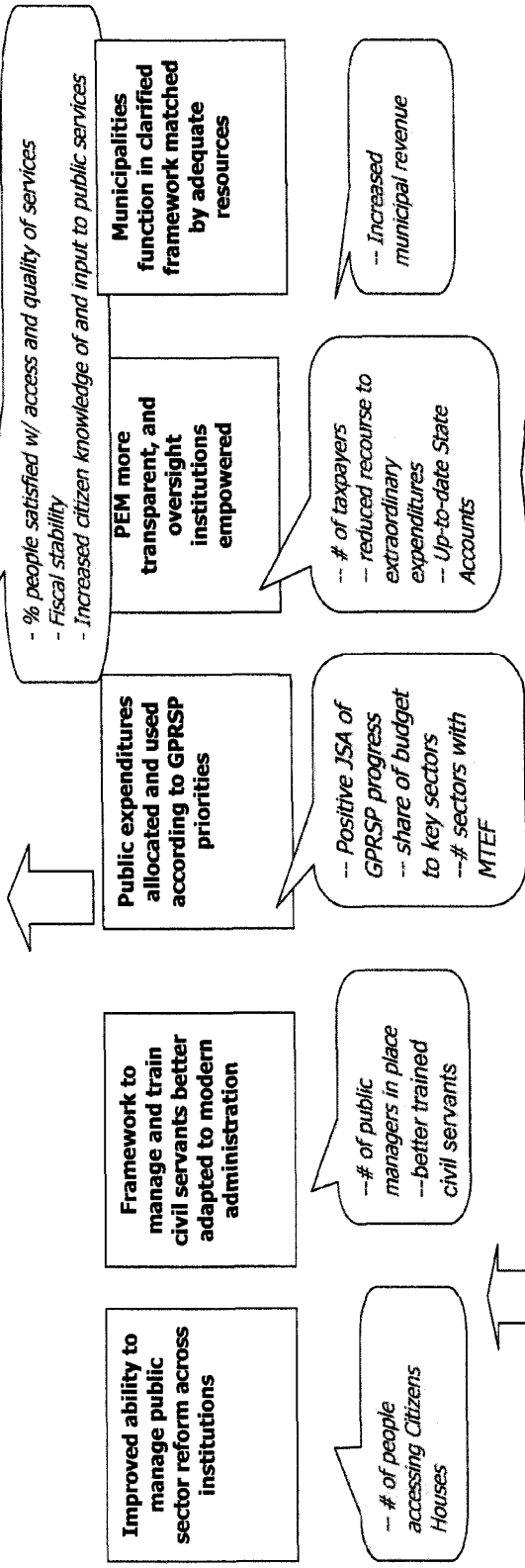
**Outputs**



**Activities Inputs**

**Good Governance: An Efficient, Effective and Accountable Public Sector**

**Annex 5 PRSC I Results Chain**



**Annex 5  
PRSC I Results Chain**

**Strategic Goals**

**Improved Knowledge and Access to Legal and Judicial system**

-- Strengthened Rule of Law  
 -- Environment conducive to the effective exercise of individual and collective rights  
 -- Access to justice more equitable

**PRSC Period Outcomes**

Increased free access to justice system by the poor

-- Nb of women assisted through the judicial aid fund

Improved adherence and knowledge of the law among local communities

- % of people surveyed know about the programs

Improved supply of professional ADR mechanisms such as mediators

-# of mediators trained  
 - # of disputes resolved

**Inter-mediate Outcomes Indicators**

**Outputs**

Promote knowledge of the Law  
 Community based initiatives  
 To disseminate knowledge of the law

Development of Access to judicial system for the poor  
 Judicial Aid Fund established and operational

Develop Alternative Dispute Resolutions Mechanisms  
 Rules for Mediation centers established  
 Training program for mediators implemented

**Activities**

Promote knowledge of the Law  
 Prepare Protocols between the Ministry of Justice, Municipalities and other local Stakeholders

Development of Access to judicial system for the poor  
 - Preparation and adoption Law on judicial assistance

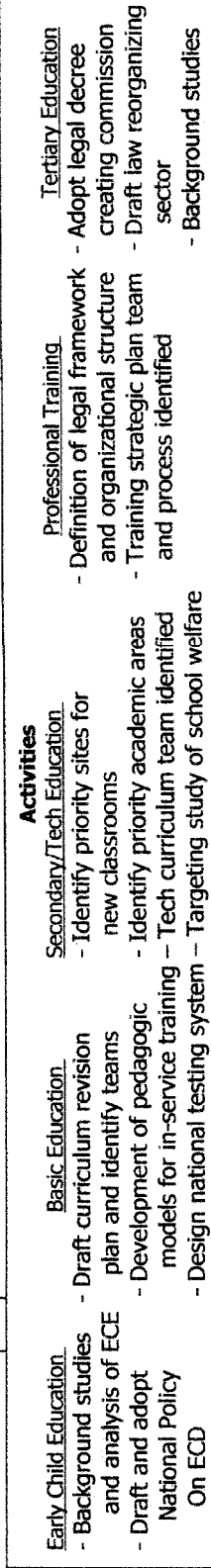
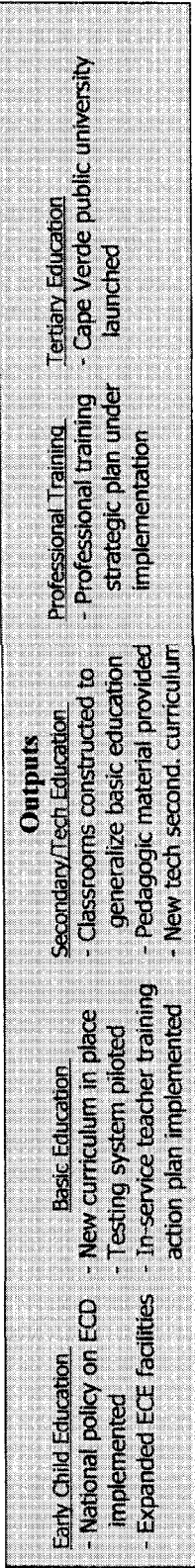
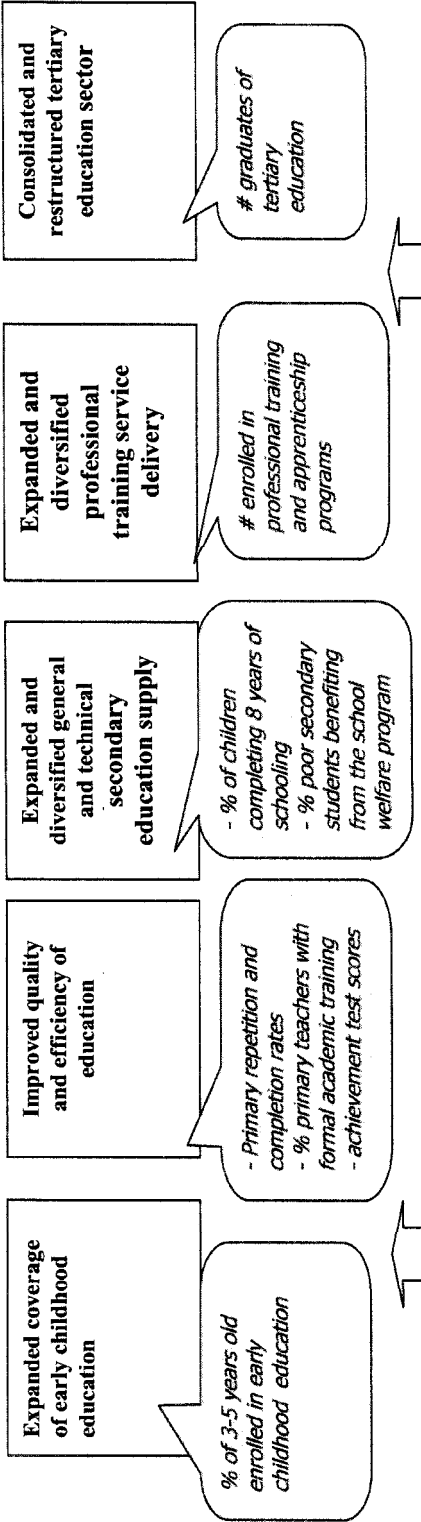
Develop Alternative Dispute Resolutions Mechanisms  
 - Preparation and adoption Law on ADRs

**Activities Inputs**

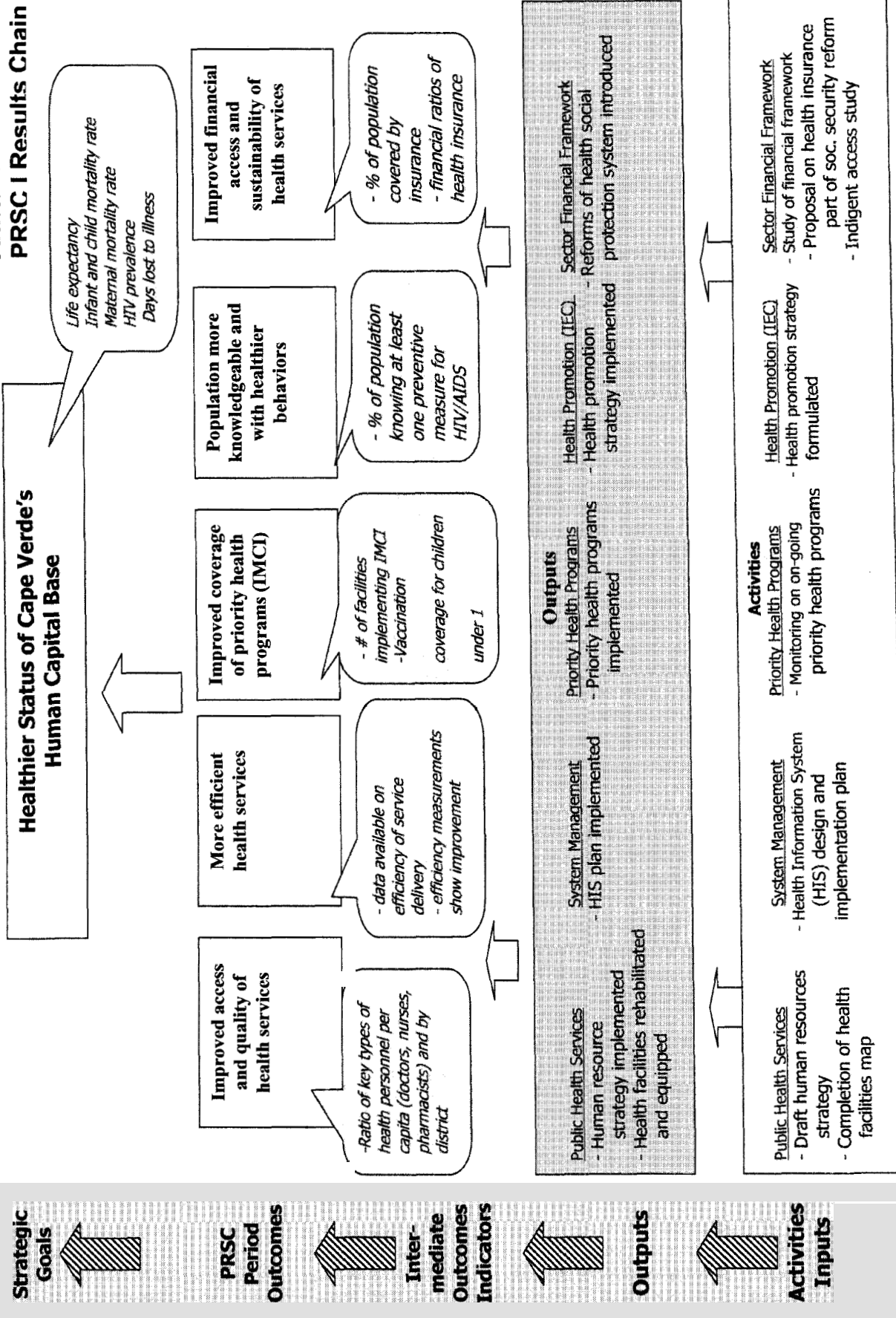
# Annex 5 PRSC I Results Chain

## More Developed Educational Abilities and Skills of Cape Verde's Human Capital Base

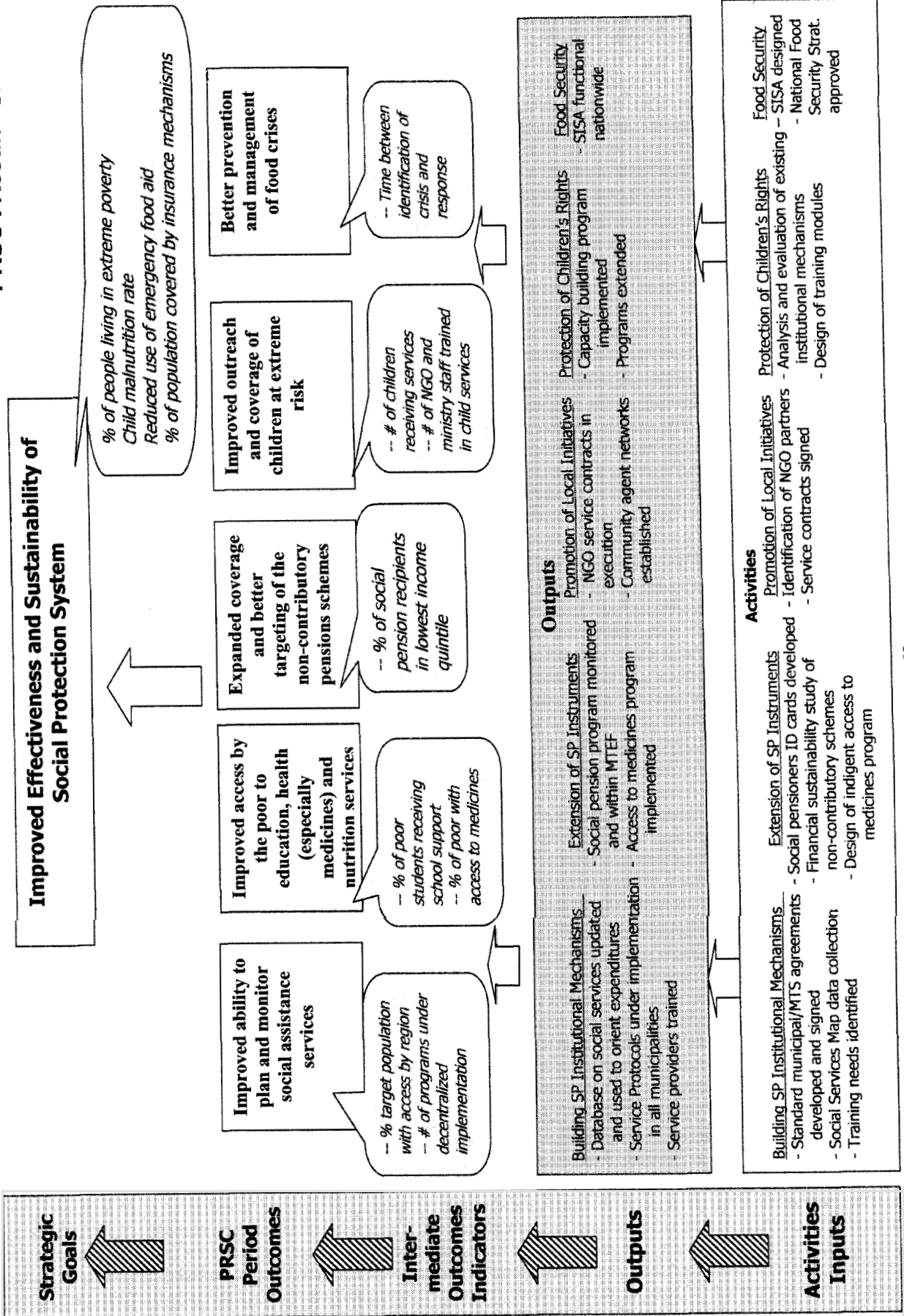
- Skill level of labor force
- Gender equity in education and skills



# Annex 5 PRSC I Results Chain

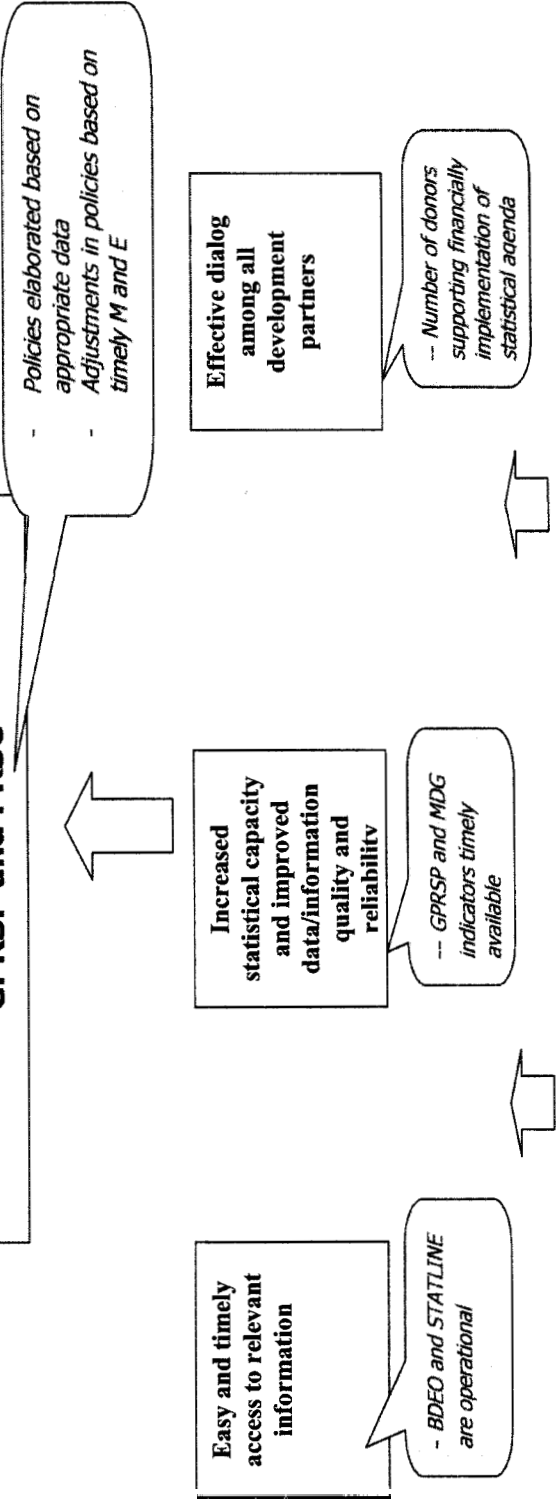


**Annex 5  
PRSC I Results Chain**



# Annex 5 PRSC I Results Chain

## Effective Monitoring and Evaluation of GPRSP and PRSC



**Outputs**

- Number of sector databases integrated in BDEO, and BDEO includes core monitoring indicators for PRSP, PRSC and MDGs
- Sectors produce administrative data in time
- Surveys implemented to cover information gaps
- Workshops at regional level for restitution and development of regional information and data
- Systematic dissemination of key sectoral and poverty indicators (CD, leaflets, pamphlets, posters, etc.)

**Activities**

- Raise awareness for M&E and Evidence based Decision Making
- Assess readiness of all sectors involved in the PRSC
- Capacity building workshops, seminars, scholarships and study trips
- Validation of the national statistical master plan
- Improve accessibility and dissemination of data and information on sectors and on poverty

**Operationalize Central Databank (BDEO)**

- Systematization of gathering of information at all level

## Annex 6

### **Institutional Reform Technical Note (Public Finance, Civil Service Reform, Decentralization, Judicial Reform)**

#### **I. BACKGROUND**

##### **PAST BANK INVOLVEMENT**

1. **Cape Verde, during the past 15 years, has moved on various fronts to reform its public administration** : (i) progressive disengagement of the State from the production system, (ii) introduction of a new career and salary system (PCCS) to strengthen professionalism of the workforce, (iii) launch of a series of reforms of public expenditure management, strongly supported by donors, in order to strengthen control and improve planning and execution of expenditures, (iv) political devolution of some service delivery functions to elected municipalities. Cape Verde is progressing in implementing key reforms in public management with the overall objective to improve effectiveness and efficiency of the public sector. The GOCV reform efforts have strong implications on capacity building needs and administrative structures and organization.

2. **IDA has supported public sector reform in Cape Verde through two investment projects**, the first and second Public Sector Reform and Capacity building projects (PSRCBI from 1994 to 1999, and PSRCBII from 1999 to 2002). Civil service reform, economic management and decentralization were the focus of the first project. Under the first project (Public Sector Reform and Capacity Building Project-PSRCBP), the Government supported various areas of reform: (i) civil service reform (civil servants training, design of an early retirement program and implementation of a pilot voluntary departure program); (ii) economic management (use of a macroeconomic model for economic planning, development of Public Investment Program, creation of National Institute of Statistics, NIS); (iii) decentralization (Local Finance Law, delegation of specific financial responsibilities to municipalities), and (iv) judiciary (new legislation for notary, registry and commercial transactions).

3. **The second project continued past efforts and endeavored to set the agenda for further reforms**. In order to cope with the increasingly more complex social and economic environment the Government decided that: (i) macroeconomic planning, public resources management, and the judicial system must be further strengthened; and (ii) the modernization of public administration must be continued during a next phase of public sector reforms. The second project had two development objectives: (i) to consolidate and deepen past reforms in the areas of economic and financial management, regulatory and legal reforms; and (ii) to prepare the next phase of public sector reform to achieve the Government's vision of an efficient and productive public sector.

4. **Outcomes of the second project**. It yielded significant outcomes on legal and judicial reform, assisted the decentralization process (fiscal management capacity strengthened in municipalities), strengthened the statistical and planning capacity within the Ministry of Finances (including continuous support to the NIS and in particular progress in the creation of a National Database), and contributed to public administration modernization through the broadening of an intergovernmental computerized network, which is also used as the support for various modern management tools. However, this short project did not address key reforms in improving personnel management systems (recruitment, organizational planning and career management), and in preparing the next phase of public sector reform.

5. **Analytical basis for current reforms**. The inclusion of a comprehensive assessment of the judiciary in the country led to the preparation of a detailed implementation plan for the reform of this sector. And various studies carried-out through the project provide an analytical basis to pursue public

sector reform: the survey on citizen expectations is been used as a basis for administrative simplification program, the study on the one-stop-shop serves as the basis for the current project, and the creation of a human resource database for civil servants, once finalized, will be the basis for modern human resources management.

**6. Implementation challenge of a self-standing investment operation.** In terms of implementation, the use of a free-standing Project Implementation Unit proved detrimental to the performance of the project. Better job conditions offered within the PIU created distorted incentives for its staffing, and led to difficult cooperation with regular public services, and poor ownership of the reforms. Toward the end of the project implementation, it was decided that IDA support to public sector reform would be continued through the PRSC to allow a continuous dialogue on the activities previously financed through the project, and their sustainability.

### **Public Sector Reform progress and challenges**

**7. Check-and-balance institutions, albeit relatively new in the Cape Verdean setting, are more and more playing their role of watchdogs.** The National Assembly is being transformed into a more professional body, better able to fulfill its mandate of legislative power and oversight. The Judiciary is going through a far-reaching reform process, with a dual goal of increasing the independence of its magistrates and broadening access to its service. Still, capacity of the Court of Accounts and the Auditor general office could be improved, and the backlog in closing the national accounts (1998-2003) is a remaining stumbling block to sound accountability.

**8. The current administrative system is characterized by a lack of regulatory authorities.** There is no overarching coordinating body for leading and implementing the reform, nor is there any of the key positions that have a role in regulating structures (positions such as secretary generals exist in very few ministries, but not with the traditional authority to manage resources, and financial controllers have just been created but without implementation yet).

**9. Human resources management remains centralized,** implementation of merit based recruitment and evaluation is lagging, careers are not attractive for high-level professionals, which leads to a significant turnover at managerial positions. Turnover is damaging because job descriptions are lacking and there is no formal policy for professional training. In lieu of comprehensive reforms, an ad hoc solution has been the introduction of specific schemes of services for specific ministries or parts thereof, which led to large variations of salaries for similar positions between ministries or between central and local governments, contributing to low morale. The planned reform of the career and salary system will to address these issues.

**10. Public expenditure management reform have yielded some results,** but budget processes are still characterized by an annual, one-year fiscal framework and a dual budget prepared separately by two distinct governmental departments. Moreover, the system fall short of providing needed information for financial transfers to local governments, since expenditures are not always disaggregated by geographical zones and planning of recurrent costs for investment spending is insufficient. Ongoing reforms focus on establishing a comprehensive budget, and introducing a medium-term expenditure framework (MTEF).

**11. The political decentralization process started concomitantly with the democratization process,** and all actors concur that decentralization, though improvable, is positive for the country. Implementation difficulties are linked to the weak resource base of most local governments, as well as to their poor capacity. Another caveat is that the impact of decentralization on central and deconcentrated structures of the State has not been looked at in a systematic way, while transfers of responsibilities sometimes occurred in a hasted manner.



12. **Cape Verde's government is struggling to reduce the size of its public sector**, while rationalizing it and making it more efficient. Despite more than a decade of public sector reform, citizens continue to perceive their public sector as inefficient and unresponsive. At the same time, according to the 2004 Afrobarometer survey<sup>1</sup>, 73% of Cape Verdean think that "all civil servants should keep their jobs, even if paying their salaries is costly to the country", which reflects a context of decreasing opportunities for emigration and high unemployment, and constrains reform options.

13. **It is important to note that, unlike in many countries in the sub-region, the residents of Cape Verde generally don't perceive corruption as a major issue**, as shown in the Afrobarometer survey<sup>2</sup>. Nonetheless, public expenditure reform in particular will contribute in keeping corruption at low levels.

14. **An urgent issue is to prevent reforms to evolve haphazardly on various fronts**, with some sectors advancing faster than others, while synergies are necessary to the success of the reform agenda. Beyond the vision, the practical agenda of reform remains unequal across sectors, and if there is more clarity for the public finances agenda, civil service reform for instance remains in its infancy. Structures are currently shifting in different direction without guidance, and there are no plans for strengthening human resources. Low level of coordination and lack of arbitrage between reforms reinforce opportunities for isolated actions, theoretical approaches, and oversized projects which impede small, low-keys, high impact reforms to take place. To some extent, E-Government initiatives are a case in point. Meanwhile, ad hoc initiatives are taken to overcome some rigidities of general public management rules, such as the creation of specific schemes of services and the creation of autonomous institutes. The two key players of the reforms, the Ministry for State Reform and Public administration (MREAP) and the Ministry of Finance, suffer from a lack of a minimum level of human resources, both in number of staffs and in terms of professional skills.

15. **The proposed instrument to coordinate reforms could be strengthened.** Recent actions for reforming the public administration include the creation of a Reform Commission, which entails various representatives from key ministries, under the chairmanship of the Ministry for State Reform and Public Administration. It could be strengthened by being clearly supported at the level of the council of ministers, and operationalized at two technical levels : (i) at the level of each ministry, to integrate sector reforms in a clear vision focused on key priorities and (ii) at the interministerial level, to organize, sequence and monitor the reform agenda in a coherent and sustainable framework.

## II. PROMOTING GOOD GOVERNANCE, THE FIRST PILLAR OF THE GPRSP

16. **The first pillar of the GPRSP is "Promoting Good Governance, Strengthening Efficiency And Equity", which emphasizes the following:**

- Create an institutional framework for State reform and prepare a national reform plan
- Improve accountability and monitoring and evaluation of public resources
- Reform human resources management, including adoption of long-term training policy and focus on local capacity for training (reform of the national training institute for public servants, the INAG)
- Continue decentralization policies as a way to encourage participation of citizens
- Simplify administrative procedures for most used services and use IT as a means to this end
- Strengthen the rule of law and promote a transparent legal and regulatory framework as a means to encourage entrepreneurship and private sector growth.

Figure 1 summarizes the reform agenda. The next sections will highlight status and next steps on various areas of public sector reform, as reflected in the GPRSP. The PRSC will be used as

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<sup>1</sup> Afrobarometer, Working Paper No. 34, March 2004

<sup>2</sup> See footnote 1.

an instrument to implement the GPRSP agenda, for assisting the design of the public sector reform agenda, and strengthening it when it is already strongly articulated.

**Figure 1- Institutional Reform framework**

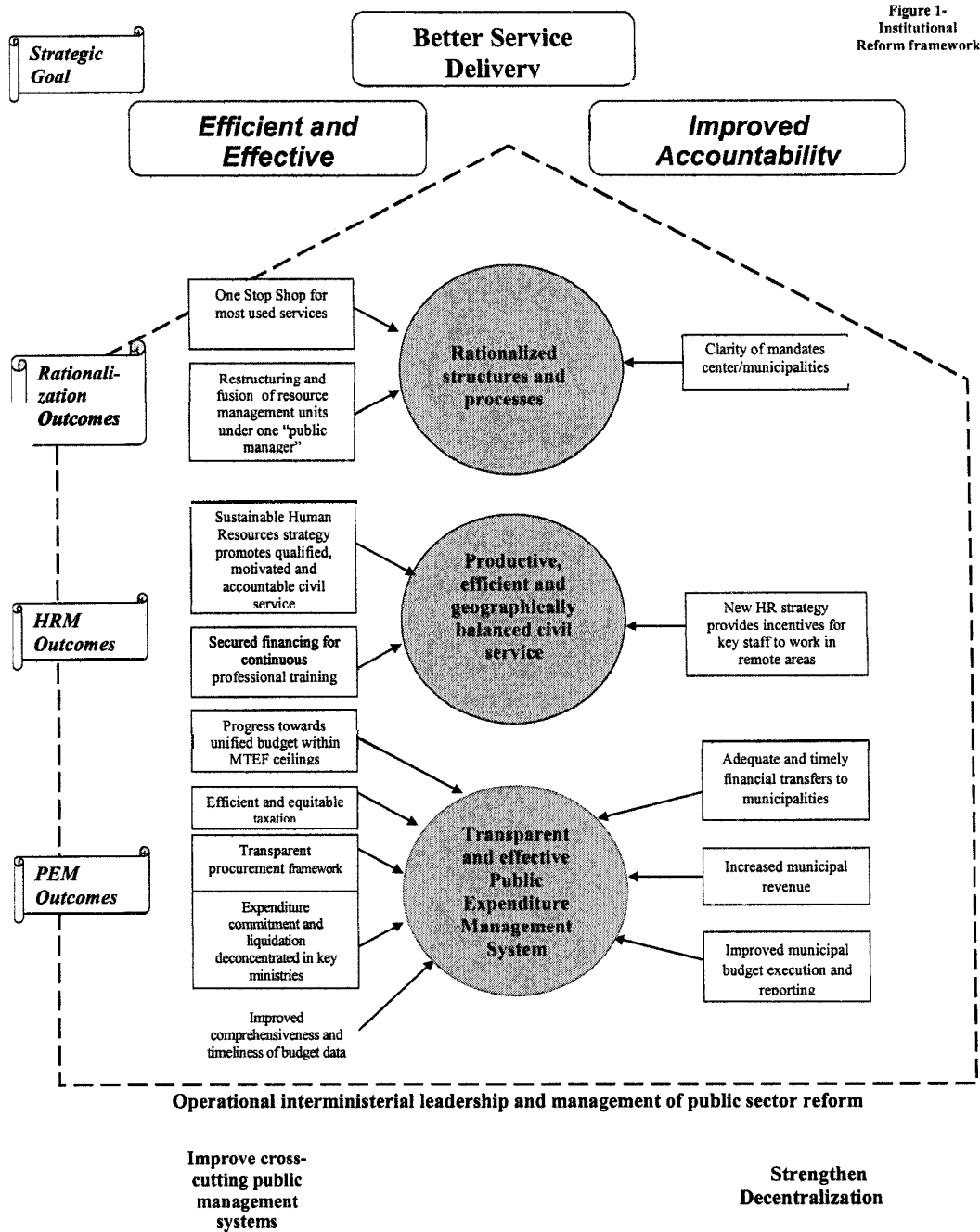


Figure 1- Institutional Reform framework

### III. PUBLIC FINANCE

17. **The issues presented have been discussed thoroughly in the context of the CFAA, PER, and CPAR exercises.** The Government's reform agenda is based on the diagnostics of these studies. Together, these analytical pieces provide a comprehensive overview of the critical weaknesses in the public financial management system.

18. **The fiscal slippages of 1999-2000 were in part caused by public expenditure systems that could not control the accumulation of expenditure beyond the means of the State,** either in the form of oil price subsidies, restructuring expenses, or university scholarships. The Government and external partners agreed that this episode demonstrated a clear need for a sustained dialogue in matters of budget systems, not only to help control the use of the State's resources, but also improve their pro-poor targeting.

19. **The Bank, the Netherlands, the EU and UNDP have since launched in close partnership three sweeping studies of the State's budget systems, which are now all complete.** Tellingly, all of them were new to Cape Verde. The CFAA analyzed the fiduciary integrity of financial management systems. The PER followed with a complementary analysis that confronted past expenditure trends with the weaknesses of the current financial management arrangements, often confirming the risks identified by the CFAA. Finally the CPAR completed the analytical work with a review of procurement systems. This analytical work has led to far-reaching policy discussions between the leading development partners and the authorities.

20. **The resulting recommendations, which are fully internalized by the Government in its GPRSP, have been the basis on which partners propose to provide financial assistance through the Government's budget systems.** The main findings of these three analyses are detailed below, and are followed by the specific policy recommendations that are at the heart of the agreed PEM reform program.

#### **Recent Trends in Expenditure by Functional Classification**

22. **Cape Verde has consistently allocated an important share of its budget to the social sectors.** Education has had the highest share of the three sectors in all years, with a high of almost 27% of expenditure in 2001 (8.5% of GDP). This share, as percentage of GDP, also remains fairly stable from year to year, due to the importance of teachers' salaries in its composition. Health has had about 6.5% of the budget on average<sup>3</sup>, which represents approximately 2.5% of GDP, with little volatility. Together, these two sectors account during any given year for not less than 30% of expenditure<sup>4</sup>, or 11.0% of GDP. This establishes the Government's strong developmental credentials, since few countries in the sub-region allocate as much as it does to social sectors.

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<sup>3</sup> This figure represents the expenditure administered directly through the central Government. It does not factor in direct transfers to the two main referral hospitals, which have grown from CV Esc. 205 million in 1998 (equivalent to 0.4% of GDP) to CV Esc. 305 million in 2002 (also equivalent to 0.4% of GDP).

<sup>4</sup> To the exclusion of subsidies and restructuring costs in 2000.

## Sector budgets, as % of GDP (reported execution)

	Line Ministries			Of which Social Sectors			Coordinating Ministries			Of which Interest	Of which Pensions	Errors and Omissions	Total
	recurrent	PIP	Total	recurrent	PI P	Total	recurrent	PI P	Total				
2000	12.5	14.0	26.5	7.6	3.5	11.1	8.4	0	8.4	1.7	1.4	12.3	47.2
2001	11.8	11.8	23.6	7.1	3.8	10.9	9.1	0	9.1	2.1	1.4	-1.4	31.3
2002	11.7	13.3	25.0	6.8	3.6	10.4	10.0	0	10.0	2.8	2.0	-0.7	34.3

Source: GOCV, IMF, and staff estimates

23. **The ministry of agriculture and fisheries has had less than 9% of the budget on average**, albeit with wider fluctuations from year to year. This volatility is due mostly to uneven performance in mobilizing external resources, while recurrent expenditure, as for the social sectors, has ebbed down as a percentage of GDP. Overall, agriculture's share of GDP has nonetheless shown a growth trend from 1998 to 2002 (from 2.6% of GDP to 3.3%).

24. **Justice, Public Administration, and Infrastructure and Sanitation are the other three sectors that are allocated more than 1% of GDP.** Their allocations are fairly stable, and average (in percentage of GDP and percentage of the budget), 1.6% (5%), 1.5% (4.5%), and 2.0% (6.5%), respectively. Together, they account for about 15% of the budget. All of these sectors can justifiably claim to have an important impact on poverty reduction.

25. **In marked contrast with other countries in the sub-region, defense spending is low**, at 2% of the budget on average (0.7% of GDP), and is falling in line with the recurrent allocations of other line ministries. Moreover, the role of the armed forces is expanded to provide civil security, as during the eruption of the volcano in 1995.

26. **Many of the achievements in poverty reduction can be credited in part to functional budget arrangements.** It is therefore critical that they be adapted in all their dimensions (budget preparation, execution, reporting, controls, etc) to improve their effectiveness, correct their perverse side effects, and mitigate the risks of expenditure overruns. The different aspects of PEM are detailed below.

### 1. BUDGET PREPARATION AND ADOPTION

28. **The budget elaboration cycle is carried out according to a reliable schedule, which is usually strictly respected.** The draft budget is submitted in October by the Government to the National Assembly. The budget law is voted during the 2nd week of December. The National Assembly then has 6 weeks to study the project. The president of the finance committee believes that this period of time is sufficient.

29. **The first stage of the budget elaboration process is not sufficiently developed.** The lack of information on the annual budget preparation process points to the need for a real medium-term expenditure framework. The accumulation of specific analytical deficiencies reduces somewhat the usefulness of the exercise of budget preparation, and makes it difficult for the state to estimate the financing needs of public services. There are three main analytical and informational shortfalls:

30. **Firstly, the presentation of a true general policy framework is lacking in the call circular** at the beginning of the annual elaboration budget cycle. This informational gap has consequences for the coherence of the sectoral budget programming and on the final quality of the overall budget.

31. **Second, the call circular sent by the MOF to the various line ministries does not communicate all the relevant information.** Recently presented in the shape of a single document, this circular synthesizes the recommendations expressed by the services of the General Directorate for the Budget (DGO) concerning the elaboration of the recurrent budget. The opinion expressed by the Planning General Directorate (DGP) concerning the elaboration of the investment budget is also included in the text, which is a strong point. However, there is no real analytical articulation between these two components. However, the absence of information in the circular on the past year's execution leads to new allocations based on cost estimates of previous years. This practice of incremental adjustments risks creating a gap between the budget appropriations and the real needs of the services and risks jeopardizing the administrative reforms (see PSR Annex).

32. **Third, the macroeconomic framework is not taken into account.** The MOF has a poor grasp of the real time macroeconomic situation of the economy. Remedying this shortfall would help provide a notional budget envelope in the call circular. One of the reasons is the lack of macroeconomists to complete this work. A macroeconomic model is being procured to fill this gap.

33. **The budget preparation is carried out by 2 different departments, on the basis of two separate budget classifications - this affects its consistency and comprehensiveness:** the DGP for investment operations and the DGO for recurrent operations. The procedure of budget preparation suffered, during last years, from a confusion in the distribution of the responsibilities between the various directorates of the MOF. The last revision of the organic law brings substantial improvement, since it entrusts the responsibility to coordinate the preparation of the draft budget to the DGO. The double intervention of the DGP and the DGO has recently seen progress in their coordination, but mainly because of the strong personal bonds between the two department heads, and without a clear equivalence between expenditure line in the budget. This informal arrangement does not address adequately the difficulties in evaluating the recurring costs of the investments and to integrate them into the budget.

## 2. TAX ADMINISTRATION

34. **The General Directorate of Contribution and Taxes (DGCI) and the General Directorate of Customs (DGA) are the main units responsible for tax assessments and collection.** The General Directorate of Contribution and Taxes is in charge of the income tax. It is organized in 15 *Repartições de Finanças* (RF) in the different *communes* to assess, communicate and collect taxes due. While the legal framework (*codigo geral tributario and codigo de processo tributario*) is outdated, NOSI (see chapter 9 of this Annex) is proceeding to harmonize the IT systems of the different RF. In spite of the progress made, the organization of DGCI is still not able to carry out some basic functions, such as internal controls, and taxpayer audits, especially on more remote islands. By contrast, the DGA is a well structured organization with antennas in the different regions<sup>5</sup>.

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<sup>5</sup> The DGA is collecting as much as twice the receipts collected by DGCI, including 19 taxes other than custom duties.

35. **The level of compliance of taxpayers with the income tax is not clear.** DGCÍ has an agreement with the largest commercial bank (Banco Comercial do Atlântico) to collect income taxes and transfer them to the Treasury account. The reconciliation between the amounts collected by BCA and taxes is not done regularly, and therefore does not allow a close monitoring of the effectiveness of the arrangement.

36. **The taxbase is probably significantly underestimated.** The taxpayer registry (NIF) has not been updated in more than 5 years, nor has there recently been an exercise to broaden it to potential new taxpayers. Moreover, there are various other registries (e.g. land) for which it is impossible to establish equivalences with the income tax registry, and therefore cross-check available information.

37. **Delays in issuing tax notifications are pervasive** – taxes of 2000 were not yet notified in 2003. -This causes a growing disconnect between the accounting of domestic revenue on an accrual basis, and accounting of it on a cash basis. Rapid improvements are necessary to avoid the accumulation of arrears.

### 3. BUDGET EXECUTION

#### *Recurrent expenditure*

39. The following paragraphs first present the procedure such as it is defined by the texts in force, then, in a second part, the real procedure used in practice until the new Decree-Law came into effect (January 1, 2004).

40. **The procedure described in the texts is prescriptive, with specific features that are inspired by the Napoleonic system.** The system currently in force is highly centralized at the level of the MOF. This method of centralization, on the one hand, has the advantage of allowing an effective control of expenditure flows, thanks to their control by the Directorate for Public Accounting (DCP). But on the other hand, it presents the disadvantage of making the sectoral ministers less responsible for their budget, and causing delays in policy implementation more generally. There are 6 phases in the expenditure stream :

- Emission of a requisition by the concerned technical ministry ;
- Validation of the requisition by the DCP. This operation, which consists in checking the availability of the appropriations, is called “cabimento”;
- Return of a copy of the “cabimento” to the technical ministry for order of work or supply;
- After execution of the service, liquidation of the amounts due by the DCP. The liquidation consists in calculating the national debt and certifying the effectiveness of the expenditure, thanks to the documentary evidence provided by the qualified service of the line ministry;
- Emission of an order to pay by the DCP;
- Payment, to be carried out by the Directorate for Payment Services (DSP) of the Directorate General of the Treasury (DGT).

41. **The practice is largely different from the texts, especially because of the recurring treasury problems experienced by the State.** For many transactions, commitment and liquidation are done simultaneously, whereas these two stages should differ in time. It also happens that, at the request of the suppliers who may fear late payments, payment is in effect done before the delivery of the supplies or the completion of the work.

**42. The control of the effectiveness of the expenditure, which is entrusted to the services of the line ministries, is poor.** The cash shortage that the State experienced during the last few years led to a loss of trust of the suppliers in the State. Indeed, the expenditure procedure was lengthened, leading to doubts that the payment would ever occur. In order to cover this risk, when they agree to contract with the State, the suppliers raise their prices, or ask for payment before the service is provided. Since the ministries are not informed of when the payments are made, their operations are disturbed, insofar as the programming of the commitments is done without real-time information on the status of liabilities toward their suppliers.

**43. Reliable reporting is made more difficult by a supplemental period that allows for the inclusion of an unlimited number of transactions during at least 3 months after the end of the fiscal year.** A 2 month period would be largely sufficient in the near term, with a view to limit it to one month to improve the ability of the Government to make timely and informed policy decisions. Moreover, some data retention keeps execution data incomplete, which is part of the reason that the state general accounts have not been closed since 1998.

**44. The absence of handbooks of procedures is strongly felt.** This deficiency is made worse by the little knowledge about ongoing reforms, which is resented as being imposed randomly and arbitrarily. The drafting and the distribution of these documents would aim at ensuring greater respect of the written procedures, but also facilitating the integration of the new data-processing tools in the services (see later chapter on ongoing reforms).

**45. The lack of a single accounting system<sup>6</sup> prevents the aggregation of the financial data from all public institutions.** It is therefore very difficult to carry out a consolidation of accounts, and in particular to determine their debt and arrears, which is all the more perturbing that the State may have to ensure the payment of these liabilities.

**46. Finally, budget execution does not reflect the management of the public debt, since it is not managed through the current accounting system.** The estimation of the debt and related payments is made with extra accounting tools. Moreover, the DGT is unable to provide the amount of the stock of arrears concerning the current fiscal year and previous fiscal years.

#### **Investment expenditure**

**47. The procedures for investment expenditure vary according to their source of financing: domestic revenue, or external financing.** The modalities are described below.

**48. The procedure followed for investment expenditure financed from domestic revenue is the same as for recurrent expenditure, but procedures for effecting expenditure financed by external financing are disparate and difficult to monitor.** The management of most investment projects is done within the framework of project coordination units. The DGP takes part only in the monitoring. It carries out the disbursements in isolation from the other departments that keep accounts of public expenditure. It is difficult for this type of expenditure, as for the expenditure on counterpart funds, to carry out a typology of the used procedures, insofar as each donor asks for the application of its own procedures. It is thus very difficult to gather the necessary information for the compilation of the General Accounts of the State. This partly explains the important delay in the closing of accounts and thus in the production of this document for the Tribunal de Contas.

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<sup>6</sup> The term "single accounting system" covers the concepts of integrated data-management arrangements, and an integrated accounting framework (from equivalent charts of accounts, or a single one).

**49. The regulation applicable to the autonomous accounts of projects is also far from being respected.** Further consideration will be given to this problem in the chapter relating to the cash management. Indeed, many accounts are still open at institutions other than the Central Bank (BCV). Large amounts in project accounts are thus not captured in the state's accounts of executed expenditure (accrual or cash basis); they would be easier to track and consolidate if they were all at the BCV and clearly tagged as project accounts in a sub-account of the State's main account. This situation is not conducive to a practical management of public funds, nor a timely collection of information necessary to the closing of the General Accounts of the State. Therefore, the rate of execution of investments is very difficult to evaluate.

**50. A common feature of the various types of mechanisms for the financing of investments is the inability to carry forward unspent expenditure from one year to the next.** Regardless of the type of financing of the investment, and in the absence of timely information on execution, there is no mechanism with an automatic "forward carry" of the appropriations not used during a fiscal year to the next. This risks causing the premature end of work on a given program, if the appropriations are not reallocated.

#### **4. PROCUREMENT**

**51. Cape Verde does not have a consolidated legal and regulatory framework for all public sector procurement** (central and local administration and public institutions). Indeed, only a decree-law exists for public works. For acquisition of goods, equipments and services, there are only few indications in several dispersed laws and the annual law for budget execution, but no real guidelines and principles on the procurement process. The preparation of a new National Procurement Code is expected shortly; it will clearly define the concept of "Public Procurement" and the general principles which govern it. This Code will also introduce entirely new concepts, like the concession of public utility (such as Build Operate Transfer – BOT, Build Transfer – BT or Build Operate Own – BOO). In addition, the legal framework will also be complemented by a law on the Delegated Management Contract, to consolidate the good performance of AGE CABO on managing small works contracts at the municipal level. The same legal documents will also apply to the Municipalities, with the necessary adaptations and simplifications.

**52. The institutional framework reflects the absence of a comprehensive legal framework:** there are several institutions intervening in the procurement process with little or no coordination: the Ministry of Infrastructure and Transports (MIT) and AGE CABO (at the local level) for the civil works, the Directorate General of Public Assets (DGPE) for some centralized contracts (water and energy, telecommunications, insurance, fuel) and all public institutions (ministries, institutes, municipalities) for small acquisitions of goods, equipments and services.

**53. Procurement processes are being slowed by a dilution of responsibility,** as most ministries and institutions are not responsible for their own procurement (although the procurement of civil works is always supported by the MIT). AGE CABO, despite its proven efficiency, is not always invited to provide services for municipalities for small public works contracts. An authority for contract homologation (for example the ministry of tutelage) also needs to be introduced in the system. Prior reviews for contracts above a certain amount would have to be approved by the Prime Minister, based on recommendations from an ad hoc committee put in place for such contracts.

**54. The absence of effective recourse mechanisms (with the power to suspend the execution of the contested contract) is being remedied,** in the form of Arbitration and



Mediation Centers, to be created in the chambers of commerce (initially, for private sector commercial disputes). These centers are to have decisional power (instead of the administrative courts) for litigations on attribution and execution of contracts.

**55. Procurement procedures and practice vary widely**, except for the civil works. There are no standard bidding documents, request for proposals, or evaluation reports. The lack of consolidated regulatory framework leads to different practices from the participants on the public procurement system, with negative impact on the private sector intervention.

**56. Human resources are currently unevenly distributed and broadly inadequate.** The MIT has qualified personnel to handle procurement, but limited in number to respond to all requests. For the other sectors, there are no qualified people working specifically on procurement. Neither is there, within Cape Verde, adequate training on offer to improve the situation.

**57. The ex ante control is currently done by the Tribunal de Contas**, which is also the authority for ex post review. As mentioned above, in order to avoid this situation of conflict of interest, , there are plans to make give these attributions to the Prime Minister cabinet, through ad hoc evaluation committees (for big contracts). Small contracts will be managed by the ministries/institutions responsible for their own procurement process. The ex post review will remain a responsibility of the Tribunal de Contas. The ex-post review is currently undermined by the delay in judging the state general accounts to provide a context to the contract review. Nor does the TdC have authority to extract effective compensation to enforce its judgments.

**58. An analysis of the private sector had shown that there is enough capacity to participate in most of the public procurement processes.** However, there is limited information on procurement opportunities. The availability of the internet is not being leveraged to make available electronic versions of all the documents to guide public purchasers. The use of the internet will also be critical in promoting transparency.

## **5. CASH MANAGEMENT**

**59. Cash is managed only on a daily basis and is hindered by the presence of many accounts opened in the banking system.** It is the responsibility of the Resources Programming and Management Directorate (DGPR) and the Payment Service Directorate (DSP) of the General Directorate of the Treasury (DGT). It is specifically regulated by Decree-Law # 29/98 on norms and procedures pertaining to the management of the Treasury account.

**60. The DGPR has been given the task of developing monthly and annual treasury budgets.** Information on the estimated level of the receipts comes from the General Directorate for Taxes (DGCI) and the General Directorate for Customs (DGA). The DGO provides information regarding the expenditure side. The annual programming exists only in theory. Because of past fiscal slippages, the State cash management reflects a very short-term vision (sometimes almost a day-by-day management), intended to face the needs qualified as urgent. The medium-term programming is quasi-non-existent.

**61. There are many unrecorded accounts open in the banking system.** This is the case for externally financed investments projects, some ministries, and the autonomous institutions. However, the latter are prohibited from opening a bank account in a primary bank. The existence of these accounts does not allow an effective treasury management and generates important financial costs. Indeed, the State is forced to borrow to face its financing need, whereas some of these accounts have a large credit position. A decision had been made in 1999

to close all these accounts. It was only partially implemented, and remaining accounts are being counted. At the end of this work, only the strictly necessary accounts will be kept.

## **6. EXTERNAL AND INTERNAL CONTROLS**

**62. Except for the internal financial control, which is only partially operational, Cape Verde presents a complete audit system.** Its various components are detailed below, and followed by discussions of some recommendations.

### **Internal auditing**

63. Insofar as the ex-ante financial control is not yet in place, and since there is no operational structure of internal audit at the level of the directorates, this task will be analyzed only through the mandates and activities of the General Inspection for Finance (IGF), which answers to the MOF. Two essential texts provide the legal basis :

- Decree-Law # 30-2001 of November 26th, 2001 relating to the organization of the MOF (Article 57) defines the IGF as an administrative entity placed under the control of the Minister of Finance;
- Organic Decree-Law # 130-92 of November 23, 1992 deals with its statute and its field of intervention.

64. **Its field of investigation is broad.** It includes: (i) general services of the MOF and the line ministries; (ii) the whole of the public establishments and institutes; (iii) municipalities and embassies; (iv) public companies and autonomous funds; (v) companies, as regards the control of their tax obligations.

65. **Specific missions are also entrusted to it:** (i) controls of the financial transactions committed with public funds; (ii) training activities to improve the operation of the State services; (iii) audits of the services at the request of the State administrators, under the control of the MOF; (iv) technical Support to the cabinet of the MOF.

66. **The operations of the IGF are seriously weakened by insufficient means at its disposal.** It is hindered by lack of qualified personnel, equipment, and authority to fulfill its mandate. The existing personnel of the IGF has strong technical qualifications, but its limited headcount does not make it possible to organize the services as stipulated by the decree-law. Currently, the IGF is made of a brigade of 12 inspectors placed under the authority of a director. The IGF therefore adopted a work organization that makes it possible to mitigate the staff shortage. In practice, the inspectors work by team of two and are placed under the control of the director to answer the most urgent requests of controls and audits. At the time of the mission, 70% of the inspectors were focusing on the sector of the local communities because of the preparation of local elections. Two important factors harm the possibilities of recruitment and personnel turnover within the IGF: (i) the private sector offers better remunerated positions or often more attractive career plans; (ii) the unmitigated use of temporary assignments out of the primary department accentuates the mobility of the personnel and harms the continuity of the services. Both issues should be addressed by institutional reforms described in the next technical annex.

67. **The recurrent appropriations available to the IGF are very limited.** This situation does not make it possible to organize audits in sufficient number, and more particularly in the various islands of the archipelago or in the embassies. The IGF also works out of an architecturally arcane building. A new building for IGF is planned.

### **The external audit**

68. In general, the bodies for external audits, namely the Tribunal de Contas and the National Assembly, operate independently from the other audit bodies.

### **The Tribunal de Contas**

69. **The Tribunal de Contas has been created by Law # 84/IV/93 of July 12, 1993, and has the administrative autonomy and is independence from the political powers.** Although it does not have financial autonomy, it masters its financial management and has its own bank accounts. The budget of the Tribunal de Contas is negotiated annually with the Minister of Finance, on the basis of the Court's proposals.

70. **The Tribunal de Contas is a jurisdictional body endowed with a vast field of competences and broad capacities.** Law # 84/IV/93 confers on the Tribunal de Contas great investigative powers. They apply to all entities which manage public fund; and all financial or contractual transactions which commit the State or affect public finance management. It has therefore been in charge of the ex-ante monitoring of large public contracts that commit the State.

71. **Work relating to the analysis and the auditing of the General Accounts of the State has suffered important delays.** The Law authorizes the audit by the Tribunal de Contas of the State General Account submitted by the Minister of Finance. Following this audit, the Tribunal de Contas simultaneously emits comments to the Prime Minister and to the President of the National Assembly. These points of information are then published in the State Official Bulletin. At present, the last General Accounts of the State submitted to the Tribunal de Contas by the MOF dates back to 1997. Since this date, no report relating to budget execution has been communicated to the Court. This important delay considerably decreases the impact of the comments made by this body, knowing that these elements should make it possible to improve, from one year to the other, the public finance management.

72. **The Tribunal de Contas has insufficient means to fulfill its mandates.** One of the reasons of these difficulties lies in the high cost of the transport means connecting the various islands of the archipelago. This situation limits the capacity of traveling for the staff of the Court as well as of carrying out investigations in the field. This situation is all the more prejudicial that Cape Verde is developing a policy of decentralization and deconcentration of its administrations. The problem is the same concerning the audits of the embassies, which are administratively autonomous.

73. **The Tribunal de Contas is not sufficiently involved in the process of the reforms in progress.** It does not have an "intranet" server connection to the server of the DGO, which would facilitate and guarantee the transmission of quantitative data.

### **The Finance Committee of the National Assembly**

74. **The National Assembly is isolated to carry out its monitoring.** The Government does not send the quarterly execution reports intended to allow the Committee to monitor the budget during the fiscal year. This is nonetheless compulsory from the law text. The commission does not have access to any data and it should be noted that, contrary to the other audit entities, it is not connected to the Intranet network, which accentuates its isolation. As specified above, insofar as the State's General Accounts have not been produced since 1997, the National

Assembly has only limited leverage to carry out its political ex-post audit of the budget's execution. It should also be noted that the National Assembly is also isolated about the reforms in progress relating to the public finance management and for which it is not recipient of any information.

## **7. PROGRESS ON THE REFORMS OF PUBLIC EXPENDITURE MANAGEMENT**

### **Organization of the Reform Process**

**75. The appreciation of the situation concerning public finance management in Cape Verde cannot be done without taking into account the various reforms in progress.** These reforms are carried out by the RAFE, an organization with the mission of modernizing all the aspects of public management. The original 3 year mandate has come to an end in 2003, and the RAFE's existence has been continued under the supervision of the Prime Minister's office, and under a new name: NOSI. This change thus constitutes recognition of its merits and effectively represents a widening of its competencies. To ensure the continuity in the implementation of reforms, it has been decided that one of its priority tasks will consist in the maintenance of the information data-processing systems already in place. With regard to the aspects of its mission that involve public accounting, NOSI is working on the following points:

#### **At the legal and regulatory level:**

- The regulation on Public Accounting. Set by the Decree-Law # 29/2001 of November 19, 2001, this reform took effect on January 1, 2004, and specified that certain data-processing aspects were set up on January 1, 2003. The new Decree-Law is largely inspired from the system in force in the French-speaking countries. Its most notable new elements are: (i) the formalization of the role of authorizing officers and of the phases of expenditure; (ii) the decentralization of the spending decision by giving the sectoral ministers the responsibility of authorizing officers, (iii) the creation of an ex-ante financial control of expenditure and (iv) the definition of a modern accounting system. This new text, which applies to the central administration as well as to institutions with financial autonomy and all publicly-owned institutions, is a great improvement in the budget execution process. It defines the rules applicable to public finance management, and sets in practice the principles of checks-and-balances and transparency.
- The budget nomenclature which, although not yet completely finalized, was already implemented on January 1, 2003;
- The State chart of accounts, which is operational since January 1, 2004; with the new chart of accounts, information about the level of arrears should experience notable improvements. Under the condition that information enters the system; the accounting system will be able to present the figures concerning the stock of the foreign debt, as well as the domestic debt.
- The improvement of revenue collection: there is currently no check between the sums collected by the banking system concerning the taxes and the customs duties on one side, and the sums effectively deposited in the State treasury account. The trust in banks is such that there is currently no service, which would monitor and validate the amount of the receipt carried out by the DGA. RAFE is programmed to work as of the summer of 2003 on this topic with the DGA. The goal is to leave open only one bank account in the name of the DGA.

#### **At the data-processing level:**

- A new computerized expenditure stream, which has been deployed on a limited basis on January 1, 2004. This is the second version of the software specifically adapted to the needs of the municipalities;
- An information data-processing system for human resources management, which will make it possible to exploit data from the civil service census in progress;
- Regarding the national debt, interface software. It will allow, in connection with the software for the simulation of the debt, to carry out the interface between the software for the debt management and the accounting system.;
- The development of a process of on-line maintenance from Praia of the information data processing systems and the software installed on the islands.

**76. All these reforms represent an important cultural change. In addition, the institutional aspects risk being occulted by the data-processing aspects.** NOSI's initiatives have been imposed within very tight deadlines. Although they work with executives specialized on the regulatory aspects, the decision makers of this structure are tempted to computerize as fast as possible. The pace thus adopted risks harming a good buy-in of these reforms by the personnel in charge of its implementation, or the correct use of these tools.

**77. There are issues with the management of the reform itself.** First, the services of the DCP are poorly informed of the content of the future State chart of accounts. According to the elements received from the coordinator of NOSI, the data-processing application will generate, in an almost automatic and transparent manner, the majority of the accounting operations. This method has the advantage of effectiveness and reliability. However, it presents the disadvantage of masking the aspects relating to the accounting technique, and is therefore not didactic. It tends to make the personnel in charge of the data-processing and recording less responsible.

**78. Second, the new budget nomenclature has been developed without collaboration with the concerned services of the ministries,** which is likely to cause some degree of rejection by them. The hasty character of the implementation of the software leads to misunderstandings and misuses, and ultimately misreporting.

**79. Both risks also affect the adaptation of the software to municipalities' needs.** Although the new accounting directive is not yet in force for municipalities, the information data-processing system has been especially adapted to their needs, and has been already installed on 3 sites for tests. One of the consequences of the lack of proper coordination is evidenced by the fact that NOSI has taken a decision to have the municipalities use the State's budget nomenclature, while the administration in charge of the management of the municipalities is designing a new accounting directive which will comprise a different nomenclature, without any link to the State budget nomenclature. Past experience proves that computerization should not precede the institutional aspects, but to the contrary, follow them.

#### **IV. CIVIL SERVICE REFORM**

**80. Past reforms have tried, with limited success, to improve personnel systems and services, such as recruitment, organizational planning and career management, and to streamline the civil service.** A new career and salary system (PCCS) was adopted in 1992, with progression not solely based on seniority and promotion done through competitive exams. Implementation of the system has proven difficult (resistance from the agents, weaknesses of the system of competitive exams). Human resources management remains centralized at the

MREAP. Top positions remain strongly politicized, as demonstrated by multiple changes following elections (national or local).

**81. Despite the fact that the State is the first employer in the country, civil service positions fail to retain qualified professionals.** Today, there are few high level and experienced staff, staff at managerial positions are visibly overstretched, and some key positions are filled by international experts on secondment. The absence of a clear professional training strategy deepens the problem. Professional training remains a mainly donor-financed activity, organized on an ad hoc basis, outside the purview of an underdeveloped school of administration. The high turnover of managerial staff and the fact that individual positions are not governed by clear mission statements make public action a stop and go activity.

**82. The ad-hoc proliferation of specific schemes is detrimental to sound human resources management.** In order to try to remedy the unattractive package offered by the “general” civil service pay and employment scheme, an ad-hoc solution has been to allow sub-sets of civil servants to be ruled under specific separate schemes with a more attractive package. The civil service database counts 49 specific schemes of services, with two main caveats to this situation. In the absence of clear criteria for establishing such schemes, their adoption is more the result of bargaining positions within the government than the result of an informed analysis on needed qualifications and skills within the state apparatus. It has not been accompanied by implementation of an evaluation system that would justify salary increases by higher monitoring of performance.

**83. A comprehensive civil service census was conducted in 2002.** Finalization of data input took place in 2003, but validation of the data is lagging, because of lack of strong political commitment and appropriate management of the project, which has so far prevented this database to become a tool of human resources management and reform.

**84. The NDP identifies the revision of the 1992 PCCS as an important target.** Many issues will need to be reflected upon in elaborating this new document, among which the degree of decentralization of human resources management, the future of the various specific schemes of services, the use of contract positions, the number of political appointees, salaries and benefits, the geographical distribution of skilled professional and incentives to work in remote areas.

**85. Currently, there are few procedures and instruments to translate reform strategies in concrete and realistic activities and steps.** In some cases, the only action taken to implement change is enacting a law, without estimates of expected cost, time, or impact on existing structures. Many laws are moreover enacted, but not followed by the related decrees that would make them operational.

**86. Current changes in public management need to be accompanied by restructuring efforts.** Lack of coordination between different ministries and different levels of government, and inadequate linkages between sector policies and budget allocations are epitomizing the challenges ahead. The Cape-Verdean administration is moving towards new principles of public management, based on a clear articulation between strategies, allocated resources and expected results. To accompany this trend and ongoing public expenditure management reforms, the Government is planning to merge existing units currently in charge of recurrent and investment budgets in a single unit. This will be completed by the creation of a “public manager” career to provide various administrations with specialists in public management and retain them in the administration.

## V. DECENTRALIZATION

**87. Decentralization is one of the key vehicles chosen by the Government to improve service delivery.** Political decentralization in the country started in 1989, with four local elections between 1991 and 2004. The legal framework for decentralization gives the 17 municipalities broad attributions (including health and education). Transitory rules for implementation specify that attributions will be delegated progressively. To date, four areas have been transferred: public works, roads, social promotion and municipal taxes.

**88. Implementation difficulties are due to a poor adaptation of central government and de-concentrated agencies to a decentralized setting, poor coordination between the various actors, lack of clarity and planning of transfers and weaknesses in the legal framework.** Both municipal prerogatives and financing are currently defined under an outdated set of laws which is being updated. Further thought also needs to be given to the channels through which municipalities and the central government coordinate their interventions. Today, municipalities take actions that have a bearing on the central state budget without prior dialogue with relevant authorities, there is overlapping of mandates, and some sectors fall between the cracks. Since there is no institutionalized coordination mechanism that would bring together all local actors at regular intervals, collaboration depends too much on interpersonal relationships.

**89. Two major stumbling blocks remain: financial and human resources. Financial resources.** Municipal resources are composed of central transfers (the formula-based Financial Equilibrium Fund (FEF) and contract programs), local taxes and proceeds of decentralized cooperation. The FEF is the main source of resources for most municipalities, and its formula is criticized since it does not adequately reflect poverty levels, and can be a disincentive to improve tax collection. A draft law proposing a revised formula is in preparation. Devolution of local taxes to the municipalities proved difficult to implement, due to weakness in administrative capacity to collect, uncertainties (outdated cadastre) and weak resource base of most municipalities. Another problem is that there is no comprehensive knowledge of the municipalities' resources, since municipal budgets do not follow a standardized format, and proceeds of decentralized cooperation or one-off revenue such as the sale of land may represent an important source of financing.

**90. Human resources.** Attracting qualified personnel outside the capital, particularly in smaller islands, is difficult, and this especially since municipalities do not benefit from a specific, more attractive scheme of service. In order to accompany transfer of competencies, various solutions were found (secondment, partial transfer, etc), which have not always been satisfactory. There is a need to revisit, from the viewpoint of the municipalities, the need for staffing, in the context of the broad HRM reform, and elaborate various options, which would give municipality flexibility in hiring and retrenching while encouraging use of existing staff in the public service.

## VI. E-GOVERNMENT

**91. 'E-Government' has advanced in its conception and implementation in recent years.** The Government of Cape Verde sees applying modern information technologies as a core opportunity to improve the effectiveness, outreach and transparency of public services, a goal directly related to successful poverty reduction strategies. Use of IT is particularly attractive in

a discontinuous geographical setting and in a country with a very important expatriate community.

**92. There is local capacity to design IT systems.** Created in 1997 to oversee and manage the financial reform process, the mandate of the State Financial Administration Reform (RAFE) is to strengthen the institutional capacity to manage public resources and to create the necessary instruments to do so, including the implementation of information technologies. RAFE has grown into a more ambitious unit, dealing with various IT modernization projects in the country (single-windows in the municipalities, development of websites, central government networking). In 2003, RAFE was renamed NOSI (Operational Nucleus for Information Systems) and attached to the Prime Minister's office, to underline its crosscutting mandate.

**93. While IT activities have shown results, the IT capacity has not always been matched by organizational, financial or institutional capacity.** There is an urgency to match NOSI's activities with sufficient buy-in from the services, appropriate changes in structures, necessary training, and reengineering of processes. Establishing a multi-year action plan, based on prioritization, cost estimates and absorptive capacity – emphasis on change management and restructuring parallel to IT introduction- would help. At the very least, any activity undertaken by NOSI should follow a strict protocol, including earmarking of expected recurrent costs. (cf. part 3 on PEM related NOSI's activities).

**94. A current focus of public administration reform is the creation of "citizen houses",** a one-stop-shop that would provide a unique entry point for most used services to users. The model, which will rely on IT, is been developed. This could, if rightly implemented, translate public sector reforms into visible benefits for the users.

## **VII. LEGAL AND JUDICIAL REFORM**

**95. A high profile study, "Study Assessing the Judicial System in Cape Verde" was conducted in 2002** with strong top level commitment from the Ministry of Justice to combine different sector and project components into a comprehensive reform strategy.

**96. The Ministry of Justice has adopted a Strategic Plan for 2003-2005 in which it has defined priorities for the sector,** among which: (i) the promotion of sensitization and communication campaigns to enhance knowledge and adequacy to the rule of law; (ii) free and easy access to justice for the poor; and (iii) the creation and promotion of alternative dispute resolution mechanisms for the poor. The protection and promotion of human and citizen's rights of the most vulnerable groups is explicit in the draft GPRSP.

**97. Broadening knowledge and access to justice is a priority to create conditions for the creation of an environment conducive to the effective exercise of individual and collective rights, and increase legal security as a fundamental aspect of economic development.** This first priority will be dealt with through community-based programs, in order to enhance ownership and impact of the actions. Following a growing consensus among legal professionals that legal and judicial assistance (in and outside the court rooms) need to be totally re-organized and re-designed, the reform of judicial aid is another key priority.

**98. Judicial aid and alternative dispute resolutions are key instruments to broaden access to justice.** The allocation of funds for judicial aid by the Ministry of Justice for the compensation of attorneys involved in the judicial protection of poor persons in courts needs to be strengthened as demand for these services is expected to grow rapidly. The third priority is



the increase of the offer of Alternative Dispute Resolutions (ADR). Conciliation and mediation of private disputes, on a voluntary basis, have proved in many countries to be an efficient and effective tool to solve small disputes. They also help reduce courts' backlog and delays. Conciliation and mediation require an adequate legal framework and service infrastructure (places where they can be carried out with a high level of confidentiality; a good training and the adequacy to a strong ethic code for conciliators and mediators; a clear knowledge from parties about what these mechanisms entail; the definite and absolute prohibition to bring any aspect of any conciliation and mediation procedure to a judicial forum, etc.). A law is been prepared to that effect.

## **VIII. PROPOSED REFORMS SUPPORTED BY THE PRSC**

### **1. PUBLIC FINANCE**

**The issues presented above have been discussed thoroughly in the context of the CFAA, PER, and CPAR exercises.** They have, or are in the process of, being complemented by specific reforms, which have been organized and sequenced to provide sustainable improvement to PEM, and Public Sector Reform more generally. The following reforms provide an overview of the reform agenda for Cape Verde.

#### **Improve Fiscal Policy and Budget Allocations**

- a. Promote growth through a stable macroeconomic framework.
- b. Support priority sectors and cross-cutting functions by:
  - Adequately funding GPRSP priority programs and cross-cutting reforms; and executing budgets accordingly.
- c. Control contingent expenditure by:
  - Completing a final draft of a study compiling all debts and contingent liabilities of municipalities, autonomous institutes and State-owned enterprises; and elaborating a plan for the settlement of contingent liabilities and debt.

#### **Improve Budget Planning and Preparation**

- d. Improve budget planning by:
  - Passing a new law on budget planning and preparation;
  - Preparing an MTEF, including: the development of equivalent budget classifications for current and capital expenditure, a 3-year revenue forecast, and 3-year budget submissions for both capital and recurrent expenditure; and
  - Providing information on INPS and other autonomous institutes in budget document.

#### **Improve the Management and Control of Tax Proceeds**

- e. Expand the tax base, by:
  - Finalizing the identification of tax payers for VAT and individual income tax;
  - Identifying tax payers who are not currently included in the taxpayer registry,
  - updating the tax identification number (NIF) file, and attributing a single NIF.
- f. Improve the adherence to tax laws, by:

Auditing the agreement between the DGCI and BCA related to tax collection; and

- Redefining the duties and responsibilities of DGCI and MFP.
- g. Improve tax code and tax administration, by:
- Defining information flows to reconcile financial information between DGCI, the bank, and the DGT; and redesigning the DGCI's IT system;
  - Putting in place an internal audit function in DGCI;
  - Revising tax laws (e.g.IUR (PC&PS), General Tax Code and Fiscal Processes Code);
  - Elaborating with the IGF a systematic inspection program for RF's.

### **Improve Budget Execution and Reporting**

- h. Amend the structure of the expenditure chain to reinforce checks and balances, by:
- Deconcentrating the expenditure commitment and liquidation process through IT in line ministries; and
  - Creating the function of "financial controller".
- i. Improve the comprehensiveness and timeliness of expenditure data, by:
- Expanding the use of NOSI-based public accounting for autonomous institutes; and
  - Instituting the quarterly elaboration of accounts.

### **Improve cash and debt management**

- j. Integrate public debt management with treasury management and the budget, by:
- Converting existing protocols into Treasury Obligations of Treasury Bills;
  - Improving the management of public external and domestic debt through IT links to treasury management system and the budget management system; and
  - Increasing the use of the Central Treasury Account for treasury management in autonomous institutes

### **Improve internal and external controls**

- k. Improve the impact of external control, by:
- Presenting to Parliament of the executed budget of the previous year no later than 6 months after the end of the year;
  - Presenting an action plan to finalize 1998-2003 state general accounts; submitting them to Parliament for forwarding to the TdC; and
  - Reorganizing and redefining the competences of the TdC.
- l. Improve internal control and strengthen capacity in public finance management, by:
- Reorganizing, and improving the financial autonomy of, the IGF, among other systems of controls of state financial administration

### **Improve the procurement system**

- m. Streamline and codify procurement methods, by:
- Adopting an action plan for CPAR; leading to the adoption of a National Procurement Code; and the launch of a regulatory function that is both institutionalized and functional.

- n. Improve the capacity and accountability for procurement, by:
- Identifying resource needs; completing a study on training strategy approved by authorities; and implementing training modules for procurement officers.

## **2. CIVIL SERVICE REFORM**

### **Rationalize public administration structures**

- Define and establish “public manager” (*gestor publico*) positions in each ministry, with primary responsibility for recurrent and investment resources and public administration reform
- Terms of reference of each managerial position should be described to prevent from political assignment, and Staff at managerial level should receive a mission letters and be annually evaluated on this basis, as a first step towards result-based management

### **Promote the strengthening of the work force to ensure quality of policies and improved service delivery:**

- Consolidate civil servant’s data base to provide a reliable tool of management and diagnostic, and provide inputs into the reform of the PCCS
- Secure training financing, in order to develop structured professional training, a condition for efficient public service
- Support local training institutions, in coordination with other donors, to address the long term needs of a variety of skilled and specialized staff at the mid- and high level (procurement, public management, etc.), especially in key sectors most impacted by current reforms

## **4. DECENTRALIZATION**

### **Clarify repartition of competences and resources between center and municipalities**

- Define mechanisms and procedures for the transfer of competences to municipalities
- Increase resource base of municipalities (timeliness and volume of transfers, increased fiscal basis)
- Improve budget execution and reporting of municipalities

## **5. E-GOVERNMENT**

### **Improve rapid access to key public services for users**

- Elaboration of a realistic model of single-window for most demanded services to reduce cost and time to access services for the users.

## **6. LEGAL AND JUDICIAL REFORM**

### **Promote knowledge of rights and access to justice:**

- Promote public awareness and communication campaigns to enhance knowledge and adequacy to the rule of law through active involvement of local communities
- Insure free and easy access to justice for the poor through revision of law on judicial aid and establishment of judicial aid fund
- Create and promote alternative dispute resolution mechanisms for the poor through enactment of law on ADR.

## Annex 7

### Education Sector Technical Note

#### Background

1. **Cape Verde has made a commitment to work towards achieving the Millennium Development Goals in education (MDG #3 is to ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling).** Over the past 5 years, the Government has achieved quasi-universal primary enrollment. In 2002-03, it was estimated that over 80 percent of the students graduated from primary school and the transition rate to secondary for those graduating from primary was estimated at 70 percent. Illiteracy for the population over 15 years of age has been halved since 1981, and currently stands at 25 percent. Illiteracy is concentrated among adults (particularly rural women), with literacy rates among 15-24 year olds at 95 percent due to gains in schooling over the last 20 years. Gender equity is achieved at the primary level, and girls outnumber boys slightly at the secondary and tertiary levels. Cape Verde's education achievements now rank among the top of Sub-Saharan Africa (SSA) countries and other countries of lower middle income level.

- Among the strengths of the Cape Verde's education sector, it is important to point out:
- a high and stable level of public financing for education which has been maintained roughly around 8 percent of GDP over the years;
- a lean administration of the Education Ministry, with 2 percent of staff in central administration, 10 percent of staff in delegations, and 88 percent of teachers in teaching assignments and mainly in primary education where most students are enrolled; and
- a high level of capital expenditure allocated principally to secondary education in order to prepare the surging demand for this education sub-sector.

#### Main issues in the education sector

2. **Several studies have been completed by the Government, the Bank and others which diagnose the main issues in the education sector**<sup>7</sup>. Briefly, these issues include:

- **An inadequate coverage of early childhood education.** Less than 50 percent of the 3-5 year old attend early childhood education (ECE). Regional and socio-economic disparities in access to ECE are extremely strong. This sub-sector is characterized by the insufficient and unsatisfactory competence of its teaching staff; the lack of pedagogic materials; the low level and unpredictability of its financing; and, the absence of well-established rules and responsibilities in terms of service delivery.
- **The quality of primary education remains unsatisfactory.** Despite one of the highest unit cost per student in the sub-region, the average repetition rate in primary education remains stubbornly around 12 percent. This is in part due to a low level of competence of the teaching staff. A third of the teachers have no academic qualification. The deployment of untrained teachers in poor municipalities (district) reinforces the regional disparities. The low quality of primary education also stems from the use of inadequate pedagogy, in particular in regard to the teaching of Portuguese and Math. Finally, school autonomy is weak. There are few opportunities for schools to work together,

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<sup>7</sup> The education sector has been reviewed in the PER, DPR and draft Poverty Assessment.

share information and look for innovative solutions. The link between the school and the community has not been sufficiently developed.

- **A surging demand for secondary education.** As a large share of students graduates from primary, secondary education has to cope with mounting pressure to improve the range and quality of its offerings. Despite some recent investments in schooling infrastructure, the secondary education sub-sector is ill-prepared for the surge in enrollment. There are a few large secondary schools (with a capacity between 2,000 and 5,000 students) but not enough medium size lower secondary schools. School facilities are unequally distributed between islands and within islands. There is a shortage of teachers. The curriculum is outdated. Front teaching is prevalent with little recourse to experimentation and practical exercise. Secondary technical education remains marginalized. Students enrolled in technical education do not benefit from complementary professional training which would facilitate their entry into the job market.
- **A professional training system flawed.** The professional training system is not structured to respond to the social demand nor to meet the needs of the economy in qualified labor force. Rules and responsibilities governing the sector are unclear. Very few providers are certified. There is no pedagogic supervision. Curriculum content is sometimes random and degrees are not always accepted by the private sector.
- **Tertiary education supply is insufficient.** Grants and opportunities to study abroad have been reduced in recent years whereas the number of students completing upper secondary is growing rapidly. The number and relevance of tertiary education institutions are insufficient to respond to the demand and meet the needs of Cape Verde economic and social development.
- **Teacher salaries are crowding out other types of recurrent expenditure.** Salaries consistently absorb about 90 percent of recurrent expenditures, and could be construed as a measure of inefficiency. While the average teacher salary relative to GDP for primary education is close to the regional average (but higher than the ratio of 2.0 for countries with similar levels of income), their level for secondary education is much higher, and contributes to the high percentage of personnel charges in recurrent expenditure.

### **Education Reform Strategy**

2. **The priorities for the Government's education policy are spelled out in the Major Options of the Plan and the National Development Plan (2002-05).** These priorities are as follows:

- promoting equity and improving the functioning of preschool education in order to create the conditions of its progressive generalization;
- improving the quality of primary education;
- aligning the resources of secondary education on the requirements for development;
- supporting the development of tertiary education;
- reducing illiteracy and supporting adult education/life-long learning;
- developing professional training as a means for upgrading human resources and equipping them to meet the requirements of the exercise of citizenship and of economic growth and of increased competitiveness;
- consolidating school welfare programs; and
- promoting a national policy of youth and sport to ensure a better integration the young generation into social life.

**3. Overall budget constraints put a premium on increases in efficiency to permit further system expansion.** The Education Ministry is considering two measures to improve efficiency in primary and secondary education. The first measure aims at increasing the pupil/teacher ratio (PTR) and improving deployment of teachers. This will permit to reduce the number of teachers and the overall salary recurrent expenses (of course additional teachers will have to be recruited because of the expansion of access to secondary). In primary education, it is expected that the PTR will increase from 27 to 35 by 2009/10. The other efficiency measure specific for secondary is the number of teaching hours per teacher which is expected to increase from 18 to 22 hours per week. Other measures are related to the improvement of internal efficiency. In primary education, it is expected that the percentage of graduate will increase by 2% points per year as of 2004/05. In the meantime, repetition and dropout rate are also expected to improve.

**4. Some efficiency gains will only be possible if the quality of education improves.** Important efforts are currently made to improve the skills and proficiency of primary teachers. These will continue through at the implementation of the PRSC. It will also be necessary that all children enrolled have access to proper learning materials and that teachers know how to use them. A student achievement test will also be introduced in order to measure student learning in key subject matters, such as Portuguese and mathematic. More regular testing will provide useful information in order to better monitor progress achieved to improve education quality, but also to identify specific student groups who are falling behind. In secondary education, recent data show that the internal efficiency is worsening. The percentage of repeaters in each grade is increasing. That situation is partly due to rapid increase in secondary enrollment with a sub-education level not ready to cope with this situation both in terms of physical facilities, but more importantly in terms of number of qualified teachers per subject area and learning materials available. It is also possible that a number of primary graduates entering secondary education do not have the academic level. Finally, pressure to work or support families (indirect cost of schooling) is stronger in secondary than in primary resulting in a lower attendance from secondary students. To improve internal efficiency in secondary the Ministry of Education will have to address the issues described above. Better trained teachers, some curriculum revision, more intense pedagogic support, and availability of teaching and learning materials in the classroom will contribute to improve education quality and thus graduation rate. Efforts in that direction have already started and will intensify via the PRSC.

**4. Building on these priorities, the Government presented in March 2003, its Education Strategic Plan focusing on six main areas, namely:** (i) the consolidation and gradual expansion of all sub-sectors of the education system; (ii) the overall improvement of the quality and efficiency of the education system; (iii) the strengthening of cultural and civic values; (iv) the modernization of the education system; (v) the transformation of the education system to support social progress and alleviate poverty; and (vi) the development of partnerships to improve the management and sustainability of the education institutions.

#### **Current Status**

**5. Since 1999, the Education Ministry of Cape Verde has been implementing an IDA-financed project aimed at consolidating and modernizing the education and training sector.** The achievement of the project development objectives and implementation progress are satisfactory. The project has supported the Education Ministry in its efforts to improve service delivery in basic education mainly through: (i) the construction and equipping of new classrooms; (ii) the provision of textbooks; and (iii) in-service teacher training. In the training sector, the project has financed existing programs supporting apprenticeship and professional

training in order to increase the employability of the workforce and of school dropouts. Finally, the project through financing of technical assistance, studies and pilot testing has contributed to reinforcing the Education Ministry's knowledge base and analytical skills (e.g.: education and training sector's diagnostic and education strategic plan elaborated). The closing date of the Credit was June 30, 2004.

**6. In November 2003, Cape Verde received a US\$6.9 million grant from the Netherlands Government to support the implementation of its Education for All (EFA) plan of actions.** This grant provides incremental financial resources channeled through the Education Ministry's budget and allocated mainly to: (i) early childhood development; (ii) basic education; and (iii) capacity building. The Education Ministry has already received a first installment of US\$2.3 million.

**7. In terms of recent achievement, the Education Ministry has taken some measures aimed specifically at improving the quality and efficiency of basic education.** They include the elaboration of new training modules and use of new pedagogical approach for in-service teacher training. In terms of efficiency, new decrees were promulgated to reform the graduating system in primary and secondary education. This will contribute to reducing unnecessary pupils' repetition of a grade which is costly and often leads to dropping out. Finally, confronted with rising costs due to the rapid growth of enrollment, the Education Ministry established a progressive parent's financial contribution to secondary education based on household income.

#### **Education Priorities in the Cape Verde's GPRSP**

**8. The Government has underlined the centrality and the importance of education in its strategy of development.** For this reason, the third pillar of Cape Verde's PRSP aims to develop and upgrade human capital which includes notably the health and education sectors. The general objective set up by the Government for the education is to improve the employability and skills of the labor force as a means to support economic growth and alleviate poverty in Cape Verde. The accumulation and upgrading of human capital entail to improve the education system and to reinforce professional training. In particular, the Government has emphasized the need to: (i) overcome barriers that prevent the poorest from accessing secondary education; (ii) improve teacher training in order to increase the education system's internal efficiency, thus reduce school wastage at all levels; and, (iii) reinforce the linkage between the education system and the labor market by ensuring that the skills and knowledge acquired are those needed by the economy.

**9. Aligned with its Education Reform Strategy, the Government in its PRSP vows to expand access to the Early Childhood Education.** Particular attention will be given to increase significantly the quality of education in all sub-sectors taking into consideration the reduction of regional, gender and socio-economic inequities. Promoting access to secondary education, diversifying supply of vocational and professional training streams, and providing better schooling orientation and specialization will allow to raise the overall level of education of the population and to facilitate the entry of young graduates in the active life. Strengthening and expanding the professional training sector is a key policy priority to reduce poverty, because this will enable to raise the skills/proficiency of the future workforce and to improve their adaptability, flexibility and sustainability to better respond to the need of a rapidly changing and growing economy. Finally, developing and organizing tertiary education, in particular

supporting science and technology will create opportunities for the population to further their education.

### **Financing of the GPRSP**

**10. The overall cost of the consolidation, modernization and expansion of the education system (89% of all education programs in the PRSP) is expected to cost an estimated US\$37 million between 2005 and 2007.** Fifty-seven percent is equivalent to capital expenditure and 43 percent is equivalent to recurrent expenditure (based on the costing documents included in the PRSP). Expenditures to increase access to education include mainly: (i) the construction of early childhood development centers; (ii) the expansion and renovation of school facilities in rural, poor areas; and (iii) the construction and equipping of secondary schools in rural areas; (iv) the expansion of the tertiary education infrastructure. Expenditures to improve education quality include mainly: (i) the revision of the basic education curriculum and textbook collection; (ii) the training of preschool and basic education teachers; (iii) the reformulation of the objectives of the secondary education curriculum; (iv) the equipping of libraries, laboratories, computer labs; (v) training of trainers in adult education; (vi) distribution of a free hot meal to all children enrolled in preschool and basic education in disadvantaged areas; and (vi) the strengthening of school health interventions. Additional spending, such as the recruitment of new teachers and running of school facilities in particular in early childhood and secondary education to meet the expansion of access to education has not been included, and must be accounted for.

**11. However, the quantitative targets in terms of the expansion of access to education in early childhood and secondary education between 2005 and 2007 are quite modest.** As a result, the fiscal impact of the expansion of the education system should remain manageable and in particular in regard to the increase of education recurrent expenditure. Furthermore, it is expected that local elected governments, community based organizations and parents will contribute to the financing of children's enrollment in early childhood centers. Of course, resources from local governments will have to be raised through local taxes and/or through transfer from the central government.

**12. Most of the new recurrent expenditures will stem from the expansion of secondary education and particularly the objective of achieving universal basic education of eight years.** The Government has already adopted a cost-sharing mechanism resulting in parents taking a larger share of the cost of their children's education based on their taxable income. In addition, it is likely that private secondary schools will emerge in greater number catering to those who can afford it and thus freeing resources to be allocated to subsidize access to secondary education for the most disadvantaged. This is the population that the Government wants to reach through its PRSP in order to achieve its enrollment targets.

**13. Finally, in professional training, the Government will reinforce its normative and quality control role by creating a proper framework for the development of professional training, as well as providing incentives.** In fact, the private sector and the beneficiaries will support most of the cost of professional training. The market mechanisms and in particular the skill demand from the labor market should regulate the supply of professional training.

### **Education priorities for the PRSC**



**14. The Education Ministry has prepared a draft matrix for the education and training sectors which prioritizes four main medium-term objectives for PRSC 1, PRSC II and PRSC III, namely:** (i) improving the quality and efficiency of education; (ii) expanding and diversifying general and technical secondary education supply; (iii) expanding and diversifying professional training service delivery; and (iv) consolidating and restructuring tertiary education.

**15. Improving the quality and efficiency of education.** The main activities supported consist in editing/elaborating a new curriculum for primary education supporting a pedagogic approach by learning objective or competency. Simultaneously, the initial and in-service teacher training system will be reformed to strengthen its capacity to better and more efficiently train primary and secondary education teachers. Teachers currently in classrooms with no formal academic training and/or less than nine years of education will be given priority access to teacher training opportunities. A national testing system will be set up in order to evaluate student academic outcomes in primary education. This will allow to measure progress achieved in increasing students' proficiency and overall education quality.

**16. Expanding and diversifying general and technical secondary education supply.** The priority consists in identifying the geographical disparities in the supply of general and technical secondary education. Through this school mapping exercise, it will become possible to select sites for the construction of medium-size secondary schools to better respond to the needs of the population. Simultaneously, the Education Ministry will initiate a revision of the curriculum content to select priority learning/academic areas for the development and modernization of general and technical secondary education streams. Finally, school welfare activities will be expanded to facilitate access of the poorest to secondary education.

**17. Expanding and diversifying professional training service delivery.** The priority consists in developing a national policy and a legal framework to structure and consolidate the delivery of professional training services. In particular, the Government will support the establishment of mechanisms of quality insurance and accountability through the accreditation of professional training institutions and certification of degrees. This is expected to create a pool of well-trained graduates from professional training institutions on which the private sector can rely upon to meet its requirement for a qualified workforce.

**18. Consolidating and restructuring tertiary education.** The priority is to elaborate a legal framework and define an organizational structure for the creation of Cape Verde first public university.

#### **PRSC indicators**

**19.** Ten indicators were chosen for the education sector in this PRSC matrix. This is a limited selection of education indicators included in the PRSP. For the most part, the indicators used in the PRSC are outcome indicators.

#### **Institutional Arrangements**

**20. The Education Ministry will have primary responsibility for implementing these reform measures.** However, partnership with the Ministry of Labor and Solidarity will be sought in two main areas: (i) supporting access to education of the poorest through social welfare programs; and (ii) developing professional training activities to upgrade the skills of the workforce.

**Tables 1: Gross Enrollment Rate in Primary Education School Year 2000-01**

Districts	Gross Enrollment Rate in Primary Education School Year 2000-01
Sao Domingos (Santiago)	130%
Paul (Sao Antao)	123%
Brava	121%
Sal	119%
Sao Vicente	119%
Boa Vista	119%
Mosteiros (Fogo)	111%
Tarrafal (Santiago)	113%
Sao Miguel (Santiago)	114%
<b>National level</b>	<b>117%</b>

## Annex 8

### Health Sector Technical Note

#### Background

1. **Health outcomes in Cape Verde have been steadily improving over the past two decades and are amongst the best in Africa.** Infant mortality per 1000 birth is 32.2 (SSA average is 105<sup>8</sup>), child mortality per 1,000 is 28.2<sup>9</sup> and life expectancy at birth is 69 (SSA average is 46<sup>10</sup>). Cape Verde is very likely to achieve the health MDGs and is passing through an epidemiological transition moving more towards chronic diseases. Nevertheless, resurgence of endemic disease mainly due to vaccine coverage decrease is cause for concern and points to the vulnerability of past achievements. The country also has significant differences in health outcomes by district (Table 1).

**Table 1: Selected Health Outcomes by District (2002)**

	Cabo Verde	R. Grande	Paul	Porto Novo	São Vicente	São Nicolau	Sal	Boa Vista	Malo	Tarrafal	Santa Catarina	S. Cruz	Praia	Fogo	Brava
Total mortality rate	7	7	4	7	6	8	6	8	4	9	7	7	6	6	7
Infant mortality rate	29	13	13	11	24	32	46	36	33	32	34	23	41	15	13
Maternal mortality ratio	34.7	0	0	0	92.4	0	0	0	0	0	0	87.0	24.0	82.2	0
% children < 1 yr fully vaccinated	61	42	41	56	53	69	91	75	71	60	49	48	81	53	65
Contraceptive prevalence	38	44	27	38	58	31	47	49	38	33	21	21	44	23	54
Average number of prenatal consults	3.8	4.5	3.7	4.5	4.4	4.4	4.6	3.8	2.8	4.4	3.7	2.4	3.3	4.4	3.6
# of doctors	167	7	1	2	49	3	3	1	1	4	9	4	76	6	1
# of nurses	286	11	5	8	82	10	5	4	5	10	20	8	95	20	3
Bed/population	569	488	584	877	382	330	468	371	638	908	733	1661	623	646	568
Doctor/population	2603	3080	8325	8619	1384	4512	4930	4193	6742	8553	5552	8205	1570	6234	6820
Nurse/population	1520	1960	1665	2154	827	1353	2958	1048	1348	3421	2498	4102	1256	1870	2273
Nurse:Doctor ratio	1.7	1.5	5.0	4.0	1.6	3.3	1.6	4.0	5.0	2.5	2.2	2.0	1.2	3.3	3.0

Source: M. Saúde, GEP Dpto de Estatística

2. **In 2002, total health care expenditure in Cape Verde was around 4.5 percent of GDP or \$64 per capita (2002).**<sup>11</sup> The Ministry of Health accounted for 54 percent of total expenditures (6.5 percent of total Government expenditures)<sup>12</sup> while the social security

<sup>8</sup> Cape Verde at a Glance – Development Economic Central Base

<sup>9</sup> PRSP

<sup>10</sup> Cape Verde at a Glance – Development Economic Central Base

<sup>11</sup> IMF, Average exchange rates of 117 CVE per USD

<sup>12</sup> Sources of MOH spending include transfers from the budget, a 2% payroll tax on civil servants, and a transfer from INPS to cover part of the cost of hospitalization. MOH health spending as a percentage of the total

system (INPS), which covers approximately 30 percent of the population, accounted for 28 percent. Private expenditures, equal to \$11.4 per capita, were 18 percent of total spending.<sup>13</sup> Within public expenditures, salaries account for 64 percent, medication for 16 percent, and medical evacuation for 5.4 percent. Execution rates typically exceeded 100% for operating expenses over the past two years while the rate for the capital investment budget was much lower at 65 percent in 2002. The system still relies on medical evacuations, which limits significantly the access to certain types of care services to part of the population.

**Table 2: 2002 Health Expenditures**

	Actual expenditures (000,000 CVU)	% of total expenditures	% GDP	% Gvt Expenditures	Per capita expenditure CVU	Per capita expenditure USD
Ministry of Health	1,827	54	2.4	6.5	4,056	34.6
O/w recurrent	1,301	39	1.7	4.6	2,888	24.0
Ow investment	526	16	0.6	1.9	1,168	10.6
INPS	937	28	1.2	3.3	2,080	17.7
TOTAL: Public Sector	4,591	82	3.7	9.9	6,136	52.3
Private	559	18	0.7	2.1	1,332	11.4
TOTAL Expenditures	3,364	100	4.5	12.0	7,467	63.7

Sources and assumptions: MOH: Ministry of Finance, INPS: INPS, Private: 2003 household survey, Total population : 450,489 (Ministry of Finance) , GDP: 75.4 billion CVE (IMF), Total Gvt expenditures (million CVE) : Recurrent : 18,098 ; Investment : 9,913 = 28,011 million CVE, (MOF), Exchange rate (CVE per USD) 117.2 (period average), (IMF)

The primary sources of financing of the health system are the regular budget of the Ministry of Health (39%); external aid (16%); the INPS (28%) and private expenditures, including user fees and premia for private insurance (18%).<sup>14</sup> (table 2) Cape Verde considers all donor assistance to the health sector to be “investment” regardless of type of assistance. This is managed separately from the MOH budget.

**3. Significant pooling of revenues and spreading of financial risk does take place in Cape Verde, but inequities persist.** The Ministry of Health budget, which finances the recurrent health expenditures of all public health facilities, includes revenue from not only budget transfers but also contributions from civil servants (equal to 2% of salary)<sup>15</sup> and a lump sum transfer from INPS of 100 million CVE. Beneficiaries include all indigents, self-employed (including most of the rural population) and civil servants. This covers most of the population not covered by the INPS. The average expenditure per beneficiary of GOCV financing is around 5100 CVE. (US\$44).<sup>16</sup>

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government expenditures is high – 6.5 percent – compared to an African average of 4 percent. However, it is significantly lower than the target of 15 percent set in Abuja.

<sup>13</sup> Based on 2003 Household Expenditure Survey and is likely to be an underestimate.

<sup>14</sup> Local delegations also raise revenue for the health sector through such things as fees for sanitary inspections. The amount of these revenues varies from delegation to delegation and has not been estimated in any of the previous studies on health expenditures. However, one estimate for Santa Catrina put the amount as high as 8.6 million CVE.

<sup>15</sup> There are approximately 44,000 civil servants in Cape Verde, and along with their dependants, they comprise approximately one third of the population. In the case of civil servants, Civil servants and their relatives living under one roof have access to public health care facilities (medical attention and medication) at no charge beyond the token co-pay

<sup>16</sup> Assumes that all non INPS are covered, i.e. 351,973

4. **Most people are not required to pay fees at the health facilities.** It is estimated that more than 95 percent of the population does not pay fees, but instead only pays the minimal “tickets moderateurs” which is equal to 50 ECV. Of those who do not pay, 84 percent are considered indigent and 14 percent are government employees. Even with a low collection level, fees account for 15.5 percent of revenue at Praia Hospital, in comparison to 5.6% which they collect from INPS and 2.4% from private insurance.

5. **The INPS also pools revenue of those who are employed outside of the civil service.** An 8 percent tax on payroll is split between employer and employee, and managed along with the pension funds by INPS. There are currently 98,516 beneficiaries in the system, including 4,000 pensioners. The average expenditure per INPS beneficiary is 28,000 CVE (US\$240). INPS’ beneficiaries use public facilities, for which INPS contributes 100 CV million CVE, 60 million to the Treasury and 40 million to the hospitals directly. The amount of this transfer from INPS to the MOH has not changed in more than ten years and it is clear that the MOH now highly subsidizes health care services for INPS beneficiaries. The INPS contracts with private providers for dentistry and physiotherapy services. A new law concerning INPS, effective as of April 1, 2003, opens the door for the INPS to contract with other types of private providers in the future.

6. **The level of out of pocket spending, which is unpooled resources, is relatively low in Cape Verde.** Based on a 2003 national survey, average out of pocket spending is approximately 560 million CVE, or 1,332 CVE per capita (US\$11.4), equal to approximately one percent of household spending. Data from the survey have not yet been analyzed to determine the level of spending across income groups, but one proxy, urban versus rural, showed that those from urban areas accounted for nearly 75 percent of all out of pocket spending. In general, out of pocket spending poses the highest risk for the population given its unpooled nature, particularly for the poor.

7. **The provision of health services is primarily public with a growing unregulated private sector.** The system is fairly centralized with salaries and pharmaceuticals being paid directly by the MOH. The two large hospitals in Praia and Mindelo have been granted some amount of managerial autonomy. Accessibility to health care varies tremendously by Island. INPS contracts mostly with the public sector facilities except for dentistry. At the moment, there is no correlation between the costs of care and the public health system budget allocations. Financing at the government and social insurance levels are based independently of costs and services deliveries. Although the current incentive system brings certain advantages, it also brings high risk level and its implications need to be better understood.

8. **Health services are the responsibility of the central government and most expenditures such as salaries and drugs are centrally controlled.** Municipalities are provided a budget for fuel, food, and administration. In 2002, a law has been passed devolving more responsibilities to municipalities. However, implementation of the law has been stalled because of a lack of clarity of functions and responsibilities. Formulating a new law defining the powers and jurisdiction of the municipalities is a priority in the GPRSP and included in the PRSC. Until this framework is agreed upon, it will be difficult to proceed with planned health reforms in areas such as human resources and health financing.

9. **Health status is affected by factors outside of the health system, including nutrition and access to safe water.** Cape Verde produces only 10 to 15% of its food consumption needs. The situation is specially serious in rural areas, where most of the poor live. Cape Verde imports most of its food needs, and is highly dependable on foreign aid. Water access is still limited in Cape Verde. Only 25 percent of households have access to a public water system. Water access

drops significantly in rural areas, where only 7.1 percent of the population has access to a public water system. Most of the rural population still relies on water fountain (45 percent), and natural source of water of doubtful quality continues to be the only source of water to many people.

### **Main issues in the health sector**

10. Several studies have been completed by the Bank and others which diagnose the main issues in the health sector (PER, DPR, PRSP, and PND). Briefly, these include:<sup>17</sup>

- **Inequities in health outcomes and access to health services:** Access is limited primarily by geographic constraints and approximately 44 percent of the population does not use health services when ill. Lack of health facilities contributes to disparities in utilization of health services, which is higher in urban areas than in rural areas. Health outcomes also vary by island, however access to health services does not account for all of the disparities in health outcomes. (Table 1) Differences in the access to water, sanitation, and child nutrition are also important factors.
- **Extensive use of medical evacuations,** both within and outside of the country, are necessary because of a lack of specialist and diagnostic equipment in remote areas. Evacuations account for 5 percent of the Ministry of Health budget and 13 percent of INPS expenditures. After salaries and pharmaceuticals, they are the third largest expenditure category. These numbers underestimate the real cost of medical evacuations because the Government of Portugal has long had a policy of covering the cost of medical care for those Cape Verdeans who are sent to Portugal. , An increase in non communicable diseases is has contributed to an increasing need for evacuation which are primarily for chronic diseases such as cancer and cardiovascular. In 2002 there were 214 international and 3657 national evacuations. Unlike other countries, evacuations have not been a privilege of the elite, but are based on need. Reducing the need for evacuations is now a Government priority because Portugal has indicated its intent to no longer cover the health care costs of those who travel to Portugal for treatment.
- **Increase in non communicable diseases** and decreases in infant and child mortality rates<sup>18</sup> over the last decade have led to an aging population. Life expectancy is 66.5 for men and 74.9 for women. Ten percent of the population is over 60 years of age. Today non communicable diseases (NCD) significantly hinder economic growth. On average, men lose 13.6 years of productive life and women 11.3 years, due to illness.<sup>19</sup> Addressing these NCDs through health promotion and prevention programs has become a major priority. However, recent outbreaks of cholera and measles are an indication that the country cannot abandon its efforts on infectious disease control, which disproportionately affect the poor.
- **Challenges in human resources:** While the ratios of various types of health workers per inhabitant are not bad,<sup>20</sup> they mask large inequities between districts as well as a reliance on a large cadre of Cuban physicians (52 of 163). For example, there is a six fold difference in the doctor population ratio in Sao Vicente and Porto Novo. The main challenges include: (i) an insufficient number of doctors, particularly of specialist, due in part to migration; (ii) poor

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<sup>17</sup> Some, but not all of these issues have been captured in the Government's PRSP.

<sup>18</sup> This is commonly referred to as the "epidemiological transition." Between 1991-1995 the main cause of death was infectious and parasitic diseases while between 1996-2000 it was cardiovascular diseases

<sup>19</sup> This is one of the largest in the region

<sup>20</sup> Ratios in 2002 were 1:1205 for nurses and 1:2682 for doctors

distribution of staff, with more than 80 percent of doctors practicing in the two general hospitals; (iii) lack of incentives in the payment mechanism to maximize efficiency, focus on the poor, prioritize certain services, or avoid over referral;<sup>21</sup> and (iv) a growing number of public sector doctors working in an unregulated private sector.<sup>22</sup>

- **Lack of health information:** There is a surprising lack of information on health services and outcomes in Cape Verde. Data on utilization and cost are essential for basic monitoring and evaluation as well as management. This suggests that investments in health information systems at all levels of the system may be required.
- **Fiscal instability:** The public sector health system is in financial crisis, even though total government health spending in Cape Verde is generous and financing by donors is the second highest per capita in Africa.<sup>23</sup> The main causes of the financial crisis are: (i) a growing deficit at the INPS, which reached US\$13 million in 2002 (compared to an annual budget of US\$8 million in 2002), (ii) a very high and rapidly increasing rate of expenditures on pharmaceuticals, and (iii) increases in demand as incomes improve and the population ages. In 2002, total health expenditures equaled approximately US\$29 million (4.5% of GDP) with an average total expenditure per capita around US\$64<sup>24</sup>. Eighty-two percent of expenditures were public (MOH and INPS), equal to about 8 percent of total government expenditures. Private, out of pocket expenditures accounted for 18% of total health expenditures and 1.1% of total household expenditures.<sup>25</sup> This suggest that there may be limits to the extent to which public sector health expenditures can increase and that there is room for out-of-pocket expenditures to increase and potential savings from better management of pharmaceuticals.
- **Financial protection:** According to the recent household expenditure survey, approximately 5 percent of the population had health expenditures greater than 10 percent of their income with health care expenses causing approximately 1 percent of the population to become poor. In general, private spending is progressive, with the poor spending a smaller percentage of their total income on health than the rich. A majority of private expenditures are for drugs, which account for more than 90 percent of total spending for the poor, compared to around 50 percent for the rich.
- **Decentralization:** Decentralization of health services to municipalities is planned although final details will only become known when the Government completes its overall framework for decentralization for the country – a PRSC 1 measure. Most of the health reforms proposed by the Government are supply oriented and decentralization may have a significant impact on utilization and outcomes by focusing more on the demand side.

## Reform Strategy

11. **The Government's reform strategy (*Programa – Reformar o Sistema par Promover a Saude 2002-2005*) maps the country's health priorities into four programs: (i) *Structural Issues* such as health financing, information systems, legislation, capital planning and**

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<sup>21</sup> Due, in part, to the fact that hiring, firing, and remuneration continues to be done at the central level. 64 percent of total MOH spending is for salaries.

<sup>22</sup> Note that the precise breakdown between public and private providers is not known and would be difficult to estimate given the common practice of dual practice.

<sup>23</sup> External aide accounts for 16% of total financing of the sector, equal to approximately US\$10 per capita.

<sup>24</sup> 2002 US\$ when average exchange rate was US\$1=117 ECV

<sup>25</sup> From 2002 household survey

infrastructure, and pharmaceutical policy; (ii) *Reproductive and Child Health* activities that addresses in great part the issue of deteriorating health sector indicators through a combination of strengthening existing programs, providing training, and improving the referral system; (iii) *Prevention of Communicable and Non-communicable Diseases* which aims to strengthen the capacity of the health service to detect potential epidemics, improve surveillance at all levels of the health system, and increase participation of the population in health promotion and disease prevention; and (iv) *Human Resources* to improve the management of human resources, improve the quality of care, improve distribution of human resources, and improve conditions of employment for health professionals. For each of the four programs, objectives, targets, strategies, and monitoring indicators have been identified. Note that issues related to health financing, and particularly the INPS, are not included as part of the strategy for the MOH but are assumed by other government ministries.

### **Current Status**

- *Structural Issues*: Progress has been achieved in several of the components of this program. For example, an infrastructure development plan, targeted towards improving access and quality of health services in rural areas, has been developed and implementation has begun<sup>26</sup>. The national pharmaceutical policy has been revised with the objective of improving the availability of essential drugs of good quality. A study of health expenditures has been completed and development of a new health financing policy is underway.
- *Reproductive and Child Health*: Several specific programs oriented towards pregnant women and children are underway, including Making Pregnancies Safer, Primary Health and Nutrition Care, and Improved Service Standards and Mother-and- Child Health Care.
- *Prevention of Communicable and Non-communicable Diseases*: Examples of progress include: (i) introduction of a system of epidemiological surveillance of priority diseases (TB, malaria, polio, etc) including a new network of laboratories; (ii) approval of national strategies for HIV/AIDS and TB; (iii) improvements in the diagnostic capabilities for HIV/AIDS; and (iv) increases in vaccination coverage rates following a national campaign.
- *Human Resources*: A priority has been to continue to improve access and quality by supporting training, particularly of nurses and specialists. Training, both within the country and abroad, has begun in areas such as surgery, neurology, neonatology, public health, and health administration.

### **Priorities in the GPRSP**

12. Consistent with the national health strategy and NDP, The GPRSP identifies the following activities which are assumed to have a significant impact on poverty<sup>27</sup>:

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<sup>26</sup> Several health facilities have been constructed (or rehabilitated) and equipped, most of which are in rural areas. These include construction of a referral hospital for the region of Sotavento and construction of new health centers in Maio, Mosteiros, Tarrafel, and Boa Vista.

<sup>27</sup> Note that this is not an exhaustive list of health priorities in the country. The DECRP tries to identify those with the greatest poverty impact. Noticeably missing is mention of a new health financing policy although this is mentioned in other policy documents. To a certain extent, issues of financial protection for the poor are covered under social protection but that does not eliminate the need to develop a more sustainable financing policy.



- **Expand the network of health facilities and equipment to respond to the lack of capacity to diagnose health problems with priority to be given to the poorest districts.** This will improve health outcomes by providing access to care. However, this is a supply side approach and also requires a demand side reform in order to achieve this objective. Furthermore, future efforts in prevention of NCDs are likely to impact the demand for curative health services.
- **Limit treatment overseas by improving availability of these services by training specialists and improving health sector infrastructure.** Redistribution of staff and training of additional health specialist will also improve efficiency and reduce reliance on medical evacuations. These improvements in access should lead to improvements in health status. Reduced cost should allow reallocation of resources to other priority programs.
- **Develop methods to improve planning and management of human resources, in particular, decentralize financial management of HR to hospitals.** The number and distribution of health human resources is expected to improve, leading to greater accessibility and better quality of care. Redistribution of staff and training of additional health specialist will also improve efficiency and reduce reliance on medical evacuations.
- **Strengthen the health information system to better treat communicable and non-communicable diseases.** A comprehensive, integrated health information system will help to improve the efficiency of health service delivery. Improvements in efficiency ensure the best use of scarce resources and allow the Government to reallocate resources to other priority programs. Accurate data are important to monitor the incidence of disease which allows the Government to better target its resources and improve health status.
- **Reinforce the priority health programs such as IMCI, EPI, HIV/AIDS, TB, and Reproductive Health, including the surveillance system, by financing personnel, equipment, and consumables.** This activity focuses on those diseases which have the greatest impact on the poor. Early detection and rapid responses should lead to improve health outcomes, particularly for the poor.
- **Define a strategy to combat non communicable diseases (NCDs):** While not as prevalent in the poor today, successful control of NCDs requires a long term approach that will improve health outcomes of the poor in the future.
- **Reinforce the citizen participation in health promotion and disease prevention by strengthening cooperation across sectors and with civil society organizations.** This should lead to improved health outcomes fiscal savings are fewer resources will be needed to be spent on curative services if these programs are effective.

### **Financing of the GPRSP**

13. **The total cost of health programs to be implemented under the GPRSP is expected to be US\$ 40.5 million between 2005 and 2007, of which US\$21 million is earmarked for building of new health facilities, refurbishing existing facilities, and equipment (54%) and US\$10 million for HIV/AIDS.<sup>28</sup> For 2005, GPRSP expenditures are expected to total US\$18.5 million in comparison to a MOH 2005 budget of US\$32 million. Increases in capital investment are accompanied by increased allocations for recurrent costs for the first year only, after which it is**

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<sup>28</sup> 2004 US\$, Based on US Treasury exchange rate on June 30, 2004: 1US\$=92ECV. It is important to note that many important priorities under the PRSP that will have a significant impact on health are costed under other sectors: US\$35 million); food security (US\$12 million); electricity (US\$6 million); construction of roads in isolated areas (US\$62 million); and promotion of access to health care for the poor (US\$2.3 million).

assumed they will be included in the GOCV regular budget. The Government assumes the GPRSP will not entail any increases in staff costs because many of these positions are already included in the budget, even if currently vacant.

14. **The GOCV assumes that some cost savings can be achieved through an improved level of care in services in health centers and primary referral health structure, thus limiting the need to refer to more expensive hospitals.** Other cost savings reforms include strengthened preventive care, particularly for chronic diseases, improved management of health structures, supported by a reinforced health information system, and introduction of lowest-cost, standardized care protocols for key diseases, and control of drug costs by opening the drug market to competition.<sup>29</sup> Funding for the remaining activities is unclear although the GOCV may be able to approach donors for increased aid, particular for capital investments. Over the next year the Government intends to articulate a new health care financing policy.

#### **Health sector within the PRSC**

15. **The health sector portion of the PRSC is drawn from the above Government strategies detailed in its own health strategy paper and the priority activities laid out in the PRSP.** The Ministry of Health has prepared a draft policy matrix for the health sector in collaboration with its main partners. Consequently, the medium term for PRSC1, PRSC2, and PRSC3 are the same as those that appear in the PRSP. These include improving health outcomes by: (i) improving access and quality of health services by improving the availability and quality of health infrastructure and reducing the need for medical evacuations; (ii) improving the capacity to identify, prevent, and treat communicable and non communicable diseases, especially those related to maternal and child health, by improving the health information system, establishing key health promotion programs to address the growing number of non-communicable diseases, and implementing a set of priority programs to focus particularly on the needs of women and children which disproportionately effect the poor; (iii) strengthening the ability of human resources to participate in the provision services, especially by improving the planning and management of health sector personnel and following the overall civil service reforms to be implemented by the GOCV and (iv) ensuring the financial sustainability of the system and protection for the poor by developing and implementing a new health finance policy.<sup>30</sup>

#### **Indicators**

16. **The PRSC uses indicators from the PRSP and PND in most instances.** The indicators are a combination of health outcomes and system outputs, including coverage of services and availability of key staff, used in the PRSP. System reform indicators, like the level of debt of INPS, will help measure financial sustainability.

#### **Institutional Arrangements**

17. **While the Ministry of Health will have primary responsibility for implementing these reform measures, a significant level of inter-sectoral cooperation is expected,** especially for measures related to financial protection, where collaboration is expected with the Ministry of Labor and Solidarity. Other implementing agencies include the Ministry of Education and INE.

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<sup>29</sup> Note that quantification of the cost savings from these measures has not yet been done.

<sup>30</sup> Note that several analytical reports have been completed with suggestions on how to improve the financing of health care in Cape Verde, but non have been announced as government policy.

## Annex 9

### Social Protection Technical Note

#### Background

1. **The Government's social protection strategy seeks to help vulnerable households to better manage risks and become less susceptible to potentially damaging welfare losses through a variety of mechanisms:** Cape Verde has a relatively developed social protection system for Africa, so the basic issues have more to do with reforms of existing programs in order to increase efficiency, equity and coverage as well as fill in specific gaps. Key elements of the existing system are:

- **Active labor market interventions.** Cape Verde has a long tradition of active labor market interventions. Foremost among these historically has been the creation of temporary employment during off-agricultural cycles through labor-intensive public works schemes (*Frente a Alta Intensidad de Mano de Obra – FAIMO*) financed largely through monetized food aid. During the mid-1990s, FAIMO-type temporary employment, mainly on roads and soil conservation projects, covered an estimated 10-15% of the active labor force, or up to 20,000 workers. Wages were low, equivalent to half the threshold of extreme poverty and no real skills were accumulated. While originally this employment provided a minimum safety net for the rural poor to survive periodic droughts and precarious agricultural cycles, over time the FAIMO program was equated with people showing up to check their names off the lists, with little to show in the way of effective investments and low labor productivity.
- **Social security systems.** There are two main social security systems for formal sector workers<sup>31</sup>. The *Administracao Publica* (AP) scheme covers approximately 13,000 civil servants, while the *Instituto Nacional de Previdencia Social* (INPS) estimated around 31,000 contributors from private sector firms in 2001. They provide varying degrees of old age pensions, disability, and health insurance. Together the schemes cover one quarter of the labor force and currently pay pensions to about 6,000 people. The long run solvency of both systems is in question due to generous benefits and outstanding government arrears in meeting its financial obligations to both systems. In addition, two non-contributory schemes provide income support to the poor. The Minimum Social Pension (PSM) provides a small stipend (about 1,300 CVE/month) to the elderly, handicapped, or others who are identified by local governments as in need of critical support. In recent years the budget both in terms of number of beneficiaries (6,500) and amount received has been capped. Evidence from the recent household survey shows that the targeting of the PSM needs improvement as it is only mildly pro-poor. Screening and selection processes and criteria done by the local governments has been ad-hoc and administration of the system weak. A pension is also available to workers who participated in the FAIMO program (*Pensao de Solidariedade Social*). Ex-FAIMO workers over 65 who worked for more than ten years in FAIMO programs receive 3,200 CVE/month. The program currently covers about 10,000 people. The annual cost of the non-contributory programs is about US\$4.8 million.
- **Social Assistance.** Targeted social assistance programs, such as nursery schools, nutrition for at-risk children and elderly, training for disabled, subsidizes water and sewerage connections for poor urban households, youth and community centers etc., support specific vulnerable groups and are carried out through governmental and non-governmental agencies. A recently completed Social Services Map identified 645 social service facilities in the country, the majority of which are nursery schools. The main actors are:

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<sup>31</sup> Overall, about 21 percent of Cape Verdian households report receiving a pension – 15 percent through national programs (INPS, AP and non-contributory pensions) and 6 percent from abroad.

- The Direction of Solidarity of the *Ministerio de Trabalho e Solidaridade (MTS)* provides a range of assistance programs, including service contracts with NGOs that support at-risk elderly, children and youth; financing evacuation of indigent sick for treatment, and support to low-income secondary students.
- The autonomous *Instituto Caboverdiano d'Accion Social Escolar (ICASE)* supports students of poor families for school meals, educational materials and subsidies for paying school expenses at the primary and secondary levels. School meals reach almost all basic education students and 13,000 pre-school students. As school fees have been introduced through the education reform program, subsidies for the neediest children are channeled through ICASE.
- The *Instituto Caboverdiano de Solidaridad (ICS)* and the *Instituto Caboverdiano de Menores (ICM)* target children at risk through social services, shelters, medical and psychological support, training, emergency centers for abused and mistreated children and adolescents with drug problems.
- The *Programa Nacional de Luta Contra a Pobreza (PNLP)*, a community-driven development (CDD) oriented program under the MTS, constructs and equips a variety of social infrastructure through municipal governments and local associations, including an innovative model of multi-use community centers that house a combination of nursery school, training programs, community library, an outreach agent of the municipal administration, and other locally identified needs which builds synergies between social services and reduces unit costs at the local level
- Municipal governments carry out activities with MTS as well as own-financing, with growing activities in day care, feeding and other social services, consistent with the current decentralization framework. The Decentralization Law formally transferred responsibility for what is termed 'social promotion' to local governments. This included placing MTS social workers within the municipal administration. However, more explicit agreements on norms and standards as well as municipal interface with national programs like the Minimum Social Pension are needed to improve quality and monitoring of social services.
- NGOs and local associations, carry out a broad range of activities, including significant programs through the Red Cross and Caritas.
- **Food Security.** Periodic drought, low availability and productivity of agricultural land, and long-term soil erosion has brought crippling famines to rural Cape Verde in the past. The structural vulnerability in this area, with only 10 percent of basic cereal needs covered by national production, has been a key motive of migration to urban areas and outside the country. Overall, 14 percent of children from 0-5 are stunted, with almost as much – at 12 percent – observed among the non-poor. Market oriented reforms have liberalized imports and removed public sector management of importation of food stuffs. The availability of food aid has contracted over the last ten years despite a rise in absolute numbers of the rural population and is not expected to rebound.

**2. Cape Verde is an example of good collaboration between central, municipal and non-governmental organizations for the co-production of social assistance services, including the development of formal contracting relationships.** For example, municipal governments routinely contract with local associations for the day to day management and operation of nursery schools, training programs and other services. The central level has experimented with both contracting of NGO service providers, as well as use of direct financing of community groups and farmer's cooperatives for development efforts. The MTS has piloted a successful collaboration between a national NGO, a local neighborhood association, the municipal Government of Praia and the private water company, Electra, to carry out social connections of water and sewerage in poor neighborhoods.

#### **Main issues and reform strategy**

3. **Several studies and evaluations<sup>32</sup> have identified the key issues in the social protection agenda in Cape Verde over the next several years:**

- Build on the gains made in the **reconversion of the FAIMO system** in favor of strategies to exit out of rural poverty;
- Rework the basic parameters and **reform the two formal social security schemes** to promote long-run financial solvency and increased coverage;
- The **non-contributory schemes need to be based on financial sustainability** and targeting effectiveness;
- Continue the transition from centralized social assistance service delivery in welfare state-mode to **subcontracting through NGOs and local governments** and better overall targeting and monitoring of supply of social services;
- Move food security agenda from reactive to **prevention and mitigation of food crises**.

4. **The Government has a clear reform path for its social protection system to make it more effective and sustainable.** The strategy seeks to move from the more reactive, coping strategies drawing from the welfare state legacy to increased attention to risk mitigation and prevention measures, and to decentralize and contract out delivery of services in line with the broader reforms of the state underway in Cape Verde<sup>33</sup>.

5. Main areas of the reform strategy are:

- (a) **Conversion of the FAIMO system in favor of higher impact, more efficient investments.** The FAIMO system is gradually being reconverted to reflect current realities (rising incomes, urban migration, reduced share of food expenditures by households hence less absolute food insecurity, and reduced availability of food aid), and to increase the long-run poverty impact of its public works programs through (i) the introduction of contracts with municipal government for delivery of specific infrastructure investments, (ii) the creation of AGECAPO, a delegated contract management agency working with municipalities to introduce efficient contracting and execution of civil works using private firms and paying private sector wages, including training for small entrepreneurs and unskilled laborers to improve productivity and employability; and (iii) support to farmer's cooperatives and rural associations for the execution of small-scale infrastructure, including micro-irrigation, and income generating projects that boost rural productivity<sup>34</sup>.
- (b) **Improvements in the contributory and non-contributory pension systems to increase long-term financial sustainability and expand coverage.** A framework law passed in January 2001 set out the broad parameters of the contributory pension system in Cape Verde, including setting the foundation for shifting all civil servants under the AP system into the INPS scheme<sup>35</sup>. On the non-contributory side, the Government is in the process of revising the minimum social protection system. The benefits under the Minimum Social Pension were adjusted upwards slightly and an increase in coverage sought in the 2004 budget. Revised legislation requires tighter eligibility criteria and expands benefits to include access to essential medicines. The Government is preparing new identity cards linked to an administrative tracking system to better target and monitor outlays.

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<sup>32</sup> Poverty assessment, studies under the Social Sector Development Project, country reports.

<sup>33</sup> Cape Verde has participated in the WBI sponsored training program to build capacity in social protection strategies for African countries since 2001 and its social protection reform strategy effectively integrates the social risk management framework.

<sup>34</sup> The reconversion of FAIMO is a central element of the National Poverty Alleviation Program (*Programa Nacional de Luta Contra Pobreza, PNL*). The PNL and the creation of AGECAPO has been supported through the Bank-financed Social Sector Development Project (Cr. CV-32240) scheduled to close March 2005. The PNL will continue to implement CDD-type project financed by IFAD and AfDB.

<sup>35</sup> The World Bank has been working with the Government of Cape Verde to reform the pension system and improve the financial sustainability of INPS through the Growth and Competitiveness Project

- (c) **Strengthening of the capacity of local actors (community organizations and municipal governments) to address the needs of vulnerable populations.** Government strategy is that the State should not provide services directly, but rather contract out to NGOs and local associations to develop activities in support of social policy. The Government will mobilize resources (external and internal) and monitors performance. Service contracts with NGOs to reach specific vulnerable groups and developing revisions to protocols for service delivery, including application of norms and standards and introduction of improved monitoring, to be carried out by municipal governments are being designed and piloted under MTS's Direction of Solidarity.
- (d) **Expansion of access to health and education services by the poor.** The Government is working with the ILO to support the development of health insurance schemes to extend coverage among the poor. In addition, the MTS is launching a program to expand access to basic medicines by the indigent. ICASE has initiated targeted subsidies for school fees for needy secondary education students. Students are selected by committees at the school level and ICASE transfers the fee amount. This protects the principal that every child must pay fees, as opposed to fee waiver programs.
- (e) **Promotion of food security among vulnerable groups.** The National Food Security Commission, created in 1996, coordinates policies and programs to: (i) increase productivity and diversification of agricultural and fish production; (ii) ensure the availability and stability of food stuffs in commercial markets; (iii) improve access to basic food stuffs among the poor; (iv) promote mechanisms to prevent and manage food crises; (v) build institutional capacity and governance of food security; and (vi) ensure quality of water and food products to protect public health. Central to this is the implementation of a food security information system that would provide early warning of production shortfalls and other food insecurity.

#### **Current Status**

6. **In 2003-2004, the Government has made important advances in implementing its reform strategy.** The Government has built an adequate analytical and strategy base, including:
- In terms of social assistance, pilot programs have been initiated in NGO service contracts for support to vulnerable women (micro-credit, social housing, and training) and subsidies to the poorest households to connect to public water and sanitation systems through an NGO-managed revolving fund system.
  - finalization of a Poverty Profile from the national income and expenditure survey (January 2004);
  - formal approval in February 2004 of the National Food Security Strategy
  - presentation of an action plan to finalize the national social protection strategy for international peer review at the WBI-sponsored Workshop on Social Protection Strategies in Africa in Finland in June 2004;
  - carrying out a study on the impact of HIV/AIDS on families and children in 2004;
  - implementation of legislation to regulate the attribution of Social Solidarity Pensions;
  - better definition of eligibility criteria for beneficiaries of the Minimum Social Pension;
  - finalization of a Social Service Map in December 2004;
  - Launch of a study to reform the non-contributory pension system (to be completed early 2005).

#### **Priority in GPRSP and Financing**

7. **The fifth pillar of the GPRSP entails “Strengthening the Equity and Sustainability of the Social Protection System”.** This draws from the broad orientations provided in the Grand Options document and the specific investment program identified in the National Development Plan. The GPRSP presents five medium-term objectives in line with the reform strategies underway in the country, namely:

- (a) developing institutional capacity in social protection, (b) strengthening and extending

programs that reach disadvantaged groups (including social pensions, social assistance and health insurance programs); (c) promoting local initiatives and community development; (d) promoting the rights of children, and

(e) improving mechanisms to prevent and manage food crises and strengthen food security.

**8. The DERP objectives are achievable, though better targeting of resources on the neediest will be necessary to expand coverage within fiscal constraints.** While there is no consolidated data on all social protection expenditures undertaken, the 2004 budget shows 7 percent of the operating budget and 2 percent of the investment budget devoted to social security and social assistance, though this does not include education subsidies and programs implemented by municipalities. The expansion proposed for Minimum Social Pension beneficiaries is modest, adding about \$550,000 to annual costs by the end of the GPRSP period.<sup>36</sup> Financing priority GPRSP activities will be included within the on-going and proposed program to improve budget allocations through the development of the MTEF and program-based budgets in core ministries, including MTS.

#### **Social protection activities within the PRSC**

**9. Coverage of social protection issues within the PRSC is fully consistent with the areas of emphasis within the GPRSP.** Under the coordination of the MTS, the Government has prepared a policy matrix in consultation with other ministries, autonomous agencies and NGOs. The PRSC would engage the Bank in technical and policy dialogue along the broad strategic lines of: (a) Protection, Integration and Social Insertion to redefine the regulatory framework for decentralized service delivery, improve planning and management instruments, improve management and coverage of non-contributory pensions, increase access of at-risk groups to education and professional training, increase access of at-risk groups to health services, increase access of at-risk groups to nutritional support, and promotion and support for local community development initiatives; (b) Protection of Children's Rights to strengthen institutional mechanisms and reinforce technical capacity of NGOs involved in youth issue; and (c) Food Security, to improve prevention and management of food crises and strengthen the institutional framework of food security issues.

**10. A series of monitoring indicators drawn in part from the NDP have been developed in the GPRSP.** These indicators track coverage, targeting and impact of social protection measures. A core set of these indicators are taken up in the PRSC. Critical process indicators have been identified with the Government including a set of prior actions and triggers that serve as benchmarks for the PRSC to progress. These targets are ambitious but are anchored in existing programs and Government institutions with good track records for implementation.

#### **Institutional Arrangements**

**11. The National Social Protection Commission under the MTS will coordinate, monitor and evaluate the implementation of Cape Verde's social protection strategy.** Core members of the commission are represented in the GPRSP Steering Committee to ensure consistency with broader poverty reduction strategies and monitoring systems. The PPF will finance finalization of the social protection strategy document, technical assistance in revising protocols for social promotion services between the MTS and local governments, an assessment of NGO roles and strategies in social protection and a national forum on social protection to discuss and validate the strategy, among others, and assistance to develop new ID cards to better monitor PSM recipients.

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<sup>36</sup> The PSM is equivalent to about one-third the 2001-2002 poverty line.

**Table 1: Number of Recipients of Social Solidarity Pensions (ex-FAIMO)**

<b>Municipality</b>	<b>No. Recipients by governmental order</b>							<b>Total</b>
	<b>16/96</b>	<b>37/97</b>	<b>19/99</b>	<b>23/9</b>	<b>24/99</b>	<b>41/99</b>	<b>42/2000</b>	
Praia	331					145	411	887
S. Domingos		250		214			147	611
Sta Catarina	265	424			254		535	1478
Tarrafal	248	500		299			206	1253
S. Miguel			226				233	459
Sta Cruz	166	250			336		384	1136
Maio		101		142			11	254
S. Felipe	686	121	95				99	1001
Mosteiros	150		107				89	346
Brava	172	100	104				141	517
S. Nicolau	71	29					7	107
Boa Vista		22					23	45
Sal								
S. Vicente		117		18			52	187
R. Grande	331	250		350			469	1400
Paul	117	138					244	499
Porto Novo	232	163	59				141	595
<b>TOTAL</b>	<b>2,769</b>	<b>2,465</b>	<b>591</b>	<b>1,023</b>	<b>590</b>	<b>145</b>	<b>3,192</b>	<b>10,775</b>



## Annex 10

### Donor Harmonization Approach for Budget Support Operations

#### Cape Verde context

- 1. Cape Verde has a successful track record as a good performing country with relatively strong institutions.** The country is still heavily dependent on donor support (US\$ 92 million in 2002; second highest aid per capita ratio worldwide), yet the form of donor support as well as aid management and donor coordination mechanisms have been quite traditional so far.
- 2. Cape Verde currently is supported by in total 137 external partners providing financial and/or technical support, almost exclusively at the project level.** The General Directorate for International Development Cooperation (Ministry for Foreign Affairs) has mapped out and prioritized these external partners, classifying 19 of them as first priority partners. Among these first priority partners are IDA (who has become over the last decade the largest donor partner), AfDB, the European Commission, Portugal (the traditional and still largest bilateral partner), Luxembourg (second largest bilateral partner), and the United States.
- 3. The GPRSP marks a notable shift towards budget support.** The World Bank, the European Commission, The Netherlands, and the African Development Bank are moving towards coordinated budget support, and the combined amount of this budget support represents a significant share of overall the overall assistance. And the US, via its new Millennium Challenge Account (MCA), is becoming a major donor.
- 4. The GPRSP provides an opportunity for better donor alignment.** The GPRSP as a strong, coherent and integrative medium-term country strategy implementation framework could become the single anchor for aligned donor support. The GPRSP is derived from the existing development strategies and is designed as an overarching medium-term strategy implementation framework, aimed to become the anchor for all donor support as is the case in many other countries. Donors are seeking to strengthen coordination among each other and align their support with the GPRSP in terms of (i) priorities; (ii) M&E indicators; and (iii) Government budget and planning cycles.
- 5. However, currently most donors have their own programming cycles which do not necessarily follow the country's planning cycles.** The current country assistance programming cycles of major donors will end by: EU (2007), UNDAF (2005), World Bank (2004), Luxembourg (2005), Portugal (2004), AfDB (2004). Most donors provide their assistance "off-budget", administered through extra-governmental and not adequately recorded in the government budget.
- 6. Cape Verde's main mechanism for overall donor coordination is the Round Table mechanism.** The last Round Table took place in April 2003, based on the PND 2002-2005. The planning and organization of the Round Table was supported by UNDP and The World Bank. The joint support of UNDP and the Bank was an innovation compared to previous Round Tables. The Round Table provided a starting point for discussions about new modalities of donor coordination and alignment, including the possibility of designating a donor "chef de file" for thematic or sectoral areas. It was agreed that, as a follow up, specific thematic Round Tables would be established. This decision has not been implemented yet.
- 7. In addition to the overall donor coordination mechanism, each donor has established its own bilateral coordination mechanism with the Government, mostly comprised of annual consultations.** The possibility of Government-led donor coordination is made more difficult by the fact that several donors do not have a representative in the country -some donors have representation

in Dakar (World Bank, African Development Bank, Netherlands) while others work from their respective headquarters (Switzerland, Sweden, USA via MCA).

**8. Cape Verde's governance structure for donor coordination is split between the Ministry of Finance (coordination of mainly multilateral institutions, including IDA) and the Ministry for Foreign Affairs (coordination of bilateral partners).** This division in terms of responsibilities has become a significant problem, and the Cape Verdian authorities are aware of this.

### **PRSC and Donor Alignment**

**9. The preparation process of the RPSC has moved the harmonization agenda forward.** Based on consultations throughout the preparation process, including joint pre-appraisal and appraisal missions with the Dutch Cooperation, a Memorandum of Understanding Cooperation entitled "Partnership Framework between Budget Support Partners and the Government of Cape Verde for the provision of Budget Support". Was signed between the Government, IDA, the EU and the Netherlands Embassy on January ...2005. The Partnership Framework commits the parties to joint reviews, harmonization of indicators and prior actions, and synchronization with Government budget cycles with a view to reducing the transaction costs of assistance to the Government (see below).

### **Partnership Framework**

**Draft, dated 13<sup>th</sup> January 2005**

#### **Partnership Framework between Budget Support Partners and the Government of Cape Verde for the provision of Budget Support**

##### **1. Main Principles**

The Government of Cape Verde (GoCV) is strongly committed to take its Poverty Reduction Strategy Paper (PRSP) as one of the guiding documents for the future socio-economic development of Cape Verde. The GoCV considers the use of budget support as the preferred financing mechanism to implement the PRSP and its overall cooperation programme. Hence, the overall goal of budget support is to contribute to efficient and effective poverty reduction and a successful PRSP implementation in Cape Verde and reinforce the guiding principles of alignment, accountability, ownership and coordination.

This Partnership Framework presents a set of operational principles for the provision of budget support to Cape Verde. The objective of these principles is to harmonise Budget Support Partner behaviour, strengthen government systems and procedures, reduce transaction costs for both GoCV and its development partners, harmonise aid modalities, performance benchmarks and dialogue between the parties, increase the predictability of provision of budget support and to link funding commitments by the partners to achievement of targets set. This will benefit overall economic developments and the implementation and efficiency of programmes in priority sectors.

##### **2 Participants**

The participants to this Partnership Framework (PF) are the Government of Cape Verde, represented by the Ministry of Finance and Planning, the Ministry of Foreign Affairs, and the members of the Budget Support Group (BSG):

- The World Bank.
- The European Commission, represented by the European Commission's Delegation to Cape Verde (EC)
- The Netherlands, represented by the Royal Netherlands Embassy in Dakar, Senegal.

The BSG is open to other development agencies and financial institutions ('partners') who provide

or plan to provide some form of budget support (i.e. general, sectoral or specific) to Cape Verde. BSG members will urge other potential budget support partners to join this framework, and will seek to provide direct general budget support as a growing share of their overall support to Cape Verde, although BSG members may continue a portion of their support to Cape Verde via investment projects, direct technical assistance or other forms.

BSG Members may use different methodologies and apply different criteria to decide on their level and type (general, sectoral or specific) of budget support; details of each BSG member's use of methodologies/criteria are described in the attached technical note. However, the goal of this MoU is to institutionalize ongoing efforts to harmonize budget support for PRSP implementation. To that effect, members of the BSG group will endeavour to

- harmonize their methodology for assessment of progress in PRSP implementation;
- harmonize their key criteria for disbursement;
- harmonize their timing for disbursement, as well as their missions schedules.

In case of discrepancy between this Partnership Framework and the individual bilateral agreements between a Partner and the Government, the bilateral agreements will prevail. However, it is the intention of the Parties to establish funding agreements that are compatible with the provisions of this Partnership Framework.

### **3 Review Process**

Regular dialogue between GoCV and BSG members, of satisfactory quality and transparency, to review the progress in the implementation of the PRSP and to discuss conditions for disbursement of Budget Support, is critical for the sustained provision of budget support. This dialogue will take place within the formal coordination mechanisms established by GoCV.

In view of the large donor's interest in PRSP implementation, the GoCV invites other partners to participate into the annual evaluation of PRSP implementation.

The dialogue will be organised as follows:

#### ***To be prepared by the GoCV:***

- Annual financial and progress reports on the PRSP (May-June) including on individual government sectors that receive sectoral Budget Support from BSG Members
- Annual State General Accounts reviewed by the Tribunal das Contas
- Annual financial statements documenting the flow of budget support funds into the Treasury and to the individual Sectors (where applicable)
- Transmission to BSG partners of copies of quarterly reports on budget execution

#### ***On the basis of these reports the following Independent Review Instruments may be applicable:***

- Annual Evaluation of the PRSP progress (May-June), to be conducted jointly by BSG members. Meant to replace bilateral reviews.
- Public Expenditure Review (PER).
- Independent Sector Reviews for sectors that receive sectoral Budget Support from BSG members (May-June).
- Annual conformity test to check the internal GoCV procedures.

#### ***On the basis of this information the following Joint Review Mechanism will be applicable:***

- Based on the information resulting from all the above, the BSG members will record their assessment of the situation in their respective Aide Memoires.
- For policy areas of common interest, such as macro-fiscal policy and financial management, BSG members will put together in a single document their joint assessment of progress made on

reforms in the context of joint missions to evaluate their budget support programs. They will discuss it jointly in draft form with the authorities before leaving. BSG members will communicate to the Government a formal assessment within a month of the last mission leaving the country.

- The BSG members will then prepare and send out to the GoCV a joint letter highlighting main issues and points of understanding, at least four weeks before the Annual Review Meeting.
- Annual Review Meeting (September). During this meeting, BSG members will aim to provide the Government with confident predictions of funding for the coming financial year, making clear what factors would affect the volume of funding. The principles of tranche calculations and the timing of releases for each BSG member will be defined in a Technical Note. As much as possible, BSG members will try to coordinate their schedules.

#### **Audit**

GoCV will provide to BSG members their annual audited State Accounts for both central and local governments within the applicable statutory time limit. The annual audits will be made by the *Tribunal das Contas* in accordance with Cape Verdean legislation. BSG members will not normally seek additional accountability outside of these requirements, but may reserve the right to undertake independent general or sectoral auditing where required.

#### ***Additional Partnership Framework coordination mechanisms may include the following:***

- Progress meetings for e.g. the state of affairs of public finance/procurement review (CFAA/CPAR), PRSP and PRSC implementation.
- Achievement of targets defined through key sector review processes.
- Preparation of JSAN reports.

Participants in this Partnership Framework will strive to be active partners in the above coordination mechanisms.

The participants to this Partnership Framework recognise that it is the delivery of results and the achievement of a limited number of outcome indicators that are ultimately most important, and reports will be drafted and discussed to reflect this.

#### **4 Internal procedures amongst the BSG members**

Before each Annual Review Meeting, BSG members will agree on one of them serving as a back-up secretariat to the Government secretariat that will prepare the review (e.g. be in charge of coordinating meetings, etc.) before and during the review, and coordinate on preparation of various donor reports and instruments.

When one of the BSG members is in the process of establishing a new budget support agreement with Cape Verde, that member will share draft agreements with the other BSG members. BSG members will aim to develop new agreements collectively, and will seek to align their timetables as far as possible.

#### **5 Responsibilities of the Government of Cape Verde**

Responsibilities for implementation of this Partnership Framework on behalf of the Government of Cape Verde are shared between the Ministry of Finance and the Ministry of Foreign Affairs, and specifically their respective focal points in the Director General of Planning and the Director General of International Cooperation.

The donor support towards the Partnership Framework is based upon the understanding that the Government of Cape Verde will:

- Implement the key actions and benchmarks identified within the budget support matrixes of the individual BSG members.
- Implement the overall economic programme aimed at stabilisation and increased economic growth as has been described in the context of the IMF programme macroeconomic framework.
- Ensure that total expenditures and sector allocations effectively reflect the poverty reduction commitment and that extra budgetary expenditure is brought into the budget so that budget comprehensiveness is ensured.
- Monitor and report on the effective implementation of the budget and on progress in achieving PRSP targets.
- Seek to ensure that its budget is comprehensive and that prioritisation reflects the PRSP.
- Coordinate and harmonize procedures for external assistance (both financial support and TA).
- Prepare and share with BSG partners action plans and budgets for capacity building in core areas (CFAA, CPAR, expenditure management, PRSP monitoring and evaluation) in order to harmonize resource mobilization for these activities.
- Prepare the ARM and all other events to mobilize external aid and monitor its use.

#### **6. Responsibilities of the BSG members**

The BSG members are committed to working in Partnership with the Government of Cape Verde and wish to facilitate implementation of the PRSP through financing governed by this PF and/or complementary support provided through their wider development cooperation programmes. Within existing administrative and statutory provisions including individual bilateral funding agreements with Cape Verde, which ultimately govern decisions on disbursements and commitments, the BSG members commit themselves to:

- Provide information on future disbursements in advance of the budget year, and based on a financial framework reflecting identical reform commitments of the Government vis-à-vis all partners.
- Disburse all of the commitments made within the Cape Verdean budget year and attempt, where possible, to front load their disbursements within the first quarter.
- Change funding only for the next budget year by reference to the implementation of measures in PRSP and IMF assessments of macroeconomic performance.
- In-year cuts will be avoided except in the most serious of circumstances.
- Co-ordinate their disbursements in line with the Government's budgetary requirements as presented by the GoCV.
- Harmonize their prior actions for areas of joint concern.

The partners will endeavour to follow the principles enshrined in the PF and assess performance on the basis of the PRSP progress report. Reference to these key processes should be included in individual bilateral funding agreements to the maximum extent. These agreements will mainly provide further details on the obligations of both parties and the procedures for disbursing funds together with any standard conditions for development cooperation that the individual donor may have. The parties agree to keep such general conditions to a minimum.

BSG members will seek to reach a common assessment of compliance with conditions, and will consult each other and GoCV in the event of a dispute. Judgments on disbursement will be the responsibility of each individual BSG member. It is recognised that not all BSG members will choose to emphasise all aspects of the Partnership Framework in their bilateral agreements with GoCV.

#### **7 Additional Evaluations**

Additional evaluations of the procedures, execution and/or results of any of the activities that are governed by this Partnership Framework, preferably undertaken jointly by the BSG members and the GoCV, may be carried out at the request of any party.

**8 Entry into operation**

These procedures enter into operation on the date of signature.

**9 Termination**

In the case of non-compliance with the terms of this Partnership Framework and/or violation of the fundamental principles set out in this PF, BSG members may suspend further participation. If a BSG member intends to suspend or terminate its support to the budget of GoCV, the member will call for a meeting with the other signatories to discuss possible joint position on the measures, remedial or otherwise, that may be required for continued support.

If a joint position cannot be reached, the BSG member may inform the other members of its intentions regarding the (dis)continuation of support. Each BSG member may suspend or reduce new disbursements or terminate its support if the BSG members do not reach a common position on the response required.

**10 Withdrawal**

Each of the BSG members may withdrawal their support to the budget of GoCV by giving the other signatories three months written notice. If a BSG member intends to withdraw/terminate his support, that BSG member will call for a meeting to inform the other signatories of their decision and to consult with them about the consequences for the national budget execution.

**11 Settlement of disputes**

Any dispute concerning the procedures will be settled by consensus between the participants.

**12. Duration of Partnership Framework**

This document is valid for one year from the date of signature. The parties to the Framework will review the first year experience and make any necessary subsequent adjustments.

Signed (in four originals)

For MoF For MoFA For World Bank For the EC For NL Emb

Copy to:  
The IMF  
The UNDP

## Annex 11

### GPRSP and PRSC Monitoring and Evaluation System

#### Monitoring and Evaluation of the GPRSP

1. **Monitoring and Evaluation of the GPRSP will be results-oriented.** To this end, the M&E system has three main objectives: (a) monitoring and analysis of economic growth and poverty reduction trends; (c) monitoring of the execution of priority programs and projects that contribute to growth and poverty reduction; and (c) impact evaluation of the key policies and programs on growth and improved living conditions.

2. **Monitoring and evaluation of the GPRSP builds off of the national systems for investment planning, budget control, as well as development of national and sectoral statistics (see Figure below).** The main actors and responsibilities are:

- **National Statistics Institute** (*Instituto Nacional da Estatística – INE*). INE is legally mandated as the responsible agency for the National Statistical System. INE has prepared a plan to develop this system called the Statistical Agenda (*Agenda Estatística*). Within GPRSP monitoring, INE is responsible for (a) collection and treatment of general economic and social data, including household and enterprise surveys, the Social Services Map, and other data collection instruments; (b) the production of current statistics, including poverty profile data, national accounts, social indicators; and (c) the validation of official data published by the public sector and its storage and dissemination through the Database of Official Statistics (*Base de Dados Estadísticas Oficiais – BDEO*).
- **General Directorate of Planning (DGP) and its Technical Secretariat to Support Development** (*Secretariado Técnico de Apoio ao Desenvolvimento - STAD*). The DGP/STAD is responsible for : (a) the development and maintenance of the national Database on Policies and Projects (*Base de Dados de Medidas e Projectos – BDMP*); (b) the selection and specification of macroeconomic and sectoral indicators and targets for these indicators; (c) carry out and facilitate analysis of macroeconomic and sectoral results and impact indicators of the GPRSP from data provided by INE; (c) utilization of a macroeconomic model to link macro provisions with available government resources; (d) oversee preparation of the Annual PRSP Progress Report.
- **General Directorates of Planning, Budget and Management within the sectoral ministries**. These sectoral units are responsible for: (a) participate in the selection of indicators and targets for the GPRSP; (b) production of sectoral statistics and calculation of sectoral indices; (c) analysis of GPRSP impacts in their respective sectors; (d) provide inputs into the Annual PRSP Progress Report and other monitoring instruments.
- **The General Directorate of Budget and its Management Information System for Budget and Finance**. The Budget Office provides updated information on all Government revenue and expenditures. The MIS will include all financial and public expenditure management indicators to be tracked in the GPRSP. This office oversees the development of the medium-term expenditure framework and the program budgeting to be carried out in the sectoral ministries.
- **NOSI, or the Núcleo Operacional da Sociedade da Informação (Operational Nucleus for Information Systems)**, is responsible for the information technology backbone of the monitoring and evaluation system. This network allows for the processing, storage and communication of all public sector information, based on the application of Oracle technology. This network currently includes the MIS for Budget

and Finance (above), including a basic data sheet on every project financed by the Treasury. The system is currently being expanded at the municipal level.

**3. Monitoring and evaluation of GPRSP implementation will be carried out through an integrated institutional framework.** Overall coordination is overseen by a GPRSP Coordinating Commission comprised of representatives from the core and sectoral ministries, the association of municipal governments, the central bank, the National Statistics Institute, the chamber of commerce, private sector, specialized institutes, unions and NGOs. Consultative commissions at the decentralized level will be headed by the respective mayors. The DGP/STAD has day-to-day responsibilities to provide technical guidance, monitor program performance including reporting on the core set of monitoring indicators, and inform internal and external partners of progress.

#### **Monitoring and Evaluation of the PRSC**

**The PRSC will be accompanied by a results based M&E system in line with the GPRSP M&E system.** The specific monitoring and evaluation activities under the proposed PRSC will be based on, and reinforce, the system proposed for the monitoring and evaluation of the GPRSP in general. They will include: (a) annual GPRSP progress reports; (b) periodic reporting on achievement of MDGs (supported by UNDP); (c) overall annual budget monitoring through public expenditure reviews; (e) annual sectoral budget execution and service delivery targets prepared by line ministries; (f) periodic follow-up household surveys to track poverty and access to services carried out by the National Statistics Institute (INE), (g) stakeholder surveys and qualitative monitoring of government performance and poverty impacts contracted through the STAD; (h) analysis of fiduciary performance; and (i) sectoral studies. See Results Chain for M&E in Annex 5; and M&E action plan on following pages.



Medium - Term Objectives	Action Plan		Indicators	Base (Yr)	Targets			Responsible Entity
	PRSC 1 (bolded prior actions by November 2004)	PRSC 2 (triggers are bolded)			PRSC 3	2005	2006	

**Monitoring and Evaluation System for the Poverty Reduction Strategy**

<b>Develop overall Monitoring and Evaluation System</b>	Finalize technical document describing roles and responsibilities of all main actors and components	Creation of National and Regional Poverty Reduction Commissions	Evaluation of system implementation		M&E Manual	# Commissions	Evaluation Rpt	DGP, INE, NOSI, Sectors
<b>Expand IT Backbone</b>	Finalize plans for expansion of NOSI Network	Provide equipment for BDEO and BDMP, municipalities, and sectors	Consolidate system expansion		Plan for NOSI Ntk	% of agencies equipped	Increase in expansion	NOSI
<b>Improve reliability and access to official statistics</b>	Integration of metadata and databases in BDEO <ul style="list-style-type: none"> <li>hiring technical assistance</li> <li>Begin integration of metadata</li> </ul>	Finalization of BDEO <ul style="list-style-type: none"> <li>Integration of macro data (sectors)</li> <li>Start poverty monitoring</li> </ul>	Finalization STATLINE		100% BDEO completed	80% integration	100% STATLINE completed	INE/OPES
	Develop a Cuadro de Bordo Social (CBS)	Finalization of CBS	Conduct the labor Force Survey		Draft CBS	Publish CBS	LFS results	INE/IEFP
	Elaborate a Poverty Map	Prepare a Poverty Monitoring Survey	Conduct a Poverty Monitoring Survey 2007		Complete PM-	Survey documents	FSMy results-	INE
<b>Strengthen the statistical system for Poverty monitoring</b>	Refine poverty and sectoral analysis of IDRF	Improve capacity for Poverty analysis <ul style="list-style-type: none"> <li>Training in analysis</li> <li>Purchase of software</li> </ul>	Improve capacity for Poverty analysis <ul style="list-style-type: none"> <li>Training in analysis</li> <li>Purchase of software</li> </ul>		1 workshop 10 trainees	1 workshop 20 trainees	100% staff working on Poverty trained	INE, DGP/STAD, Sectors
	Finalize the Agenda Estadística	Approve the Agenda Estadística Execute the Agenda Table Ronde of partners	Initiation of the Agenda Estadística		Ea completed approved	Financial Plan Action Plan	Ea effective	INE/Sectors
<b>Improve the quality and coverage of the data in the sectors</b>	Preparation of training programs	Training in the sectors for data collection, processing, analysis and data bank management	Training continued		30%	50%	80%	MOF, BCV, INE Sectors
<b>Monitor and measure impact of the poverty reduction strategy</b>	Training in analysis	STAD access to BCEO Produce Annual Progress Reports and baseline/impact studies	Produce Annual Progress Report and impact studies		30%	60%	90%	STAD Consultants

**Annex : 12**  
**PRSC Priority Monitoring Indicators**

Indicators	NDP	MDC	GPRSP	Base (Year)	Targets			Responsible unit/Source of information
					2005	2006	2007	
<b>GPRSP PILLARI : GOOD GOVERNANCE</b>								
<b>PUBLIC EXPENDITURE POLICIES AND MANAGEMENT</b>								
<b>A. Improve Fiscal Policy</b>								
1. Positive Joint Staff Assessment of GPRSP Progress Report				--	Positive JSA	Positive JSA	Positive JSA	MFP (IMF, WB review)
2. Education expenditures as % of budget	✓		✓	20% (2004)	22%	22.5%	23%	MFP (Budget reports)
3. Health expenditures as % of budget	✓		✓	6.3% (2004)	>6.5%	>7.0%	>7.0%	MFP (Budget reports)
<b>B. Improve Budget Planning and Preparation</b>								
4. # of ministries working with full or partial MTEF			✓	0	0	2	5	MFP (GPRSP Report call circular, TA reports)
5. % of institutes with own budgets presented in the state's budget document				54\$ (2004)	54%	>67%	>90%	MFP (Budget call circular, TA reports)
<b>C. Improve management and control of tax proceeds</b>								
6. # of registered taxpayers (individuals and companies)	✓		✓	9,000 (2004)	17,000	20,000	22,000	MFP (WB / IMF reviews)
<b>D. Improve Budget Execution and Reporting</b>								
7. # of ministries working with deconcentrated FM system				0	>3	>6	>6	NOSI, MFP, SECTOR MINISTRY (WB REVIEW)
8. # of months for supplementary budget period				>3 (2003)	<2	<2	<2	MFP (Administrative docs., WB review)
<b>E. Improve cash and debt management</b>								
9. # of autonomous institutes participating in consolidated treasury management			✓	0 (2003)	0	2	>15	NOSI, MFP (WB reviews)
<b>F. Improve internal and external controls</b>								

Indicators	NDP	MDG	GPRSP	Base (Year)	Targets			Responsible unit/Source of information
					2005	2006	2007	
10. Timely presentation to Parliament of executed budget (# months)				6 months (2003)	<6	<6	<6	MFP (Administrative docs, WB review)
<b>G. Improve Procurement System</b>								
11. # of ministries publishing their procurement opportunities				0 (2004)	3	9	15	MFP, Min Infra, (admin. Docs, WB review)
<b>H. Strengthen Decentralization Framework</b>								
12. % of state resources transferred to municipalities through FEF				<7% of total tax income	Idem	>7%	>7%	MFDP, Municipalities (OG, WB review)
<b>PUBLIC ADMINISTRATION</b>								
13. # of public managers in place				0	0	4	>4	MREAP and all ministries
14. Civil service database – % of updated processes in the database	✓		✓	10 (2003)	50	100	100	MREAP and all ministries
15. Training budget as % of wage bill				0	0.5%	0.7%	0.8%	MFP, MREAP
16. # of Citizen's Houses established	✓			0	0	0	1	MREAP, NOSI, Ministries and municipalities
<b>JUSTICE</b>								
17. # of mediators trained using Alternative Dispute Resolution	✓		✓	0	0	100	200	MJ
18. # of poor who have been assisted through the judicial aid fund	✓		✓	0	tbd	tbd	tbd	MJ
<b>GPRSP PILLAR 3: HUMAN DEVELOPMENT</b>								
<b>EDUCATION</b>								
19. Repetition rate in primary education	✓		✓	12%	<11%	<8%	<8%	MOE- Statistical Unit
20. % students who complete primary education in 6 years		✓	✓	44.6%	46.6%	47.3%	48%	MOE- Statistical Unit
21. Pupil teacher ratio in primary				<sup>27</sup> (2003/04)	28	30	31	MOE- Statistical Unit
22. Transition rate to secondary education	✓		✓	81.5% (2004)	82%	82.5%	83%	MOE- Statistical Unit
23. % of basic education teachers with incomplete training	✓		✓	27%	24%	22%	21%	MOE and pedagogical institute

Indicators	NDP	MDG	GPRSP	Base (Year)	Targets			Responsible unit/Source of information
					2005	2006	2007	
24. % of poor students receiving support in materials, transport and school meals				10,000	11,000	12,000	13,000	MOE- Statistical Unit
25. % of 3-5 years old enrolled in early childhood education	✓		✓	56%	58%	60%	62%	Education Ministry – ECD Division
26. % of students enrolled in the technical secondary education	✓		✓	3.7%	4.0%	4.5%	5.0%	MOE- Primary and Sec Education Division
27. Number of professional training providers accredited	✓		✓	0	3	6	15	MOE – Prof. Training and Employment Institute
<b>HEALTH</b>								
28. Ratio of key types of health personnel per capita (doctors, nurses, pharmacists)	✓		✓	2002: Dr/cap: 1/2862 Nurse/cap: 1/1967	Dr/cap: 1/1920 Nurse/cap: 1/1967	Dr/cap: 1/1685 Nurse/cap: 1/1986	Dr/cap: 1/1555 Nurse/cap: 1/1004	MOH, MOE, MREAP Routine statistics and reports
29. % of the population with access to health services	✓		✓	35% (2004)	47%	76%	80%	MOH, Min of Infrastructure Municipal (Surveys and routine reports)
30. Data available from Health Information System	✓		✓	—	Basic data	Health accounts	+nosologies	MOH, INE (Routine reports)
31. Vaccination coverage for children under 1	✓		✓	73.7%	80%	85%	90%	MOH Routine reports
32. HIV prevalence rate among pregnant women			✓	—	1.1%	1.1%	1.1%	MOH Surveys
33. Annual debt of INPS/health reduced				151 million ECV (203)	<64 million	<35 million	<10 million	MOH, MOF, MOLS, INPS, INE
<b>GPRSP PILLAR 5: SOCIAL PROTECTION</b>								
34. # of revised protocols between MTS and municipalities for social service delivery	✓		✓	0	17	17	17	MTS, MCC, NGOs) (Sectoral reports)
35. # of beneficiaries of social assistance facilities			✓	23,838 (2004)	+	+	+	MTS, municipalities, other ministries, NGOs (annual reports)
36. % capacity utilized (of functioning facilities)				85%	85%	90%	90%	MTS, MOH. Municipalities, NGOs
37. %PSS and PSM beneficiaries with ID card			✓	0%	100%	100%	100%	MTS

Indicators	NDP	MDG	GPRSP	Base (Year)	Targets			Responsible unit/Source of information
					2005	2006	2007	
					38. # of recipients of Minimum Social Pension	✓	✓	
39. # of beneficiaries of Social Solidarity Pension	✓	✓	9473	+22%	+9%	+8%	MTS, Ministry of Finance (annual report and budget monitoring)	
40. # of at-risk children with access to MTS/ICM services			1,552 (2004)	+10%	+10%	+10%		

