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Cape Verde: Expanding opportunities, improving lives

After becoming eligible for an MCC compact in 2004, the Government of Cape Verde (GoCV) consulted with local officials, the private sector, community-based associations, and the general public to identify national priorities for fostering economic growth and reducing poverty. Cape Verde identified the need for strategic investments in infrastructure, watershed management and private sector development as essential for creating economic opportunity for its people.

The five-year, \$110 million compact—implemented by MCA-Cape Verde and completed October 17, 2010—was designed to raise incomes by: reducing transportation costs by rehabilitating roads, bridges and the Port of Praia; increasing agricultural productivity through investments in water management and soil conservation, technology transfer, access to credit and sustainable microfinance institutions; and developing the private sector by reducing obstacles to investment.

MCC will conduct independent impact evaluations to measure the gains in income attributable to these investments. Even before income gains are fully realized, MCC and its partners in Cape Verde have important achievements to report:

- ★ **Infrastructure Project:** Four bridges and a connecting road on the island of Santo Antão and three roads on the island of Santiago have been completed, which are key to improving access to markets, employment and social services. Expanding and modernizing the Port of Praia, which handles half of the island nation's cargo, increases operational efficiency and eliminates bottlenecks to commerce.
- ★ **Watershed Management and Agricultural Support Project:** To improve production, 28 spring- and rain-fed reservoirs and 48 capitation, retention and control dikes have been constructed; 553 subsistence farmers have been trained on producing high-value horticultural and fruit crops; and 225 farmers and small agribusinesses obtained credit.
- ★ **Private Sector Project:** The capacity for microfinance institutions to deepen operational and financial sustainability has been strengthened, policy reform related to a new microfinance law and government securities transactions has been enacted and the groundwork to launch the country's first private credit bureau has been prepared.

MCC Principles into Practice: Policies Matter

MCC's emphasis on policy matters is an incentive for reform: At the heart of MCC's model is the principle that policies matter. National policies promoting accountable and effective governance, economic opportunity, and an educated and healthy citizenry matter because they foster the conditions necessary for sustainable economic growth and poverty reduction. Cape Verde began its partnership with MCC

already a reform-minded democracy, committed to transparency and interested in improving government effectiveness. The partnership with MCC created new incentives for Cape Verde to continue policy reforms at the national level and new opportunities to pursue them at the sector level as part of its investment program.

Incentives for continued policy improvement for MCC eligibility. During implementation of its first compact, Cape Verde graduated from the low-income country category to the more competitive lower-middle income group, in which it did not pass enough MCC indicators to be eligible for a new compact. Cape Verde made a dedicated effort for policy reform and by 2010 had improved performance in MCC's "investing in people" and "economic freedom" enough to be considered eligible for a second compact. This effort included better coverage and tracking of child immunization rates, and partially through support in the MCC compact, reducing the days to start a business from 52 in 2007 to as little as one in 2010.

Microfinance Legislation: As a condition precedent to providing technical assistance to microfinance institutions (MFI), the Cabinet of the Government of Cape Verde approved a micro-finance law that, among other improvements, authorized MFI collection of savings.

Infrastructure Project

This \$82.7 million project integrated internal markets and reduced transportation costs by improving roads and bridges on the islands of Santiago and Santo Antão and by upgrading the Port of Praia. Improved transportation provides better links to social services, employment opportunities, local markets, ports, and airports. An estimated 58,728 people and 1,127 formal businesses will directly benefit from the infrastructure improvements.



Port of Praia	Bridges on Santo Antão	Roads on Santiago
<p>Improve the port, which handles half of the island nation's cargo and facilitates the movement of people to and from Cape Verde's main population center. The modernization of the port significantly improves the handling of container and bulk maritime trade by increasing access to inter-island markets and international suppliers.</p> <ul style="list-style-type: none"> Improvements to transportation services and lower input prices to the Port of Praia, benefitting 347,111 people on Santiago. 712 import/export firms will directly benefit from the port expansion and modernization. 	<p>Ensure reliable, all-weather access to two urban areas by constructing four bridges and an associated road segment on the island of Santo Antão.</p> <ul style="list-style-type: none"> 4 bridges and an associated 1 kilometer road segment were built, ensuring reliable, all-weather access to two major urban areas on Santo Antão. Average annual number of days riverbeds were impassable during heavy rainy season was reduced from 8 to 0. 	<p>Integrate internal markets and reduce transportation costs by improving transportation networks. Rehabilitate two heavily traveled east-west axes and reconstruct one rural road linking an isolated agricultural/fishing community to Santiago's main road network.</p> <ul style="list-style-type: none"> 39.6 kilometers of mountainous roads were converted from earthen and/or cobblestone surface to asphalt (including all required drainage systems, markings and signage), connecting coastal and inland villages with larger population centers and markets.

More results to come

MCC applies a rigorous framework to monitor projects and measure the cost-effectiveness of our investments. This includes conducting rigorous, independent impact evaluations on over half of our investments – more than any other donor. To learn more about MCC's impact evaluations, please visit www.mcc.gov/impacteval. In Cape Verde, the roads and bridges impact evaluation will compare the impact of the rehabilitated road network on household incomes and business revenues before and after road construction/rehabilitation. The Port of Praia impact evaluation will measure the relative changes in the cost of transportation to importers, the price of goods on select islands and the level of domestic and international traffic. The impact evaluation is expected to be completed in December 2013; Phase II construction activities, financed by the Government of Cape Verde, are estimated to take 33 months following compact closeout.

Watershed Management and Agricultural Support Project

This \$12 million project was designed to increase agricultural productivity in three watershed areas on the islands of Santo Antão, Fogo and São Nicolau. The project aimed to help farmers overcome critical constraints to accessing a growing domestic demand for high-value-added fruits and vegetables.

Project investments focused on increasing the capture, storage and distribution of spring-fed and rain-fed water resources, enabling farmers to irrigate their fields and increase agricultural productivity. Increases in irrigated land and increasing water supply reliability are facilitating a shift from low-value, rain-fed



subsistence agriculture (such as corn and beans) to high-value horticultural and fruit crops. Beneficiaries include actors along the supply chain: farmers, farm laborers, micro- and small-sized agribusinesses, providers and users of transportation and distribution services, and farmers associations and cooperatives. A total of 8,591 farm households are expected to benefit from the project.

Water Management and Soil Conservation Activity	Agribusiness Development Services Activity	Access to Credit Activity
<p>Construction of reservoirs, dikes and dams to slow soil erosion, capture water, recharge aquifers, and create community-based watershed management.</p> <ul style="list-style-type: none"> • 28 reservoirs were constructed to service 101.2 hectares of drip-irrigated arable land. • 48 capitation, retention and control dikes were built to capture water, recharge water tables and decrease soil erosion. 	<p>Increase productive capacity of beneficiaries and increase marketing of agricultural products through the application of technical and field research, training for farmers and extension agents, improvements in agricultural extension centers and farm demonstration sites, building capacity in export requirements, and construction of a post-harvest center to provide training, grading, packaging, cooling, and inspection services to farmer households.</p> <ul style="list-style-type: none"> • 31 phyto- and zoo-sanitary inspectors received training, which, with pest-control research, was instrumental in lifting a 25-year embargo on inter-island agricultural exports from Santo Antão. • 31,776 farm households could benefit from the construction of a post-harvest center on Santo Antão that provides agricultural training, packaging, cooling, and inspection services. • 3 rural extension centers offer farmers Internet access and technical training materials, providing market information and guidance on improved agricultural practices. 	<p>Increase financial capacity of participants by providing technical assistance to increase operational and financial sustainability of participating microfinance institutions in supporting the demand for rural agricultural credit for financing drip irrigation, working capital and agribusiness investment in the three watershed intervention zones.</p> <ul style="list-style-type: none"> • 225 farmers and/or agribusinesses received \$617,000 in rural agricultural loans at competitive market rates.

More results to come

The impact evaluation for the Watershed Management and Agricultural Support Project will measure the impact of adopting drip irrigation technology, accessing credit and transitioning to high-value horticultural and fruit crops by comparing household incomes of participating farmers with those of non-participating farmers. The construction of the irrigation works was completed at the end of compact and will require at least two agricultural cycles for the adoption of drip irrigation and high-value horticultural and fruit products. The impact evaluation is expected to be complete by December 2013.

Private Sector Project

- ★ This \$2.1 million project supported Cape Verde's long-term economic transformation strategy of becoming less dependent on remittances and donor aid by developing a competitive, private-sector driven economy. The project included the establishment of the first private credit bureau in Cape Verde (in collaboration with the International Finance Corporation's Private Enterprise Partnership for Africa program) and financial sector reform to increase access to financial services and improve financial intermediation.

Financial Sector Reform Activity	Partnership to Mobilize Investment Activity
<p>Increase access to financial services and improve financial intermediation by expanding access to the primary market for government securities.</p> <ul style="list-style-type: none"> • 8 microfinance institutions (MFIs) received technical training on best practices in accounting, credit appraisal, delivery, collection, human resources management, and marketing. • 4 of 5 targeted MFIs were classified as operationally sustainable and financially sustainable. • Microfinance legislation was enacted to regulate the sector and allow deposit-taking powers. 	<p>Remove constraints to investment and stimulate the priority sectors of the economy by reducing early-stage project development risks that dissuade both domestic and international private investors.</p> <ul style="list-style-type: none"> • A legal, institutional and technological review was completed, and domestic and international private investors signed a contract to launch the first credit bureau in Cape Verde.

More results to come

Deeper analysis of the credit beneficiaries and the preliminary impacts on access to credit for drip irrigation adoption and agribusiness growth are included in the Watershed Management and Agricultural Support Project impact evaluation.

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Insight on Implementation

MCC is a learning institution. Outcomes of our projects – both good and bad – will be rigorously and transparently evaluated to improve development practice and effectiveness. MCC and partner countries work together to identify and address implementation challenges, keep current investments on track and inform the design and implementation of future MCC investments. Insights on implementation in Cape Verde that have strengthened MCC's approach include:

- ★ **Government commitment is essential in addressing increased costs in infrastructure projects:** Cape Verde's compact targeted the country's poor transportation infrastructure, including modernization of the port and the rehabilitation of five roads. Because of rising global construction costs and currency fluctuations in 2008, the actual project costs exceeded the planned budget, so MCC and MCA-Cape Verde worked together to restructure the compact to focus on upgrading three of the five national roads and completing the first phase of the Port of Praia rehabilitation. Determined to improve the poor infrastructure in its country, the Government of Cape Verde secured \$101.5 million to complete the port works and \$9.8 million for construction of two of the five roads that could not be financed with compact funds.
- ★ **Effective public-private board oversight and use of country systems build ownership and capacity:** The MCA-Cape Verde Board—which was chaired by the minister of finance and included representatives from various ministries and civil society—remained fully engaged throughout compact implementation. It met quarterly and played a key role in navigating implementation issues, including the 2008 compact restructuring. It also held special meetings to address specific compact challenges. The Government of Cape Verde also served as the fiscal and procurement agent, an effective utilization of country systems to support compact implementation.
- ★ **Project design needs to be adjusted to ensure environmental safeguard standards are met:** Upon completion of joint MCC-United States Geological Service due diligence studies of the Watershed Management and Agricultural Support Project, plans for drilling water production wells were canceled. Although the wells would have enhanced water availability for agriculture in the project areas, the studies determined there was a potentially high risk of saltwater intrusion into freshwater aquifers. The project was changed from the drilling of production wells to the construction of 28 surface water catchment reservoirs for the capture and distribution of rain, spring and well-fed freshwater resources in the three intervention watersheds.

Compact note: The targets included in the original compact changed during compact implementation because of increased construction costs, updates to the monitoring and evaluation (M&E) plan and project fund reallocations. MCC is committed to transparency and publishes a wide range of documents evidencing compact implementation, including M&E data that can be tracked throughout the life of the compact.

Sustainability of Impacts

MCC's investments address fundamental barriers to growth and poverty reduction and were designed to generate significant new income for beneficiaries long after MCC compacts end. MCC and partner countries look closely at the surrounding conditions in which an investment will be made and plan reforms in areas that would strengthen its impact and sustainability. These can be changes to national policies, laws, regulations, or ways of doing business. Below are examples of reforms that have accompanied MCC investments in Cape Verde. These reforms help unlock the full potential of MCC programs, and they help improve the broader conditions for continued growth and investment in Cape Verde.

Watershed Management and Agricultural Support Project

Lifting of inter-island export embargo: The Government of Cape Verde lifted a 25-year embargo on inter-island agricultural exports from Santo Antão, contingent upon the creation of the MCC-funded post-harvest inspection center. MCA-Cape Verde, through an agreement with the University of Cape Verde, trained 31 phyto- and zoo-sanitary inspectors to reinforce the national inspection system on the islands of Santo Antão, Sal and Boavista. This allowed the lifting of the ban and enabled the farmers of Santo Antão to expand their livelihoods.

Modification of contract law: Changes in contract law allowed community-based organizations (CBO) to compete for small public works contracts. CBOs were able to submit bids for the construction of MCC-funded agricultural small works (not to exceed \$55,000) in the intervention zones. Community-based organizations received training on contract law and procurement bid processes, further building their capacity.

Irrigated water pricing system: In January 2009, the Cape Verde National Water Council approved a water-pricing policy that established different water rates for flood-irrigated and drip-irrigated water in the Paul, Faja and Mosteiros watersheds.

Infrastructure Project

Road maintenance fund: In response to a compact condition, the government established a road maintenance fund, financed by a levy on road users. The Ministry of Infrastructure, Transport and Telecommunications manages the funds and supports contracts with private sector firms to supply maintenance services.

Private Sector Development Project

Development of effective microfinance rural credit model: Targeted technical assistance to microfinance institutions and coordinated technical support to farmers and agribusinesses from agricultural extension agents led to the development of a microfinance credit model that significantly increased the availability of credit to rural communities for capital investments in a more productive agricultural sector.





Private credit bureau: With technical support from the International Finance Corporation, the Barlavento Chamber of Commerce and the Sotavento Chamber of Commerce established a working group to attract an international service provider to jointly launch the first private credit bureau in Cape Verde. The credit bureau will strengthen the credit culture by rewarding borrowers with good credit access to better credit terms and allow creditors to distinguish between strong and weak borrowers.

Beneficiary spotlight

Maria Celina Pina Horta, a single mother of six, worked as a sand harvester to support her family. Through the support of ASDIS, a microfinance institution that received MCC funding, Maria Celina obtained her first loan and began growing and selling agricultural produce. She eventually doubled her income, built a house and continued to diversify her crops. Maria Celina always repaid her microloans on time, and she believes the access to finance allowed her to realize her dreams. Maria Celina's good business acumen and support from ASDIS led her to expand her small business and start selling her products to other islands. As a result, she owns cows, pigs and chickens, and she pays for her eldest son's schooling in Portugal. Maria Celina now earns \$647 each month – almost 10 times the income she earned collecting and selling sand.