

**INTERNATIONAL MONETARY FUND  
AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION**

**CAPE VERDE**

**Joint Staff Assessment of the Interim Poverty Reduction Strategy Paper**

Prepared by the Staffs of the International Monetary Fund and the  
International Development Association

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**I. INTRODUCTION**

1. Cape Verde, an archipelago of ten islands off the coast of west Africa, is a country with limited natural resources but a recent history of parliamentary democracy and economic stability that is rare in the region. The country won its independence from Portugal in 1975, and, since first holding multiparty elections in 1991, it has been characterized by peaceful democratic transitions. The current government led by Prime Minister José Maria Neves came to power following elections in January 2001.
2. The country's sahelian climate means that rainfall is limited and arable land is scarce. There are no known mineral or energy resources in Cape Verde. This lack of resources has also led to a history of emigration. In 2000, there were approximately 435,000 people living in the country, and it is believed that twice this number lives abroad. For those that remain, a significant proportion, estimated at 30 percent of the population in 1993, still live below the poverty line. Per capita GNP in Cape Verde is \$1,239 and the country ranked 105<sup>th</sup> out of 174 in the UN's 1998 human development index. In addition to remittances from Cape Verdeans living abroad, which accounted for 29 percent of GDP in 2000, the economy of Cape Verde currently depends on tourism, commerce, and foreign assistance.
3. Despite progress in implementing structural reforms and in reducing the public sector's role in the economy, Cape Verde's macroeconomic performance in late 1999 and 2000 was characterized by a cycle of overspending and subsequent consolidation. This fiscal stop-and-go cycle threatened the macroeconomic stability and, at the same time, hampered existing efforts to build a sustained and sustainable poverty reduction strategy. The staffs believe that the PRSP process represents a good opportunity for Cape Verde to escape the cycle of macroeconomic instability followed by fiscal and monetary restraint. Combined with measures to increase the efficiency of government operations and higher expenditure on social services, these actions will be key to improving economic conditions, especially those of the poor.

## II. ASSESSMENT OF THE INTERIM POVERTY REDUCTION STRATEGY PAPER

### Commitment to poverty reduction

4. The government of Cape Verde is experienced in focusing on poverty reduction within a participatory framework. There are three major national documents preceding the interim poverty reduction strategy paper (I-PRSP): the National Poverty Reduction Program, 1987 (PNLP); the National Poverty Alleviation Plan, 1997 (NPAP), and the Major Options, 2001. The I-PRSP draws on all these documents but is based mainly on the Major Options. As early as 1997, the government had initiated its own strategic exercise, called the NPAP. The NPAP rested on the three pillars of (i) responding to food insecurity and rural poverty through a labor-intensive public works program; (ii) capacity building for the poor; and (iii) creating a social emergency fund. Moreover, in 2001 the government, in a participative dialogue, developed the Major Options, a strategic medium-term framework for development and the combating of poverty. In this strategy, the Cape Verdeans defined the major routes to reducing poverty as: promoting economic growth; improving living conditions; and strengthening training for the poor. They also reaffirmed the principles of the PNL that poverty can best be reduced through participation, decentralization, and coordination. In addition, in the program presented to the 2001-05 legislature, the government reaffirmed the priority it gave to fighting poverty.

5. The I-PRSP clearly expresses the government's strong commitment to fight poverty. The government decided to adapt their ongoing processes to the development of the PRSP with the objective of encouraging their development partners to become more involved in their strategy for addressing poverty. **The staffs believe that the government has already made good progress in preparing for the formulation of the full PRSP.** Although Cape Verde is not eligible for debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC initiative), the preparation of a PRSP can provide a framework for assistance under the Poverty Reduction and Growth Facility (PRGF) and for World Bank concessional assistance.

### Poverty analysis

6. Cape Verde has prepared a comprehensive I-PRSP that includes a sound poverty analysis, although the data used for this analysis is somewhat old. This shortcoming is clearly acknowledged in the I-PRSP. In addition to presenting a poverty profile for the country, the I-PRSP discusses the determinants of poverty, coping strategies of the poor and safety nets, and poverty monitoring. The bulk of the data used in the I-PRSP poverty analysis comes from the 1989 household expenditure survey, the 1998 demographic and reproductive health survey, and the 2000 census. Additional data and analysis also came from the relevant sector ministries.

7. **In the staffs' view, the I-PRSP presents a clear picture of poverty in Cape Verde.** Although, the study showing that 30 percent of the population lives below the poverty line was completed in 1993, the I-PRSP effectively uses more recent studies to show that there are still serious poverty and, particularly, equity concerns. The analysis states that overall inequality is not seen as a major problem (the Gini coefficient is 0.42).

However, regional inequality is rightly identified as a concern, particularly for certain areas such as Santo Antão. The poverty analysis also presents a comprehensive profile of the poor, who tend to be women, live in rural areas, have limited education, and are unemployed. The analysis also clearly highlights the fact that overall social indicators are, however, quite good by regional standards. In 2000, life expectancy was 69 years, and infant mortality was 23 per thousand. Six years of primary education for all has nearly been achieved, and enrollment shows gender equity.

8. **The Staffs also encourage the government to take the measures identified in the I-PRSP to strengthen the collection of data necessary for effective monitoring of the PRSP.** When the PNLN was launched, the government established a poverty observatory. The observatory's principal function is to continuously monitor and analyze the status of poverty in Cape Verde. However, in the I-PRSP the government rightly acknowledges the need to strengthen statistical data production in terms of its reliability, regularity and processing. This includes improving the production of the national accounts and reinforcing the observatory, which has been unable to fulfill its mandate completely owing to a lack of training and technical assistance. The government has also launched a new household expenditure survey that should be completed by the end of 2002. Initial results from this survey should be available for strengthening the poverty analysis and monitoring for the full PRSP. **The staffs encourage the government to complete the ongoing household survey soon and to use this updated poverty analysis in the full PRSP.**

9. The staffs welcome the government's proposal to undertake some participatory qualitative assessments, in which the poor will be directly consulted on their perception of poverty. It is hoped that this analysis will be integrated with the new household survey data and contribute to broadening the definition of poverty and improving the understanding of the priorities of the poor.

#### **Poverty reduction strategy**

10. The I-PRSP discusses specific strategies for reducing poverty and promoting growth, as well as the process of refining these strategies for the preparation of the PRSP. The governing principles for Cape Verde's efforts to reduce poverty are clearly established up-front as sustainability, participation, decentralization, and coordination. The staffs support these governing principles and encourage the government to put them at the center of the PRSP process.

11. Cape Verde's strategic approach to reducing poverty builds on the strategies already outlined in the PNLN. The five Major Options developed in this analysis were:

- promoting good governance;
- promoting entrepreneurial capacity;
- developing human capital;
- promoting social development and cohesion; and
- developing basic and economic infrastructures.

12. The strategic directions identified in the I-PRSP also included (i) the renewal of economic growth with equity; (ii) the linkage between poverty reduction strategies and macroeconomic and sectoral policies; (iii) the reduction of regional disparities, particularly between rural and urban areas; and (iv) the improvement in the productive capacities of the poor. In light of the preliminary poverty analysis, the staffs concur that the strategic directions are appropriate for poverty reduction.

13. The I-PRSP pays particular attention to the goal of improving the productive capacity of the poor, and the staffs consider it an appropriate focus of a strategy oriented to the long term. The government has identified two parallel tracks for addressing this issue. First, it focuses on the need to improve microfinance policy and to provide training. Second, it focuses on the need to improve economic and social infrastructure for poor communities. In this it gives priority to education, health and nutrition, drinking water and basic sanitation, and, finally, housing. The government also rightly emphasizes the need to focus on measures that reduce the poverty of women, as the poverty analysis stresses that women are particularly vulnerable. The strategy proposes to do this largely by addressing maternal health and illiteracy, as well as by encouraging women to be more involved in the economy and society.

14. **The staffs encourage the government to use the PRSP process to further identify plans for strengthening public financial management.** The I-PRSP does acknowledge the need for a stable macroeconomic environment and in particular, for improved public financial management. The government has launched public expenditure reviews (PERs) in health and education, as well as a general PER. In addition, the government is completing a Country Financial Accountability Assessment that will provide information on debt and fiscal management.

15. The strategy for growth is also clearly outlined, and the staffs believe that it is appropriate. The private sector is to be the engine of growth, and the growth strategy is based largely on the export of goods and services. The sectors identified as having the most potential include tourism and services, light export industry, agriculture, livestock, and fishing. The I-PRSP acknowledges the limitations for growth in agriculture and livestock but highlights the importance of these sectors for reducing rural poverty. Given its performance in recent years, tourism is expected to be Cape Verde's most dynamic sector. Several major investment projects are under way or expected for the next years, contributing to the growth of construction, transportation, and other services. The staffs encourage the government to acknowledge the need for ex ante poverty and social impact analysis on any major policy measures, such as privatization or liquidation. The I-PRSP also recognizes the importance of addressing issues in credit markets, particularly because a majority of the poor do not have access to credit, and improving economic infrastructure and territorial management. Finally, the authorities acknowledge that their ambitious plans for growth can take place only with macroeconomic stability and good governance. The staffs encourage the government to define more explicit links between the growth strategies and efforts to reduce rural poverty during the PRSP process.

#### **Macroeconomic framework and three-year policy matrix**

16. The staffs believe that the I-PRSP's macroeconomic framework is appropriately ambitious and consistent with the goals of poverty reduction and higher growth. As Cape Verde is a resource-constrained economy, human capital formation and international competitiveness are decisive factors of growth. Targeting health and education as key areas of social sector development clearly aims at reducing poverty and removing obstacles to growth. However, for investment to respond favorably to improved infrastructure and social conditions, it is necessary to maintain stable macroeconomic policies and to remove structural obstacles to private sector development. It is, therefore, important that the I-PRSP stresses the need for safeguarding macroeconomic stability and promoting market mechanisms. For the full PRSP, the authorities should continue to maintain macroeconomic stability and to foster productivity-enhancing structural reforms and measures, so as to promote competitiveness.

17. The staffs concur with the focus on safeguarding macroeconomic stability and maintaining internal and external equilibria. In addition, the authorities' commitment to price stability is appropriate in the context of the pegged exchange rate. There remains, however, a need to limit public spending and, hence, public debt, and to implement consistent policies that will allow for a sizable reduction in the currently unsustainable level of domestic debt. Recent economic developments, with reserve outflows and the accumulation of external and domestic arrears, have shown the importance for Cape Verde to maintain fiscal discipline and implement prudent monetary policies. In this regard, the staffs welcome the decision of the government to enhance the independence of the central bank by introducing a new central bank organic law, with the central bank precluded from providing financing to the central government.

18. The medium-term macroeconomic scenario developed in the I-PRSP is similar to the framework developed in the government's program supported by the PRGF arrangement. Growth would increase to some 5 percent per year over the medium term, inflation would fall to the level registered in Cape Verde's partner countries, and the current account deficit would decline from 11 ½ percent of GDP to 5 ½ percent by 2004. Investment as a share of GDP is projected to increase from 20 percent in 2001 to 22 percent in 2004. International reserves would increase to 2 ½ months of imports over the medium term. The staffs endorse the macroeconomic outlook of the I-PRSP and regard its targets as achievable, provided the authorities implement their program in full, even if the growth target is somewhat ambitious.<sup>1</sup> Also, the authorities should have included in the I-PRSP a summary table of macroeconomic indicators and more details in the policy matrix of strategies and activities. To ensure that the macroeconomic objectives will be met. The staffs would encourage the authorities to develop the full poverty strategy to strengthen the linkages between the macroeconomic framework and the policy matrix. **The staffs would also encourage the authorities to concentrate at an early stage on the costing and prioritizing of measures planned for the PRSP process**, so as to guarantee consistency with the fiscal outlook, and to achieve, at the same time, the highest possible degree of participation in the decision-making process.

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<sup>1</sup> The March 2002 PRGF staff report projects a real GDP growth rate of 4.5 per cent in 2004.

19. The staffs strongly support the views expressed in the I-PRSP, namely that there are still inadequacies and gaps in macroeconomic management that will need to be tackled to achieve macroeconomic stability. While the I-PRSP lists a number of measures aiming at improving the information flows on key macroeconomic data, it is less explicit about the institutional measures needed to improve management and operations. The staffs encourage the authorities to work closely with key donors to improve the capacity within the government to implement the programs and policies outlined in the I-PRSP.

20. For the full PRSP, the staffs support the government's intention of analyzing past poverty impacts of reforms and the potential impacts of new reforms using the new poverty data. Such an analysis could assist in identifying possible policy trade-offs for discussion with civil society groups.

### **Indicators, monitoring and evaluation**

21. While the I-PRSP presents poverty and social indicators for Cape Verde, it stops short of discussing which of these indicators should be used to monitor progress under the PRSP. Likewise, the I-PRSP does not refer to long-term goals in poverty reduction. For the full PRSP, the authorities may wish to refer to the Millennium Development Goals. The staffs encourage the government to give careful consideration to the selection of monitoring indicators during the PRSP process and, especially, to use the participatory process to identify such key indicators.

22. The I-PRSP does acknowledge the importance of monitoring progress and the need to strengthen the General Planning Directorate and the National Commission to Combat Poverty so that they can play this essential role. It also discusses the need to improve statistical production, including with respect to the national accounts, poverty data, and sectoral data. In addition to improving statistical capacity, both qualitative and quantitative data need to be brought together. Moreover, capacity needs to be built to collect, analyze, and integrate participatory and qualitative data. The I-PRSP also emphasizes the importance of strengthening the budgetary and financial management of the state for effective implementation and monitoring of the PRSP. The staffs support the government's commitment to strengthen the country's capacity for effective data collection and analysis during the preparation of the PRSP, so that effective monitoring can begin as soon as a final PRSP is ready.

### **Consultative process and time frame**

23. Cape Verde has demonstrated its commitment to a participative dialogue on development issues repeatedly and, most recently, in the development of their National Development Plan and Major Options. The staffs were also encouraged by the fact that the authorities undertook a wide-ranging consultation with civil society (including the poor directly) during the preparation of the I-PRSP. In the I-PRSP, they have again stated their intentions to follow a participative approach, including plans to hold consultations with central departments, local administrations, nationally and locally elected officials, political groups, religious groups, private sector organizations, unions, and other civil society organizations, and the staffs encourage them to firmly follow this approach, which combines scope and depth, during the PRSP process. The Cape Verdean

authorities also reaffirm their desire to have an active dialogue on the PRSP with their development partners.

24. The I-PRSP presents a clear and costed participation plan that outlines broad steps for the consultative process, including workshops, forums, a qualitative survey, and validation seminars. Nominal dates for the different steps are also indicated. The staffs encourage the government of Cape Verde to further refine this process, making it clearer who would be consulted and when, and how these inputs would be incorporated into the PRSP and influence the outcomes.

25. Although plans for future consultation are clear, it is not evident from the I-PRSP what role civil society has had in designing the PRSP process. It would have been useful for the I-PRSP to detail the extensive consultations that were undertaken for the formulation of the I-PRSP. The staffs urge the government to seek the active involvement of civil society in the process and in the monitoring of the process as soon as possible. The staffs also encourage the authorities to start designing participatory processes that could become more institutionalized rather than ad hoc. Capacity building of the civil society institutions to play their part in this dialogue could be incorporated into the PRSP process. As it is not clear from the I-PRSP how active the interactions between the government and its other development partners on the I-PRSP are, the staffs encourage the government to discuss the document and plans for technical assistance with other partners at the earliest possible stage.

26. The I-PRSP states that the full PRSP is expected to be completed by May 2003. A detailed time line is also presented, showing how this will be accomplished. The staffs feel that this target and the process and time frame that are presented are realistic; however, given the ambitious targets of the government to improve poverty analysis and strengthen its capacity to monitor the PRSP before its completion, the staffs urge the government to proceed immediately with plans to address these two concerns.

### **Risks to the strategy**

27. The poverty reduction strategy, as developed in the I-PRSP, attributes to the private sector, supported by foreign investment, a decisive role as the engine of growth. More specifically, the I-PRSP identifies tourism, light export industries, and fishing as the most important sectors of growth. In addition, the strategy suggests some potential for development of agriculture and livestock, in spite of the environmental limitations. Attracting and maintaining a steady flow of foreign and emigrants' investment in these sectors are therefore of critical importance. A lack of response from the private sector, as well as the failure to maintain macroeconomic stability and to implement the structural agenda, would jeopardize the outcome of the poverty reduction strategy and its sustainability over the medium term. Given the considerable short-term costs of structural reforms, the success of the strategy will also depend on international donors' maintaining an adequate level of external support.

### III. CONCLUSION

28. **In the staffs' view, the government of Cape Verde's I-PRSP meets the requirements for linking poverty reduction and growth as established in the operational documents and guidance papers approved by the Executive Boards in 1999 and 2000.** The staffs of the World Bank and IMF consider that this I-PRSP provides a sound basis for the development of a fully participatory PRSP and for Bank and Fund concessional assistance. The staffs recommend that the Executive Directors of the World Bank and the IMF reach the same conclusion.

Cape Verde: IMF/World Bank Key Events, January 2002 – September 2003

Institution	Project/Event	Expected Date
IMF/World Bank	Joint staff assessment of I-PRSP	Mar. 2002
World Bank	HIV/AIDS prevention project	Mar. 2002
IMF	Board consideration of PRGF arrangement	Apr. 2002
IMF	First review of the PRGF arrangement	Oct. 2002
IMF	Second review of the PRGF arrangement	Mar. 2003
IMF/World Bank	Joint staff assessment of full PRSP	Jul. 2003
World Bank	Presentation of the CAS	Aug. 2003
IMF	Third review of the PRGF arrangement	Sep. 2003