

**PROJECT INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report NoAB628.:

<b>Project Name</b>	Poverty Reduction Support Credit (PRSC)
<b>Region</b>	AFRICA
<b>Sector</b>	General public administration sector (40%); Health (20%); Education (20%); Social Protection (20%)
<b>Project ID</b>	P078860
<b>Borrower(s)</b>	Republic of Cape Verde
<b>Implementing Agency</b>	Ministry of Finance, Planning and Regional Development, and other line ministries
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input checked="" type="checkbox"/> TBD (to be determined)
<b>Safeguard Classification</b>	<input type="checkbox"/> S <sub>1</sub> <input type="checkbox"/> S <sub>2</sub> <input type="checkbox"/> S <sub>3</sub> <input type="checkbox"/> S <sub>F</sub> <input checked="" type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	January 6, 2004
<b>Estimated Date of Appraisal Authorization</b>	April 31, 2004
<b>Estimated Date of Board Approval</b>	September 30, 2004

1. Key development issues and rationale for Bank involvement

Cape Verde is a volcanic archipelago, west of Senegal. Its economy has been dominated in turn by agriculture, fisheries, and services. Agriculture frequently suffers from drought, leading to high emigration from rural areas to cities or abroad. Half of the archipelago's population of 450,000 lives in rural areas across the islands. Recent economic trends have been positive. Real economic growth in Cape Verde has been strong (5.75 percent p.a.) on average over the past 7 years ending in 2002. Much of this success is due to strong growth in services, part of which has been supported by high FDI in the context of the privatization of utilities, and the expansion of the tourism sector. However, the poor performance of agriculture has limited its attractiveness to new investors, including banks. The poor in Cape Verde are therefore concentrated in remote rural areas, while some of them feed the strong rural-urban migration. Moreover, Cape Verde's status as a small open economy, and its high dependence on imports makes it vulnerable to external shocks, which in turn affect the Government's expenditure plans.

With its first PRSC, the Bank proposes to support the first year of PRSP implementation. The introduction of the PRSC in Cape Verde is a response to the following needs:

- align donor support to the client country's strategies and institutions for poverty reduction, as agreed at the Donor Roundtable Meeting in April 2003;
- provide support through, and for the Government's own functional administration and budget systems – as proposed by the PER and CFAA;
- provide predictable support in each budget cycle to help consolidate and smooth resource mobilization; and
- maintain a policy dialogue between Cape Verde and the Bank in chosen policy areas over the long term.

2. Proposed objective(s)

The PRSC would provide support to the government to achieve key PRSP objectives. By providing the necessary external financing, it would support the government in maintaining a sound macroeconomic framework, an essential underpinning for achieving the economy's growth potential and reducing poverty as targeted under the PRSP. Beyond supporting macroeconomic stability, the first PRSC will focus on a few core sectors for which the Bank has been providing advice in the context of the PRSP, and that have emerged as critical to rapid poverty relief. Specific actions to consolidate state reform will focus on the decentralization, civil service reform, and the modernization of

the state. Their implications for budget management will lead to support for specific actions for budget preparation, execution (including procurement) and reporting (including audits). Sector-specific interventions aim at supporting human development, in health (secure the strong performance of past years, and help select public interventions within a limited envelope); education (improve quality, and manage the transition to secondary education of primary school graduates); and social protection (redesign schemes to target the poor, develop sustainable contributory schemes, overhaul medical coverage, and investigate flexible community-based schemes).

### 3. Preliminary description

In alignment with PRSP objectives and policies, the PRSC would support policies under three main components: reform of the state, budget management, and human development. The reform of the state would be supported by an analysis of the 2002 civil service census, complemented by an action plan; an action plan to operationalize the chosen design for decentralization; and actions toward use of IT to improve public services. Budget management reforms include measures to improve budget formulation (including further work on a new budget classification, with a view to integrating recurrent and investment budgets, and move to a comprehensive medium-term budget), accompany the decentralization of some state prerogatives with adequate budget execution systems, codify and streamline procurement, and improve municipal budget/administrative systems. In the education sector, they include measures aiming at expanding the coverage of early childhood education; improve the quality of basic education and reduce regional inequities; support the expansion of secondary education; consolidate and selectively develop post-secondary education; develop an organizational model for higher education in Cape Verde; promote adult literacy programs; develop professional training. Incorporation of the health sector in the PRSC marks the entrance of the World Bank into the sector dialogue on health (with the exception of HIV-AIDS issues). Health sector reforms intend to firm up the diagnostic of the health care in Cape Verde, with the support of a tracking survey financed by the Project Preparation Facility (PPF). The PRSC will focus its actions on developing health sector policies, with more specific measures to be incorporated into the subsequent PRSCs. Key concerns include: the improvement of equity in access to health care through health financing reform, sustaining the achievements of primary health care, and improving human resource management of the public health sector. The Government's poverty reduction strategies related to the social protection aim to ensure the long-run solvency and expansion of coverage for the two contributory pension schemes; expand market based-mechanisms to improve the performance of the employment creation through public works system; revise and expand coverage of the minimum social pension and FAIMO pension systems; build capacity in communities for flexible response to local needs; and introduce safety net programs to increase medical coverage for vulnerable groups.

### 4. Safeguard policies that might apply

The operation is classified as a structural adjustment operation, given the policy-orientation of the reforms and the absence of physical impact at the sectoral level. The operation would therefore consider environmental issues in the context of Cape Verde's policies and practices. None of the measures is expected to have a major or irreversible impact. Moreover, the authorities are developing an national environment policy, and future PRSCs will continue to reinforce the government's own capacity for assessing and managing safeguards issues in a national context.

### 5. Tentative financing plan

Source:	(\$m.)
BORROWER/RECEPIENT	0
INTERNATIONAL DEVELOPMENT ASSOCIATION	16
Total	16

### 6. Contact points

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