

## **Cape Verde: Poverty Reduction Strategy Paper Preparation Status Report**

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CAPE VERDE

MINISTRY OF FINANCE AND PLANNING

GENERAL DIRECTORATE OF PLANNING

GROWTH AND POVERTY REDUCTION STRATEGY PAPER (DECRP)

STATUS REPORT ON PREPARATION

JUNE 15, 2004

**I. INTRODUCTION**

Cape Verde has been recording satisfactory growth rates and improved living conditions for its people, as reflected in the increase in per capita incomes and improved social indicators. However, Cape Verde itself remains very vulnerable in many respects, given that a sizable proportion of its population faces continuing poverty.

Achieving full-scale poverty eradication in the medium term, along with alleviation of less critical levels of poverty, has been a major concern of successive governments, and the current government's policy agenda includes poverty reduction as one of its major challenges.

For this reason, in the current legislature's program the government is reaffirming its focus on poverty reduction as reflected in the dynamic emphasis on implementing the PRSP. On the one hand, the Major Plan Policies place poverty at the heart of development, not only in view of the equity implications of poverty, but also because of its costs for the community and for development itself. Furthermore, the 2003-2005 National Development Plan (NDP) has outlined a sound road map of poverty reduction-oriented components for programs and projects.

In the same vein, the government is currently seeking to initiate a broad-based effort aimed at preparing the DECRP (Growth and Poverty Reduction Strategy Paper) for the period 2004-2005/2007, as the instrument that will guide the actions of the public sector, private sector, and civil society in these areas.

Moreover, given its strong ties with the public investment programs, the privatization process, fiscal policies, education, health, agriculture, environment and infrastructure, the Growth and Poverty Reduction Strategy provides us with a broad forum for dialogue and consultation as a way for us to rally behind an objective—poverty reduction—within an emphatically nationwide framework. Hence our commitment to focusing on the preparation

and implementation of this strategy within a broad participatory framework, with a view to achieving the best possible options and outcomes.

## **II. The DECRP—Preparation status**

The drafting of the I-PRSP (Interim Poverty Reduction Strategy Paper) was completed in January 2002, and the launching of the drafting of the first PRSP was scheduled immediately afterward. However, various factors meant that the process did not get under way until July 2003.

### **Note**

At the outset, the acronym PRSP was used, in view of the fact that it was universally accepted. However, the Coordination Committee has adopted the Portuguese DERP (later amended to the DECRP) that stands for “Documento de Estratégia para o Crescimento e a Redução da Pobreza” (Growth and Poverty Reduction Strategy Paper) with the aim of emphasizing **Growth**, specifically economic growth, as a prerequisite for achieving the goal of poverty reduction.

The preparation of the DECRP is predicated upon the following general principles:

- (a) The Major Plan Policies (GOP), the 2002-2005 National Development Plan (PND), the I-PRSP, and the Cape Verde Transformation Forum, provided a firm policy foundation upon which to complete the DECRP;
- (b) The DECRP accordingly derives from the GOP and the PND as outlined above;
- (c) The DECRP functions as the benchmark document for foreign aid;
- (d) The DECRP encompasses general and sectoral policies;
- (e) The timing of the DECRP is 2004-2005/2007.

The first phase covering the period July/November, was primarily taken up with the design and launching of the entities responsible for ensuring and coordinating the development of the process, as well as the establishment of the methodological framework, namely:

- (a) The Technical Secretariat of Support for Development (STAD) was provided with a coordinator, and steps were taken to recruit 3 high-level experts;
- (b) A workshop sponsored by the World Bank was held in the presence of the Minister of Finance, Planning, and Regional Development, focusing on the following topics:
  - (i) Articulating and discussing the methodological framework and reviewing best practices in PRSP preparation;

- (ii) Conceptual definition of PRSC (Poverty Reduction Strategy Credit).
  - (iii) Two Video Conferences between the DECRP management team and the World Bank team (Washington – Dakar – Praia);
- (c) A draft Council of Ministers resolution was prepared on the institutionalization of the entities leading the process at the central government level (the Coordination Committee, which has been in operation since then – See Annex 1 on its membership) and local entities (the Local Committees, which are still pending);
- (d) The internal regulations governing the work of the Coordination Committee have also been approved;
- (e) Further steps were taken to execute the World Bank/IDA financing arrangement in support of the PRSP, FT051749, and two financing agreements were signed with the UNDP (November 2003):
- (i) "Reduction Poverty in Equity", exclusively in support of the PRSP;
  - (ii) "Programme de Réduction de la Pauvreté et Appui à l'Environnement" [Poverty Reduction and Environmental Support Program] serving the same purpose, albeit to a partial extent;
- (f) The hiring of both local and international consultants has been initiated in the context of these financial agreements;
- (g) Work continued on setting up the "Threshold 21" in Cape Verde, using technical assistance from the Millennium Institute.

## **THE SECOND PHASE**

- (a) This stage of the process began in December 2003, with the hiring of the consultants who subsequently began their work;
- (b) Further progress was achieved in the following areas:
- (i) Establish a Task Force for the permanent follow-up of the actions involved in carrying out the preparation process;
  - (ii) Define and clarify the sectoral proposals, and concept underlying the preliminary version;
  - (iii) Debate the general content of the Poverty Profile;
  - (iv) Assess the methodologies underpinning the various thematic studies and analysis of their contents, reflecting the needs of the DECRP;
  - (v) Specify areas for coordination and organization of thematic studies;
  - (vi) Formulate a proposal to identify the key areas for the poverty reduction strategy;
  - (vii) Hold discussions with Cape Verde stakeholders;
  - (viii) Have the "International IDEA" organization play a role in the development of the Medium-term Expenditure Framework and the monitoring and assessment indicators, in the context of technical assistance for the General Directorate of Planning, which is

the focus of the financing agreement between Cape Verde and the government of the Netherlands.

- (ix) Carry out thematic studies and prepare the sectoral proposals;
- (x) Present the outputs of the studies and the sectoral proposals, by October 2004;
- (xi) Analyze and incorporate these outputs and proposals, March 11-21;
- (xii) Draft the preliminary version of the DECRP, April 5-14;
- (xiii) Finalize the preliminary version of the DECRP.

### The third phase

The third and final stage of the DECRP preparation process, which is still in progress, includes the tasks identified and scheduled below:

TASK	DATE OF EXECUTION/COMPLETION (2004)
1. Approval of the preliminary version of the DECRP by the National Coordination Committee	April 20
2. Approval of the preliminary version of the DECRP by the Council of Ministers	April 29
3. Submission of the preliminary version of the DECRP to Cape Verde stakeholders for further comments and suggestions	May 14
4. Distribution of preliminary version of the DECRP for feedback and collection of data	June 7
5. Planning of the final phase	June 11
6. Analysis and inclusion of data available	June 20
7. Macroeconomic framework	June 21
9. Changes to the preliminary version to reflect contributions received	June 18
10. Meetings with the relevant sectors 3.1 [sic] Budget allocation set for each sector/area, based on sectors' proposals, albeit reflecting financial constraints deriving from macroeconomic scenarios; 3.2 Analysis of the system of indicators for each sector; 3.3. Verification that there is a close fit between goals and policy measures.	June 25
11. Incorporation of data from meetings	June 27
12. DECRP - final comprehensive revision	July 2
13. Assessment of the final version by the DECRP National Coordination Committee	July 7
14. Validation of the final version by the Government	July 15
15. Dissemination of the final Portuguese version, to the sectors and Cape Verde stakeholders	July 16
16. Translation of the final version from Portuguese into English	
17. Distribution of the English version to key stakeholders	July 29

### **III. The DECRP - Summary of the preliminary version**

#### **Scope of Growth and Poverty Reduction Strategy.**

The Strategy of Growth and Poverty Reduction (ECRP) is an integral part of a strategic planning process led by Cape Verde whose foundations are: the Major Policies of the 2002-2005 Plan (GOPs) and the 2002-2005 National Development Plan (PND).

The current approach places the poverty alleviation strategy at the centerpiece of policies designed to promote economic growth in close coordination with poverty reduction, by focusing on various levels, namely: (i) general (governance and macroeconomic policy); (ii) sectoral, taking programmatic form and targeting the social sectors of education and health; (iii) regional and local, highlighting participation and enhancing the effectiveness of decentralized policies aimed at poverty alleviation.

#### **GROWTH, EMPLOYMENT AND POVERTY**

The strong economic growth in Cape Verde in the last decade has ushered in a substantial increase in the domestic active population. Granted that this increase resulted in lower unemployment among the male population, evidence also points to a rise in employment among women, especially in the informal sector.

However, notwithstanding the beneficial impact of economic growth on employment, this has not served to reduce poverty.

#### **Poverty profile**

Poverty has increased significantly in Cape Verde in the last decade. Indeed, the proportion of poor people in the population has risen from 30 percent to 37 percent, and the proportion of very poor people has increased from 14 percent to 20 percent. A snapshot of poverty shows that: (i) the incidence of poverty is greater for female heads of household; (ii) the impact of education plays a key role in determining whether or not people are poor; (iii) for young heads of household, the incidence, depth, and seriousness of poverty is less severe; (iv) Santo Antão and Fogo islands (islands with a predominantly agricultural focus) are characterized by high rates of poverty; (v) poverty increases with family size; (vi) unemployment affects the poor much more than the non-poor; (vii) the propensity to poverty is higher among unskilled workers, skilled farmers and fishermen; (viii) agriculture and fisheries sectors carry the highest poverty rates among the working population.

#### **Main causes of poverty**

Given the conditions prevailing in the rural sector in addition to the reduced number of employed population among the poor, these constitute the main determinants of poverty.

### **Survival strategies**

In order to cope with the shortage of resources, poor people in Cape Verde turn to emigration or informal commerce. Emigration abroad, traditionally the preferred option, is now matter of concern to the destination countries; and migration to urban areas has become a noticeable phenomenon. Accordingly, when the general public flocked into Praia during the 1990s, the capital city began to face additional problems in terms of sanitation, housing, and the social infrastructures for education and health.

The FAIMO [Work Team employed by the State for construction of infrastructure works] has been the main employment network in rural communities. Livestock as a subsistence activity plays an important role inasmuch as stockbreeding traditionally is something to rely on during drought periods. In the urban environment, the informal sector has been the main outlet for many families, as reflected in the rapid growth in the informal economy, and this is a field in which women play a major role. This trend also accounts for the fact that the incidence of poverty among women improved throughout the 1990s.

### **Policy measures and strategic areas for growth and poverty reduction**

The ECRP is based on a set of core policies encompassing a range of strategically focused program areas, specifically:

- (i) Policies of growth and macroeconomic stability;
- (ii) Decentralization policies;
- (iii) Employment policies including gradual integration of the FAIMO;
- (iv) Agriculture sector development policies;
- (v) Policies to maximize the spinoff effects induced by production sectors having the greatest multiplier effect;
- (vi) Redistribution and social protection policies.

Moreover, the strategy areas reflect the various mechanisms for government action implemented through reform programs and measures designed as follows:

- (i) Area 1: Promote good governance, strengthening its effectiveness and ensuring equity;
- (ii) Area 2: Strengthen competitiveness to promote economic growth and job creation;
- (iii) Area 3: Develop and enhance human capital;
- (iv) Area 4: Improve and develop basic infrastructures, promote the orderly management of the territory and protect the environment;
- (v) Area 5: Enhance the efficiency of the social safety net and ensure its sustainability.

### **Monitoring and evaluation mechanisms**

The implementation of the ECRP strategy will be carried out with a high level of community participation from grass-roots organizations, decentralised structures, as well as the private

sector. To this end, the Government in its 2005 budget tracking process has instituted a Medium-term Expenditure Framework (MTEF) and Tables of Medium-term Sectoral Expenditures focusing on key ministries. The proposed control mechanism will foster:

- (i) Prioritization of programmes and projects that will directly promote the attainment of the goals of the ECRP Strategy and those of the sectors;
- (ii) Budgeting of programs and projects on the basis of financial resources that can be readily mobilized;
- (iii) Allocation of financial resources for a medium-term period (3 years) reflecting the priorities set with a view to the attainment of tangible development outcomes.

To strengthen these policies, the government intends to implement a package of reforms designed to enhance the efficiency, reliability, and transparency of the system of public financial management. To this end, preparation of a range of policies is currently underway to ensure the implementation of recommendations derived from the government expenditure review exercises and the CFAA (Country Financial Accountability Assessment).

The institutional framework for the implementation of the DECRP is based on the existing administrative structures, incorporating such functional restructuring operations as are deemed appropriate. At the central government level, for reasons related to planning, the General Directorate of Planning (DGP) of the Ministry of Finance and Planning will act as the unit for coordination and technical support. At the sectoral level, the Research and Planning Offices (GEPs) of the ministries will be the technical units for the preparation and follow-up/assessment of prioritized programs and projects within the strategy. With respect to the implementation of ECRP programs and projects, the target structure—as a result of the merger of the administrative and planning units—shall be blended into one single unit. In this context, the General Inspectorate of Finance (IGF) is to strengthen its audit actions at the priority sectoral ministries.

#### **IV. The DECRP – Looking forward to the final version**

The final version of the DECRP will reflect enhanced coordination and a focus on policy consistency for those issues addressed in the preliminary version alongside other matters not dealt with in sufficient detail, namely:

- i. Explanation of some sectoral policies not fully clarified at the time of drafting the preliminary version, namely regarding social security, pensions, and AIDS;
- ii. Sectoral budgets, on an area-by-area basis, so as to assess the feasibility and financial sustainability of the policies planned;
- iii. Tables of indicators and goals;
- iv. Summary review of government expenditure (investment and current expenses) linked to the strategy, taking into account the recent trends at the sectoral level, so as to

assess the impact of continuity or discontinuity necessitated by the overall growth and poverty reduction strategy;

v. Macroeconomic scenarios, based on government expenditures associated with the strategy, yet simulating various alternative solutions: with or without a financing gap, with or without external shocks;

vi. Regarding the follow-up evaluation:

- Clarification and strengthening coordination among the mechanisms for implementing the NDP, PPIP (Multiyear Public Investment Program), and ECRP.

- Clarification of the roles assigned to the entities involved: the role of the consulting firm.

Praia, June 15, 2004