

MCC and Cape Verde: A Partnership for Policy Reform

At the heart of the Millennium Challenge Corporation's (MCC) 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. MCC selects partner countries that are committed to perform well in these policy areas and, in fact, many countries, including Cape Verde, report that this selective approach creates incentives for reform in the areas MCC measures— the so-called “MCC Effect.”



In addition to implementing projects that directly benefit the citizens of Cape Verde, the MCC-Cape Verde compact fostered changes in the government's policy that would encourage and sustain economic growth and poverty reduction.

Sector-specific policies are important as they can help MCC's investments achieve full and lasting impact. MCC and its partner countries look closely at the environment in which investments are being made and plan policy reforms to enhance the investment's sustainability. These can be changes to national policies, laws, regulations, or even ways of doing business.

In pursuing this approach, MCC found fertile ground in Cape Verde, one of the very first countries selected for a compact partnership with MCC. 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 then 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.

Cape Verde and the MCC Effect – Incentives for Reform

MCC's Board of Directors selected Cape Verde as eligible for compact assistance in 2004 as a Low Income Country (LIC). As a LIC, Cape Verde performed very well on MCC's country scorecard, a collection of independent policy indicators that measure the degree to which a country rules justly, invests in its people, and encourages economic

freedom. The Board selects those countries that perform better than their peers on at least half of the scorecard indicators in each category; in 2004, Cape Verde passed all but two of the 16 indicators. However, Cape Verde soon graduated into the more competitive Lower-Middle Income Country (LMIC) category, where scorecard performance standards are higher. Country leaders knew that for Cape Verde to be considered for a potential second MCC compact, they would have to make improvements in “the investing in people” and “economic freedom” categories.

To tackle this challenge, the government established a task force within the Minister of State Reform to find ways to improve Cape Verde’s performance. The task force proceeded in two key ways—by working with government ministries to improve actual policies and practices and by working with the indicator institutions that measure Cape Verde’s policy performance to improve the quality and accuracy of the data. Based partly on these improvements, Cape Verde passed enough MCC indicators to be selected in 2009 as eligible for a second compact. Examples of improved performance include:

- ★ **Improved coverage and reporting on immunization:** In 2007, Cape Verde’s “immunization rates” indicator suggested only 69 percent coverage, among the very lowest scores for LMICs. To reach more of their population, Cape Verde’s Ministry of Health launched an immunization campaign. Once started, they discovered that immunization rates were actually higher than reported. They offered immunizations where necessary and, with the help of the World Health Organization (WHO) and the United Nations Population Fund (UNFPA), conducted surveys to better capture actual rates, improve demographic projections, and establish the basis for a new monitoring system to better track community health needs in the future. The data from the new surveys then fed back to WHO and the United Nations Children’s Fund (UNICEF), the institutions that produce the immunization rates indicator used by MCC. By 2010, Cape Verde achieved coverage of 97 percent, an improvement that reflects both more children immunized as well as improved data that better captures actual performance. In addition, this work, supported by centralized data and call centers, helped Cape Verde identify and quickly respond to individuals in areas hit hardest by a dengue outbreak that affected more than 22,000 people in a three month period.
- ★ **Easier and faster business start up:** In 2007, it took 52 days to start a business in Cape Verde, well below the passing score in the LMIC category. Cape Verde had already made a commitment to increase the efficiency and transparency of government operations through its e-governance strategy, but it used both the incentive for MCC eligibility as well as compact program support to make concrete strides in this specific area. Based on Cape Verde’s priorities, the MCC compact provided \$2.5 million for equipment, software, and technical assistance to support the “Citizen’s House,” a center that offers improved and streamlined government services including business registration. By 2010, Cape Verde had reduced both the cost and time to start a business sufficiently to get a passing score on MCC’s “business start up” indicator. In some cases, businesses are now able to start up in as little as an hour.

Policy Reform at the Project Level – Increasing and Sustaining Impact

MCC’s country ownership model means that countries themselves set the priorities for MCC investments in economic growth and poverty reduction. For Cape Verde, this meant seeking MCC support for ongoing efforts to improve government services, agriculture development, and road and port infrastructure. MCC’s support for programs that have significant and sustained returns for poverty reduction means that policy and institutional reforms often accompany program activities. Examples of project-related policy reforms in Cape Verde include:

More transparent and effective government procurement: The term “procurement” does not sound very exciting, but it is at the heart of how the Government of Cape Verde acquires the goods and services necessary to meet the needs of its people. Done wrong, procurement can lead to corruption and waste taxpayer resources. Done transparently and efficiently, it saves money and creates fair business opportunities. This motivated MCC’s support for Cape Verde’s Operational Nucleus for Information Society (NOSi), providing equipment and software to facilitate a transparent e-procurement system. The system is designed to standardize procurement procedures and provide government officials, suppliers, and the public information on procurement rules, opportunities, and transactions records. This small investment, together with MCC-supported training of 450 officials from across the government, as well as the government’s own investments in broadband access and accounting systems, allowed Cape Verde to put into practice its new procurement law. The law, modeled on international procurement standards such as those used by the World Bank and MCC, is designed to increase transparency and efficiency across the public sector. NOSi has been recognized by Microsoft as an Information and Communications (ICT) best practice entity during the Third Pan African Forum of ICT Best Practices, organized by Microsoft and the European Union in Burkina Faso in 2010.

Overcoming a 25-year barrier to agricultural development: The MCC compact supported investments to increase agricultural productivity on three islands through improved water management and soil conservation, strengthened agribusiness development, and increased access to credit. However, Santo Antão, one of the most agriculturally productive islands, was subject to an inter-island embargo due to a millipede pest that plagued the island’s crops for 25 years. This embargo hindered access to markets and earnings for Santo Antão’s 7,000 farmers, so the potential impact of the activities could only be realized if the inter-island embargo on goods was lifted. Changing the conditions to remove this policy required MCC-supported research on new ways to control the pest, construction of an inspection center to certify that the products leaving the island are pest-free, training of inspectors in Santo Antão and the islands that receive the products, and a post-harvest center with cold storage capacity to ensure freshness and quality of farmers’ goods. Such long-standing barriers can be hard to overcome, and both the agricultural activities and the inspection and post-harvest center experienced program delays. The opening of the center, the official lifting of the embargo in October 2010, and the 13 water reservoirs that have delivered 240,000 cubic meters of water for irrigation, poised Santo Antão’s farmers for positive change. After the first two years of operation, the center is expected to inspect, cold store, and export 3,500 metric tons of produce. After a 25 year wait, that will provide a welcome boost to the incomes of up to half of Santo Antão’s farmers.

Increased access to credit: The MCC compact addressed two important structural issues that impact access to credit—incorporating microfinance institutions (MFIs) into the formal banking sector and enabling borrowers to build credit histories that can be shared across financial institutions. In September 2007, the cabinet of the Government of Cape Verde approved a microfinance law that regulates the institutions and authorizes MFIs to collect savings. This legal reform creates a more sustainable and accessible formal financial system, and it was a condition to begin technical assistance to MFIs— a key activity of the compact-funded Private Sector Development project. The MCC compact is also supporting the creation of the first private credit bureau in Cape Verde through the Partnership to Mobilize Investment sub-activity in the Private Sector Development project. After completing a full legal and technical review of the Cape Verdean system, facilitated by the International Finance Corporation (IFC), international credit bureau service providers submitted technical and investment proposals to form the credit bureau with local investors. In anticipation of this private credit reporting system, the Banco de Cabo Verde (Central Bank) adjusted its policies, discontinuing its own credit information system and becoming the regulator of the new credit bureau. Once launched, the credit bureau will strengthen the credit culture by extending better credit terms to borrowers with good credit. It will also allow creditors to distinguish between strong and weak borrowers,

contributing to an improved private investment environment.

Political will produces positive reform: When a representative from a donor agency asked how the MCC partnership was able to support and leverage so much reform, Cape Verde gave credit to three aspects of the partnership—the incentives created by MCC’s eligibility selection process; MCC’s investments to help make Cape Verde’s reforms operational; and the structure of the MCA Board of Directors that oversaw the compact program. As required by MCC, the MCA Board was composed of government officials and members from both the private sector and civil society. This mix brought the creativity and the leverage to pass key reforms. In all this, however, the essential ingredient was the Government of Cape Verde’s long-standing political will in support of the reform agenda, its commitment to transparency, and its interest in improving government effectiveness.