

Report No. 13126-CV

Poverty in Cape Verde

A Summary Assessment and a Strategy for its Alleviation

June 30, 1994

Africa Region
Sahel Department
Country Operations Division

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CURRENCY EQUIVALENTS

Currency Unit: Cape Verdean Escudo (CV Esc.)
US\$ 1.00 = CV Esc. 85.0
CV Esc. 1 million = US\$11,765
(March 1994)

SYSTEM OF WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

EBC	Secondary Cycle Basic Education
EBE	Elementary Basic Education
FAIMO	<i>Frentes de Alta Intensidade de Mão de Obra</i> (High Labor Intensive Public Works Project)
IDA	International Development Association
INC	<i>Instituto Nacional da Cooperativo</i> (National Cooperative Institute)
MEDC	Minors in Especially Difficult Circumstances
NEAP	National Environmental Action Plan
ODA	Official Development Assistance
PND	<i>Plano Nacional de Desenvolvimento</i> (National Development Plan)
PSRCB	Public Sector Reform and Capacity Building project
STD	Sexually Transmitted Disease

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Map IBRD 15079R1

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PREFACE

One of the central challenges facing the government of Cape Verde is to address poverty issues. As the first step, the government, with assistance from the World Bank and in a collaborative venture, has produced the Poverty Assessment for Cape Verde (Cabo Verde: Estudo Sobre a Pobreza). This exhaustive document, in Portuguese, is the first of its nature produced on this subject in Cape Verde. The next step for the government will be to sharpen a coherent long-term strategy and to define and implement an action plan to alleviate poverty.

Plans for the preparation of the Poverty Assessment were begun in the fall of 1992 when the government presented to the November 1992 Donor's Round Table Meeting an outline on possible approaches to better understand and tackle poverty issues in Cape Verde in a comprehensive manner. Comments, suggestions, and support gained from donors encouraged the government to expand its efforts at elaborating a poverty reduction strategy and action plan. A first and major step in this direction was thus taken with the preparation of the Poverty Assessment. The Poverty Assessment will be presented to the donor community at a Thematic Round Table Meeting to be held in Praia in September 1994.

The following report, *Poverty in Cape Verde: A Summary Assessment and a Strategy for its Alleviation* is drawn from the government's Poverty Assessment. It emphasizes selected areas and ways in which IDA intends to support the government's strategy. The report is structured as follows: Part 1 provides an overview of the economic and social context and of key elements of poverty in Cape Verde. Part 2 highlights the poverty profile, and Part 3 summarizes the strategy for poverty reduction including a summary of the Bank's country assistance strategy for Cape Verde.

The report was prepared by Lynn Brown (consultant) under the supervision of Emmanuel Mbi (Principal Country Officer) and Gradimir Radisic (Country Economist). Katherine Marshall is the Department Director, Francois Laporte, the Lead Economist and Jean-Louis Sarbib, the managing Division Chief. The report was discussed and agreed with the government in June 1994.

SOCIAL INDICATORS OF DEVELOPMENT - CAPE VERDE

Area (sq km)	4,036	Arable land (sq km)	426
Density (per sq km)	94.3	Cultivated arable land	92.0%

Population	Unit	
Population (1992)	(thousand persons)	389
of which less than 14 years old	(% of pop.)	44.8
of which older than 65 years	(% of pop.)	5.8
Growth rate (1980-92)	(annual %)	2.70
Growth rate adj. for emigration (1980-92)		1.53
of which urban	(annual %)	3.95
of which rural	(annual %)	0.15
Crude birth rate (1988)	(per 1,000)	36.4
Crude death rate (1988)	(per 1,000)	0.2
Infant mortality (1992)	(per 1,000 live births)	40.0
less than 1 year old	(per 1,000 live births)	35.5
less than 5 year old	(per 1,000 live births)	50.1
Life expectancy at birth (1987-92)	(years)	68.0
Fertility rate per women (1992)	(births per women age 15 to 49)	4.3
Active Population	(% of labor force)	65.2
Unemployment rate	(% of labor force)	25.0

Health (1992)	Unit	
Pop. per physician	(persons)	4,270
Pop. per nurse	(persons)	1,642
Pop. per hospital bed	(persons)	633
Infant vaccination coverage	(percent)	84.2
Assisted births	(% of cases)	50.0

Access to Safe Water and Electricity (1992)	%	
Safe water	(% of pop)	52.0
urban households	(% of pop)	83.0
rural households	(% of pop)	34.0
Households with bathrooms	(% of pop)	24.0
Households with external disposal	(% of pop)	15.9
Households with electricity	(% of pop)	25.8

Poverty Line (1988/89)	Unit	
Average annual expenditure per person	(C.V. Escudos)	38000
Upper poverty line	(C.V. Escudos)	26000
Lower poverty line	(C.V. Escudos)	18000
Poor as % of population		30.0
in rural areas		46.1
in urban areas		17.2
Ultra poor as % of population		14.0
in rural areas		22.5
in urban areas		7.4

Education (1992)	
Adult Literacy rate (over the age of 18)	52
Primary school enrollment rate	Universal
Repetition rates	
EBE	20
EBC	19
Dropout rates	
EBE	20
EBC	33
Student/Teacher Ratio	
EBE	30
EBC	29
Secondary	37

COUNTRY DATA - CAPE VERDE

Gross National Product per capita: 850 (in 1992 US\$)							
	US\$Miln		Annual Growth Rate of GDP (constant 1980 Prices)				
	1992 Prices	% of GDP	1986-90	1988	1989	1990	1991
	GDP at market prices	356.0	100.0	5.5	7.6	5.6	2.2
Gross domestic investment	121.6	34.2	-9.3	-9.2	-10.7	3.7	-5.9
Gross foreign savings	192.4	54.0	-5.4	-4.9	-2.1	7.5	-15.2
Current account balance (excl. grants)	-66.4	-18.7	-14.9	9.6	-24.2	-15.6	0.2
Exports of GNPS	57.9	16.3	3.3	-13.9	32.8	-13.2	-2.8
Imports of GNPS	204.4	57.4	-2.3	-8.4	10.6	1.0	-10.4

Output, Employment, and Productivity (1990)						
	Value Added		Labor Force		Value Added per worker per month	
	US\$MILN	% of Total	Number	% of Total	US\$	% of Avg.
	Primary sector	36.9	13.5	24,609	30.4	125
Secondary sector	49.8	18.2	23,466	29.0	177	62.8
of which construction	27.9	10.2	17,890	22.1	130	46.2
Tertiary sector	164.6	60.1	32,981	40.7	416	147.7
of which social service and adm.	59.8	21.8	15,508	19.1	321	114.1
Total/average	273.8	100.0	81,056	100.0	281	100.0

Government Finance				
	CVE\$ MILN	% of GDP		
	1992	1986	1990	1992
Current receipts	4,850.1	21.9	19.8	20.7
Current expenditures	4,603.8	21.5	20.1	19.6
Government savings	246.3	0.4	-0.2	1.0
Capital expenditures	6,817.2	39.5	14.6	29.0

Money, Credit, and Prices	1986	1988	1990	1991	1992
	(millions of Cape Verde Escudos)				
Money supply (money and quasi-money)	7,364	9,371	12,778	14,762	16,792
Bank credit to public sector	2,161	2,318	3,940	4,459	5,640
Bank credit to private sector	2,819	4,074	5,623	6,743	7,185
Money as percent of GDP	44.4	35.9	33.8	33.0	40.3
Consumer price index (1983 = 100)	129.8	145.3	174.3	187.5	200.6
	(annual percentage changes)				
Consumer price index	10.5	4.4	9.8	7.6	7.0
Bank credit to public sector	22.5	7.8	39.6	13.2	26.5
Bank credit to private sector	18.2	16.1	13.6	19.9	6.5

COUNTRY DATA - CAPE VERDE

Rate of Exchange (period average)	1986	1988	1989	1990	1991	1992
U.S. \$ per escudo	80.1	72.1	77.9	70.0	71.4	65.9
Escudo per U.S. \$	0.012	0.014	0.013	0.014	0.014	0.020

Balance of Payments, 1988-92	(millions of US\$)				
	1988	1989	1990	1991	1992
Exports of GNFS	43.0	58.9	65.0	52.1	57.9
Imports of GNFS	-120.3	-134.0	-150.4	-149.9	-204.4
Resource gap (deficit = -)	-77.3	-75.1	-85.4	-97.9	-146.6
Interest payments	-3.4	-3.1	-3.1	-3.0	-3.4
Other factor payments (net)	2.8	4.6	4.2	3.9	4.6
Net private transfers	39.5	43.3	52.1	57.8	72.1
Net official transfers	38.7	27.6	25.5	31.3	69.6
Balance on current account					
excl. net official transfers	-38.3	-30.3	-26.0	-33.1	-66.4
incl. net official transfers	0.4	-2.7	-0.5	-1.8	3.2
Direct private foreign investment	0.4	-0.6	-0.1	1.2	-0.8
Net MLT borrowing	-2.2	1.7	5.3	0.2	6.3
Disbursements	4.9	9.9	12.0	8.8	18.7
Amortization	-7.2	-8.2	-6.7	-8.6	-12.4
Errors and omissions	2.4	-5.0	-8.0	-4.1	7.6
Overall balance	1.0	-9.5	-3.2	-5.0	16.1
Financing	-1.0	9.5	3.2	5.0	-16.1
Increase in reserves (-)	-8.1	6.4	5.2	9.7	-15.4
Gross reserves (end period)	82.8	70.1	72.5	62.7	84.0
Gross reserves in months of MGNFS	9.4	7.7	6.4	5.1	5.4

Public and Publicly Guaranteed External Debt		
	end-1991	
	US\$Miln	% of GDP
Disbursed	158.3	53
Undisbursed	106.4	36
Total outstanding including undisbursed	264.7	89
IBRD/IDA Lending (June 28, 1994)		
	IDA US \$ Miln	IBRD
Outstanding and disbursed	42.2	
Undisbursed	23.5	

Debt Service Ratio	(percent)	
	1988-92	1992
Public and Publicly Guaranteed		
% of XGNFS and private transfers	11.6	9.5
% of XGNFS	27	19

POVERTY IN CAPE VERDE: A SUMMARY ASSESSMENT AND A STRATEGY FOR ITS ALLEVIATION

1. Social and Economic Situation

Background

1. Cape Verde consists of ten islands located 650 kilometers off the coast of Senegal, with a land area of about 4,036 square kilometers. Only nine of the islands are populated, with a half of the resident population of about 389,000 (in 1992) living on the island of Santiago, mainly in Praia, the capital city. Only one tenth of the country's land base is arable, which implies a high population density (808 persons) per square kilometer of arable land. The Sahelian climate with prolonged periods of drought, a marked shortage of fresh water supplies in terms of rivers and springs, and a high natural population growth rate of 2.7 percent combine to produce intolerable pressure on the country's fragile agricultural base. Even in good rain years the country can only produce 50 to 60 percent of its total food requirements.
2. The poor natural resource base, particularly with respect to fresh water, and the absence of a mineral resource base have led to high rates of emigration, driven even higher in times of drought. As a result, twice as many Cape Verdeans live abroad as on the islands.

Economic and Social Context

3. *Development constraints.* Cape Verde's development is hindered by poor natural resources, prolonged cycles of drought, and small domestic markets. Moreover, the scattered nature of the islands gives rise to costly communications. After independence in 1975, the development of a virtually nonexistent economy into a modern one was a formidable challenge for the government which chose to perform the role of an entrepreneur in agriculture, industry and services. Reliance on the private sector was not actively pursued. The government sought official development assistance (ODA) and allocated it to the development of public enterprises in key sectors. The strategy of creating public enterprises to produce for the limited domestic market adversely affected the efficiency and competitiveness of the national economy. This option deterred both foreign and private investment for years.
4. *Structure of the economy.* Cape Verde's economy has been traditionally based on services. The paucity of natural resources, excepting the ocean and an extensive coastline, means that the service sector rather than the agricultural has been the mainstay of the economy. The service sector accounted for 60 percent of GDP and in the 1980s employed about 41 percent of the active population. Commerce, transport, and public services accounted for 47 percent of value added. Tourism, however, is still in too nascent a form to contribute significantly to value added, job creation and export earnings. Construction and industrial production consisting largely of light manufacturing, fish processing and artisanal production, accounted for about 11.5 and 6.5 percent of the total value added respectively in the 1980s. The primary sector contributed only about 13 percent of GDP because of low agricultural potential and inefficient exploitation of reasonably well endowed fishery resources (3 percent of value added) by a public sector dominated industry. The primary sector employed about 30 percent of the active population, of which agriculture employed about 24 percent.
5. *External sector.* Foreign trade is characterized by modest merchandise export earnings, a high share of services in total exports, and high merchandise imports. The merchandise export base is very small in value and diversity of exportables. Export earnings come predominantly from exports of fish and bananas. Non traditional exports have marginal importance. Traditionally Cape Verde's most substantial export earnings come from non-factor services rendered to international maritime transport, and more recently from international air traffic services. Maritime services are provided through Mindelo

port and air services through Sal international airport. The economy is highly dependent on imports of food, capital and intermediary goods.

6. *Emigration* is the principal pressure release valve on the Cape Verdean economy. Emigration is also seen as a key means of escape from poverty. Many say the Cape Verdean is born to emigrate (see Box 1). About 45 percent of working age São Vicente residents would like to leave the country. At the same time remittances of emigrants play an important role in the economy and poverty reduction. The regular flow of remittances is facilitated by confidence in macro-economic management and adequate communication and transport infrastructure. Remittances averaged nearly 12% of GDP between 1989 and 1992 (Table 1).

Table 1: Emigrant Remittances

	Amount mill. of escudos	MillUS \$	% GDP
1987	2,012	28	11
1988	2,275	32	11
1989	2,794.4	36	11.8
1990	3,135.9	44	12
1991	3,372	47	11.6
1992	3,649	54	11.4

7. Between 60 and 70 percent of Cape Verde families receive money from abroad. A 1989 study indicated that, on average, families receiving remittances received 42,893 CV Esc. per person per year. This exceeds annual average expenditure per person in Cape Verde of C.V. Esc. 38,000 and is more than sufficient to bring them above the poverty line. About 50 percent of transfers are investments in durable goods, with 80 percent going to build homes. About 35 percent of transfers are used to meet current household requirements. In particular, remittances are the only source of income for the many households found by surveys to have no means of survival or income source. Major steps have been undertaken recently to encourage investment by offering better incentives. With further and continued improvement in the business environment, increasing shares of emigrant transfers could be channeled into business activities.

Economic Reform and Social Sector Achievements

8. The inward looking policies of the late 70s and early 80s proved unsustainable in terms of good economic performance. Economic growth fell in 1989 to 3.7 percent and declined further in 1990-92 due to: (i) declines in public investment as a result of completion of some major projects and postponement or cancellation of new ones; (ii) decrease in demand for international maritime and air services; (iii) poor agricultural outputs as a result of prolonged drought; and (iv) deteriorating performance of the public enterprise sector. In 1993, economic growth began to recover because of higher public investment in economic and social infrastructure and some private sector investment, particularly foreign, in light manufacturing and fisheries. Preliminary figures indicate a growth of about 4 percent.

9. To address economic and financial imbalances, in 1988, the post independence government adopted an outward-oriented strategy intended to privatize public enterprises and to liberalize trade. However, parallel political reforms allowed for multi-party democracy; and the government, fearing that economic reform would increase the already high unemployment rates, failed to fully implement the process. Deteriorating economic performance combined with very high unemployment rates, high urban rural differentials in household expenditures, and producer and consumer prices led to declining support

for the government. A new government took office in April 1991.

10. Since 1991, the government, has been steadily reducing its central role in the economy and has set as major priorities the eradication of poverty and major reductions in unemployment. The absence of a natural or mineral resource base, combined with surplus labor dictates a service oriented labor intensive development strategy. New legislation governing foreign investment, liberalization of domestic and foreign trade and prices, and privatization, aims to channel the economy towards activities such as export processing zones, tourism, offshore banking services and intermediate labor intensive industries as well as a recovery of air and maritime services. The government, using multi and bilateral development assistance, is redefining its role as a provider of modern and efficient services in infrastructure such as ports, warehouses and telecommunications.

11. *Social indicators.* Compared with other countries in Sub-Saharan Africa, social indicators in Cape Verde are impressive in terms of coverage. The available social indicators for 1990-1992 show: universal primary school enrollment; pupil-teacher ratio - 32, fertility rate - 4.3, infant mortality - 40 per thousand, life expectancy - 68 years; adult literacy rate - 52 percent. These remarkable achievements result from concerted efforts and substantial resources allocated to social services by government, various national associations of women, youth and farmers, NGOs, and donors. Good results notwithstanding, some problems require further attention: high natural population growth, not yet mitigated by broadly accepted family planning programs, a shortage of trained teachers and health workers, a lack of essential supplies, less than adequate primary school curricula, inadequate infrastructure, and affordability of services. Improving the quality of social services and the efficiency of resource use is now essential for getting meaningful results in poverty alleviation. The government is committed to continue allocating significant budget resources to the social sectors, about 30 percent in 1992 and 1993, but it will now devote increased attention to quality and efficiency issues.

The Nature of Poverty and Social Safety Nets

12. Poverty in Cape Verde is structural in nature, as opposed to being caused by temporary shocks. In the past, high mortality rates, famines and emigration acted to balance the population with the domestic resource base. Now, with falling mortality rates but stable fertility rates, and declining opportunities for emigration due to restrictions in destination countries, the pressure on the domestic resource base is increasing.

Box 1: Waiting For the Mail

The following text illustrates the manner in which people have traditionally adjusted to Cape Verde's difficult situation. It is indicative of attitudes that still prevail, of the need to modify mindsets and of the obvious difficulties the Government faces in so doing.

"There's no such thing as the right to work! That notion was surely invented by the Nordic peoples, filled with cold and lacking sun.

What there is the right to live well. If we must work in order to do so, then we'll have to make the sacrifice....

I had twelve sons and daughters. That was my main occupation in life, to which I gave my every effort. The knowledge and skill gained in life and inherited from my parents were applied as well as I could and knew how.

I even had to work! That is, in order to have my children and see them grow, I had to do a few unimportant things like working, getting money, dealing in business...

But they grew up, left home and followed their father's footsteps, and tried to do well in life.

As the cradle was good, so was the result.

Today they are doing fine, and of course they help the one who gave them life and the knowledge of how to live in the world.

My main occupation was an excellent undertaking, whose profits ranked with the best.

And it was willing and with great love, which is one of the most important things.

Today I wait for the mail...

Family Planning -- what a difficult term..."

Prais, author unknown.

13. The poor natural resource base limits opportunities for agriculture, and the industrial sector is still in infancy. Unemployment levels are high at 25 percent with much of the available employment concentrated in the service sector and a still oversized public sector. Low agricultural potential results in high rural urban migration as well as emigration. Rural urban migration to the two main cities, Praia and Mindelo, has precipitated unregulated construction, saturation of existing water and sanitation services and excessive pressure on the existing social service infrastructure.

14. Traditional safety nets, based on extended family situations and social solidarity, are breaking down in Cape Verde especially in large urban centers (Praia and Mindelo), largely due to high population growth, declining incomes and modern ways of life. Institutional social safety nets, however, are extensive with expenditure amounting to 600 million C.V. Esc. (US\$7.8 million) annually. Conventional welfare assistance programs for the vulnerable, the elderly, disabled, etc., and school feeding programs account for the majority of expenditure, some 570 million C.V. Esc. A further important program is that of *Frentes de Alta Intensidade de Mao de Obra* (FAIMOs), labor intensive public works projects. These are important programs with dual roles - asset creation and welfare protection. Programs are used to provide infrastructure such as roads, schools, hospitals, and to protect the environment through reforestation. The employment created provides welfare assistance for some of Cape Verde's poor people.

15. Examination of FAIMOs, work programs targeted to the poor, showed that wages increased by 44 percent between 1989 and 1993. Real wages for the lowest echelon of government workers, an influence on nationally legislated minimum wages, also rose. Therefore, it would appear that the situation of the poor who are able to work has improved. Between 1991 and 1993 the numbers of people receiving government assistance increased, at approximately 9.8 percent, reflecting attempts to reduce rising poverty.

16. The following section outlines the characteristics of poverty both in terms of income and the quality of life for Cape Verdeans.

2. Poverty Profile

Poverty with an Income Perspective

17. Poverty lines, used in the government's poverty analysis, were established using data from the 1988/89 Household Survey. This covered 6 of the 9 inhabited islands, excluding Maio, Boa Vista and Sal. Annual average expenditure per person in Cape Verde is C.V. Esc. 38,000 (approx US\$494). The wage of an unskilled worker in FAIMO (high labor intensity public works project) is approximately C.V. Esc. 9,000 (approx US\$117) per year. Using a relative concept of poverty, the upper poverty line was set at C.V. Esc. 26,000 (approx US\$338), or two thirds the average annual per capita expenditure, and the lower poverty line, defining the ultra poor, at C.V. Esc. 18,000 (approx US\$234), twice the annual wage of a FAIMO worker.

18. At the national level about 14 percent of the population are classified *ultra poor* and about 30 percent *poor* based on the above poverty lines. Poverty in rural areas exceeds national averages with 23 percent ultra poor and 46 percent poor. Some 70 percent of the poor, and 85 percent of the ultra poor are rural residents.

19. Cape Verde has historically been divided into the Windward Isles (Santo Antão, São Vicente, São Nicolau, Sal) and the Leeward Isles (Maio, Boa Vista, Santiago, Brava, Fogo). São Vicente is largely urbanized, Santiago, the main island has a fairly even rural urban split, and the other islands are largely rural. The rural islands of Santo Antão and Brava show rates of ultra poverty more than double the national average at 28 and 36 percent respectively. However, the low population share of Brava means that only 6 percent of the country's ultra poor are resident on the island, whilst for Santo Antão this rises to 22 percent. São Nicolau also shows higher levels of ultra poverty than average at 23 percent but this accounts for only 5 percent of all the ultra poor. Whilst the incidence of ultra poverty at 12 percent is relatively low on Santiago the large population share means that 42 percent of Cape Verde's ultra poor live on this island. The patterns are little different when the upper poverty line is used. The distribution of poverty across islands adds further weight to poverty in Cape Verde being a predominantly rural phenomena. The results are summarized in Table 2.

Table 2: Poverty Across Islands

	% Pop. Poor	% pop. ultra poor	Contrib to Pov.	Contrib to ult. Pov.	% of Total Pop *
Total	30.2	14.1	100.0	100.0	100.0
Urban	17.2	7.4	28.5	13.9	50.0
Semi-Urban	19.4	6.1	3.5	1.0	5.5
Rural	46.1	22.5	67.9	85.1	44.4
S. Antao	50.1	28.0	18.1	21.6	12.9
S. Vicente	28.6	12.9	22.0	21.2	15.3
S. Nicolau	43.5	23.4	4.6	5.4	4.04
Santiago	26.1	11.5	44.1	41.5	51.3
Fogo	22.8	6.1	7.1	4.4	9.9
Brava	53.8	36.2	4.1	5.9	2.1

* Based on the 1990 Census.

20. The high unemployment rate in Cape Verde (25 percent) is a key correlate of poverty: 44 percent of households whose head is unemployed are poor. However, 58 percent of the poor live in households where the head is employed and just 6 percent in households where the head is unemployed. When both the sex and employment status of a household head are considered, 34 percent of households headed by a female performing a "home" role ("dona de casa") are poor (see Table 3).¹ About 25 percent of all the poor live in households with a "dona de casa." Use of the lower poverty line raises this figure to 37 percent.

21. Poverty is highest amongst households with an illiterate head, with an incidence of 44 percent. This falls by half, to 22 percent, for those with primary education. Households with an illiterate head make up 67 and 85 percent respectively of the poor and ultra poor. Amongst the poor with illiterate heads 72 percent are resident in rural areas. Amongst the ultra poor with illiterate heads, 60 percent are in female headed households. Both the depth and severity of poverty is greater for female than male headed households. Cape Verde has a relatively high proportion of female headed households, some 41 percent of households. Of these 32 percent are poor compared to 29 percent of male headed households. The differential is greater for ultra poverty with 17 percent and 12 percent being the respective figures.

1. A "dona de casa" literally means a housewife or a homemaker. Her principal activity is being a homemaker and one cannot truly say that she is employed in other activities, the way we understand employment. However, most of them are involved in informal sector activities. For example, some may have small stands in front of the house selling articles like cigarettes, some may occasionally take seasonal product to sell in the market, etc.

22. This section suggests, based on the poverty analysis, that policies and interventions should be targeted on the focus groups:

- (a) Rural in preference to urban areas, with the caveat that if more were known about the evolution of poverty in Mindelo and Praia from 1989 to 1993 this recommendation may be modified.
- (b) The groups of islands in priority order should be 1) Santo Antão and Santiago, 2) Brava, São Nicolau, Boa Vista, and Maio, 3) São Vicente, Sal, and Fogo.
- (c) Households with an illiterate head.
- (d) Households with an unemployed head (those who cannot find employment) or non-working female head (those who chose not to work).
- (e) Households which are female headed who are unemployed, inactive (retired, ill and handicapped), or are performing a "home" role.

Table 3: Patterns of Poverty (Gender, Employment, Education)

Household head	% Pop. Poor	% pop. ultra poor	Contrib to Pov.	Contrib to ult. Pov.
Male	28.9	12.1	58.9	44.2
Female	32.1	17.2	41.1	55.8
Employed	28.0	12.6	57.9	51.5
Unemployed	43.7	18.8	6.1	5.6
Inactive *	33.2	11.5	12.2	6.3
Fem. in home	34.1	19.7	25.1	36.6
Illiterate	44.8	22.7	66.8	85.6
Primary Sch	21.5	8.0	30.6	13.9
Higher Sch	6.4	3.0	2.5	0.5

*Defined as retired, ill, handicapped, etc.

Food Security

23. The direct consequence of poor agricultural conditions, mainly related to inadequate rainfall, is that *food production* meets a scant 10 - 15 percent of requirements in an average year. About 98 percent of the rural population live on farms of less than 4 hectares, with 78 percent on farms of less than 2 hectares. Therefore, the vast majority of farmers are barely capable of producing sufficient food for their own requirements particularly when low and uncertain rainfall is taken into account. Even in a good year production of maize, the main cereal crop, can meet only 50 to 60 percent of requirements.

24. For these reasons, *food aid* has constituted close to 70 percent of total imported food products. This aid is vital not just to guarantee food security, but its sale permits the financing of development projects. Also, food aid stabilizes the balance of payments and acts as an element of social security and poverty reduction through the creation of 24,000 jobs per year (mainly through FAIMOs) and stabilization of food staple prices. Although an important way of dealing with poverty, the management of food aid programs requires major improvements.

25. Anthropometric studies in 1983, 1985, and 1990, indicate that during the 1980s the incidence of *malnutrition*, about 20 percent as measured by weight for age, changed little. However, the incidence of chronic malnutrition (stunting) has increased, to about 31 percent of children one year old, in 1991 from about 21 percent in 1983. The explanation for this change in chronic malnutrition appears to lie in slowly changing eating habits, infectious diseases and prolonged shortages of food. Conversely, the

incidence of wasting amongst 1 year olds has declined from 8 percent in 1983 to 3 percent in 1990.

26. The lack of a national *nutrition policy* means that interventions and actions at the sectoral level are neither integrated or coordinated, thus diminishing their effectiveness.

Social Services and Indicators of Poverty

27. *Public spending on the social sectors* rose at an average annual rate of 15 percent between 1988 and 1993. The share in current government spending for the social sectors rose from 28.6 percent to 35 percent in the same period. Health and education represented 9 and 18 percent of public spending respectively in the last three years. Together, these two sectors represent about 78 percent of social sector spending, a mark of government commitment to its people. There are some concerns, however, in the allocation of both health and education budgets, given that over 84 percent of both go to salaries (See Table 4). Government's own resources for capital investment expenditure are extremely low which in many ways is compensated for by donor investment aid in these areas. Any decline in ODA would give cause for concern given population growth rates which result in increasing demand for social services.

28. The *health services* have fairly complete geographic coverage, with 2 central hospitals (Praia and Mindelo), 3 regional hospitals, 15 health centers, 22 health dispensaries and 60 community health units affording good access for the majority of the population. Nearly 81 percent of the population are less than an hour walk from a basic service facility, and close to 50 percent less than an hour walk from a basic service facility with medical care. Basic health coverage is only considered inadequate in Praia and Mindelo despite the existence of two central hospitals. Care is also inadequate for specialized services resulting in expensive evacuation to other countries.

29. Whilst at the national level, the physician/inhabitant ratio is 1/4,270 this masks an inadequate distribution. Over 72 percent of physicians are located in Praia and Mindelo resulting in a ratio of 1 per 10,000 inhabitants elsewhere. Generally speaking the health services are regarded as inefficient and the quality of services poor.

30. Plans to improve the quality of health services, along with a forecast 25 percent increase in demand in 1995, led to abandonment of the principle of free health services. In December 1993, users fees were introduced. To protect the poor and to maintain good health indicators, exemptions from payment are made for children under 2, pregnant women, FAIMO workers, the unemployed and those without resources, and the chronically sick and carriers of diseases which are targets of national health

Box 2: Food and the Poor

The major foods consumed by the poor include maize, rice, dry beans, oil, sugar, salt and laurel leaves. Prepared foods include catchupa, a national dish based on maize kernels and beans; various preparations based on ground or pounded maize; arroz de pinto, or rice with beans mixed in; and plain rice with a bit of fat.

On Santo Antão island, when times are hard, a day's food consists of nothing more than catchupa água e sal, a catchupa prepared solely from maize, water and salt. Prepared in the morning, the "soup" or liquid portion, is eaten at midday and the cooked maize kernels are eaten in the evening.

On Fogo island, when food becomes scarce, people eat a maize porridge, moist at first but drier as the water supply runs low. They say drier food better fools hunger.

Lack of water means people get used to drinking very little with the exception of a little coffee often to fool a hungry stomach. Breakfast for the poor consists of several beverages, which may correspond to increasing food shortages: toasted and ground coffee bean husks, toasted and ground pigeon peas, toasted and ground maize kernels, and infusions of herbs and leaves.

Everywhere one hears it said that "fortunately there's a bit of sugar to mix into the water."

Caritas Caboverdiana, 1992

Report

programs. However, the broad interpretation of exemption categories has resulted in low cost recovery.

31. To improve both the efficiency and quality of health service provision, the government has recently made hospitals financially and administratively independent. Approximately 12 percent of the health budget is allocated to the two central hospitals in Mindelo and Praia.

Table 4: Government Current Expenditures 1993

	Staff	Goods/ Services	Capital Spending
Education	84.3	5.4	1.3
Health	84.7	13.9	1.2
Tot. Pub. Spending	53.0	7.0	10.5

32. *Infant mortality rates* in Cape Verde declined from 105 per thousand in 1971-75 to just 36 per thousand in 1991. This is low by Sub-Saharan African standards. Infectious and parasitic diseases are the leading causes of infant mortality and about 6 percent of deaths are still attributable to nutritional deficiencies.

33. The general *mortality rate* stands at 6.5 per thousand, with the same main cause as infant mortality. Diarrheic diseases are the main cause of 84 percent of illness in 1992, followed by sexually transmitted diseases (7 percent), and malnutrition (3.1 percent).

34. *Seroprevalence levels with respect to HIV* are relatively low. Since 1989, an average of 10 to 15 AIDS cases are registered every year, with a total of 65 cases reported as of December 1992. Although published data are not available on most common sexually transmitted diseases (STDs), according to health authorities, prevalence is estimated to be relatively low. Various HIV seroprevalence surveys were conducted in April 1986 (Praia and Sal) and February 1987 (Praia, Fogo, and Sao Vicente), including a nation survey among the general population (over 5,000 subjects on the 9 inhabited islands) in 1988-1989. This last survey showed an overall 0.47 percent HIV prevalence, with a clear predominance of HIV-2 infection. Data routinely collected through a sentinel surveillance system among attendants at prenatal clinics indicate a relatively low level of infection, varying between 1.0 and 2.5% in Praia in 1992, and less than 1.0 percent in Mindelo. In Praia, the prevalence among 146 STD patients varied between 2.0 and 7.5 percent for the same year. Given the incidence of sexually transmitted diseases and high emigration rates, Cape Verde should not be complacent.

35. It is believed that the control of STD/HIV transmission in recent years has been relatively successful, with particular emphasis to the IEC component of the NAP, and that both STD/AIDS programs are well integrated. An AF5PH mission appraised the respective strengths of the epidemiological surveillance component, as well as the laboratory capabilities and clinical management in July 1993.

36. *Education*, particularly primary education, is a complementary factor in achieving good health and nutritional status. Public spending on education has more than doubled between 1988 and 1993, growing at an average annual rate of 17 percent. About 85 percent of education spending is allocated to the formal education system with 48 percent on Elementary Basic Education (EBE) and 23.5 percent on Second Cycle Basic Education (EBC). Resources allocated to primary education represent 71.5 percent of all resources to the sector, reflecting the governments goal of universal primary education for all.

37. It is estimated that 26.5 percent of the active work force has partly completed primary education, 51 percent has completed only primary, a further 3.5 percent graduated from adult literacy programs. About 6 percent completed the lower secondary education cycle (Grade 9), only 2 percent completed the upper secondary cycle (Grade 12) and a mere 1 percent have a tertiary degree. Primary education is, at present, split into two cycles, EBE - Grades 1 through 4, and EBC - Grades 5 and 6. In 1992, some 56,900 students were enrolled in 346 EBE schools and some 16,600 in EBC schools. Table 5 shows the major improvements that have been made, particularly in basic primary education

(EBE). Progress is not as swift for the second cycle of primary education (EBC), years 5 and 6, and thus the poor have less access to this cycle because of: the limited number of upper primary schools, the requirement of qualification exams, the high indirect costs of schooling (uniforms, text books, and school supplies) and the distance to the few schools which adds to transportation cost. The proposed introduction of a unified 6 year primary school system should improve access by the poor to the later years of primary education by increasing number of schools, introducing automatic promotions to the next grade, improving the distribution system of school supplies and the school feeding program.

38. The distribution of qualified teachers and supplies of textbooks and teaching materials also raise cause for concern. Praia and São Vicente take about 70 percent of qualified teachers in EBE. In the EBC cycle the municipalities of Boa Vista, Brava, Sal, Paul, and Porto Novo do not have a single qualified teacher. The retail system is inadequate to supply all children with books, a particular problem in rural areas where many do not have access to book shops or can not afford to purchase text books.

39. The other critical factors for a healthy population are *safe water* and *adequate sanitation*. Current public expenditure on water, sanitation and housing was low, between 1988 and 1990, representing just 1.5 percent combined of total current social sector expenditure.

40. *Access to fresh and safe water* in Cape Verde is a major problem, and it is highly correlated with poverty. The poor face rationing in terms of both price and quantity. While 52 percent of the population have access to a safe water supply, only 34 percent of the rural population enjoys this advantage. The rural population of Santiago has the worst access--only 17 percent. The poor are less likely to be connected to house distribution systems, and they face long walks to public distribution points.

41. Consumption of water is highly unequal, reflecting its precious nature. People consume just 13 percent of available water. The major water user is irrigation, using 84 percent of available water. The rural water consumption rate is just 12.5 liters per day. The situation is a little better in Praia and Mindelo which together account for 73 percent of the urban population. About 58 percent in Mindelo and 68 percent in Praia are not connected to the house distribution system. As a result, water

Table 5: Primary Education Improvements

Education	Prim. Educ. (Yr 1-4)		Prim. Educ. (yr 5-6)	
	1980/81	1992/93	1980/81	1992/93
Net Sch. rate %	n/a	90*	11	31**
Stud/Classroom	69	57	53	62
Stud/teacher	37	30	53	30
Qual. Teacher %	11	22*	5	16*
Repeater rate %	n/a	18	n/a	19
Dropout rate %	n/a	0.46	n/a	14

* 1991/92 figures. Overall qualified teacher rate increased to 72% with end of first phase of in service academic training.

** 1988 figure.

consumption is 17.5 liters and 13.8 liters respectively. About 25 percent of the population live more than 2 km from a water distribution point. Prices for water at distribution points are considerably higher than in the house distribution system. However, irrigation water users pay less than one tenth the average price paid for safe water. In fact, water obtained through the gravity flow system is free.

42. The *sanitary waste disposal system* is a serious problem, with majority of the poor having no access to sanitation services. Just 24 percent of Cape Verdeans have access to sanitary waste systems. Virtually all rural inhabitant (about 90 percent) have no access to a waste disposal system. Rapid urban growth has contributed to a critical situation in Praia. The sewer system benefits only 2.7 percent of the population, whilst 20 percent have use of a septic system.

43. *Housing quality* for the majority of people is mediocre. The poorest households live in smaller dwellings, whilst having the largest family groupings, without sanitary facilities or electricity. The housing problem is exacerbated by rural migration resulting in the creation of "shanty" towns on the urban periphery. With the exception of some self-help construction projects little has been done to address the needs of the poor in relation to housing. The government is developing major plans for improving both water and sanitation services which will require about US\$166 million in investment up to 2025. A number of donors have expressed interest in providing the necessary financing.

44. High *population growth rates* combined with tougher immigration rules in the traditional countries of destination will add further pressure to already overstretched natural and public financial resources. While the natural population growth rate is high at 2.7 percent per year, emigration has kept real rates low: less than 1 percent in the 1970s, and with declining emigration opportunities to about 1.45 percent in the 1980s.

45. Progress in educating women will contribute to slowing population growth. The fertility rate is 7.1 for women with no education compared to 3.5 for women with secondary education. Whilst surveys reveal that most women, particularly those in conjugal union, know of contraception, their understanding is poor and their use low. A survey shows that just 12 percent of women used a modern contraceptive method, and only 25 percent of all women of child bearing age used any method of contraception.

Labor Market and Employment

46. In 1990, the Cape Verde *economically active population* (between the ages of 15 and 64) was about 110,000, of which 37.6 percent were women. The general education level of the economically active population is low with 65 percent being functionally literate or having primary education only.

47. The labor market has a fairly transient nature. *Unemployment rate* is 25 percent and only 28 percent of the work force have permanent positions. Unemployment is very high among the youth with 70 percent seeking their first job. Approximately 68 percent of the work force are employed in agriculture or fisheries. Unemployment rates vary by islands. Markedly higher rates exist on São Vicente for urban men (37 percent) and rural women (70 percent).

48. *Labor market inflexibility* is due, in part, to government regulation covering social security, paid vacation, apprenticeships, working hours and minimum wages. Despite such high and resilient unemployment, real wages in the public sector, a major employer, have recently increased on average by 6 percent. The government has focussed on the labor market's inability to generate sufficient work

and is currently focusing on its inflexibility including removing the most restrictive aspect of labor laws (e.g. part-time and fixed-term employment).

49. The *informal sector* is dynamic. It burgeoned in the 1980s in response to the rigidities of the public-sector-dominated economy, and it is now the dominant force in trading sectors such as textiles, footwear, farm and fish products, among others. Informal sector imports reached one billion C.V. Esc. (approximately US\$15 million, or about 8.5 percent of total merchandise imports) in 1992. The range of products traded by the informal sector extends to household appliances and audiovisual equipment. The informal sector remains negligible in production activities given the deficit of raw materials and the absence of skilled craftsmen. These limitations are compounded by current legislation which restricts imports valued at more than 100,000 C.V. Esc. (approx. US\$1,500) unless importers have a minimum capital stock of 5 million C.V. Esc. (approx US\$74,000). This is unfavorable to small scale production activities which depend on imports both for capital and raw materials.

50. Whilst most workers in the informal sector are self employed, with a high number of women, the earnings on the whole are low--with the exception of a small number of wholesalers. The rapid growth of the informal sector combined with its size has created some conflict with the formal sector which has been threatening to withhold tax payments unless the authorities took measures to limit informal activities. Formal sector businesses are taxed at the rate of 35 percent, whereas informal sector businesses are taxed at just 20 percent on *declared* annual sales, inclusive of a complementary tax. The tax base could be increased with appropriate monitoring and collection procedures in the informal sector.

51. Growth of the informal sector is impeded by access to credit, and new business incentives. Growth in the sector will also require an institution capable of promoting and guiding small scale activities and helping the sector formalize. The capacity of the National Cooperative Institute (INC) could be enhanced to promote small scale activities, given its previous experience rather than creating a new institution.

Cross Cutting Issues

52. *Women* constitute the majority in the Cape Verdean population (53 percent) because of emigration practices. Close to 41 percent of households are headed by women who are disproportionately represented amongst the poor. The 1988/89 Household Survey shows that female headed households have, on average, incomes 26 percent lower than those of male headed households. About 77 percent of families covered by welfare programs are headed by women. Of these women, 80 percent are illiterate, about 60 percent are single mothers and 98 percent have no employable skills. While primary school enrollments are now fairly equal by gender that has not always been the case as manifested by an illiteracy rate of 43 percent for women aged over 15 years compared to 24 percent for men.

53. While women account for 55 percent of the population in the 15-64 age bracket they represent just 37 percent of the work force. The ratio of unemployed women to men is 1.4 in São Vicente and 1.6 in Santo Antão. Given their lower academic achievements and traditional views on female employment, women occupy lower skilled jobs resulting in lower pay. Women are chiefly engaged in the primary and tertiary sectors. In the latter, women are predominantly employed as domestic servants and street vendors. About 36 percent of farms are run by women. There is some evidence that they operate the least profitable farms, representing 41 percent of dry farms but just 23 percent of irrigated farms, and 20 percent of mixed farms.

54. *Maternal and child health* care is by and large adequate in Cape Verde, with some worrying trends. There are 35 maternal and child protection centers located throughout the municipalities. The vaccination coverage rate is 84 percent for children under one year. For children under one year, there are on average 8.3 consultations per year, and 2.3 for children ranging from one to four years. The rising maternal mortality rate from 60 per one hundred thousand in 1989 to 105 in 1991 is a concern. Over 50 percent of births occur outside a health facility, rising to 75 percent in rural areas, even though an average of 4 visits to a health facility per pregnant woman are recorded. Birth rates by girls under age 18 have declined but still account for 15 percent of all births.

55. Children do not enter the education system in Cape Verde until 6 years of age. This limits the working opportunities of women, particularly single parents. About 40 percent of children in the 4 - 6 year age bracket are enrolled in kindergartens operated by the public sector, the private sector, or NGOs.

56. A recent cause of concern has been growing negative social behavior. The numbers of minors in "especially difficult circumstances" (MEDC) is increasing, and includes abandoned children, working minors, minors engaged in prostitution, and pregnant teenagers. This increase would appear to have direct poverty links, with minors likely to originate from large families, those headed by women (where children often have different fathers), those headed by an unemployed person, and those resident in the new periurban shanty towns.

57. *Environmental fragility* is another principal cause of poverty, and poverty a principal cause of environmental degradation in Cape Verde. Increasingly rare arable land is intensively cultivated. About 67 percent of cultivated land is hilly and unsuitable leading to land degradation and declining soil fertility. It is estimated that 30 tons of soil per hectare per year are lost in arid zones and 100 tons per hectare in sub humid zones.

58. Environmental protection is essential, given the lack of any other resources, a factor recognized by the government. The principal thrust of its policies has been building dikes, terraces and reforestation. The reforestation and soil protection program in Cape Verde, initiated after independence, has been a great success. Reforested areas are used as demonstration sites by international organizations to inspire similar efforts in other Sahelian countries. Approximately 20 million trees have been planted under the government's program, representing roughly 63,000 hectares percentage of land area. In 1992, a comprehensive national water and conservation policy was adopted aimed at supporting efforts to combat soil erosion, reduce water run-off and increase water reserves.

Poverty reduction is a key complementary factor to relieve pressure on a very fragile ecosystem, as evidenced by the use of firewood. A National Environmental Action Plan (NEAP) is under preparation.

59. Firewood is the *main energy source* used for preparing food by about 52 percent of families, rising to 84.5 percent in rural areas. All of the families that use firewood and refuse for cooking belong to the poorest groups. Reforestation has increased the supply of firewood; but without good resource management and continued attention, future firewood needs will not be met.

Box 3: Cooking fuels

The current trend is to more widespread use of gas for cooking. Whilst gas usage is increasing because of the difficulties associated with laying in stores of wood, its widespread use is impeded by the infrastructural cost. Camping gas stoves are becoming commonly used in rural areas, having replaced oil stoves.

While the infrastructural costs of gas may be high, the returns are also potentially high. The benefit to a fragile environment in terms of deforestation are one aspect. Collecting wood also requires heavy female time input, time that could better be used in income generation activities and childcare.

60. *Water scarcity* is attributed to very low average precipitation at just 227mm. Sal, Boa Vista and São Vicente receive less than 100mm. About 67 percent of the very precious rainfall evaporates, with 20 percent run off as surface water. Only 13 percent replenishes underground aquifers.

61. Groundwater is the essence of water supplies, estimated at 124 million cubic meters of which only 50 percent is considered technically exploitable. In drought periods, however, common and lengthy in Cape Verde, this can fall to 44 million cubic meters. Currently, only 25 million cubic meters of groundwater per year are tapped compared to an average total water requirement of 32.5 million cubic meters.

3. A Strategy for Poverty Reduction

62. *Sustained Economic Growth.* The government's strategy for poverty reduction reflects a fundamental policy shift in pursuing steadfast market-based policies aimed at addressing squarely resource scarcity and the narrowly-based economy. Attaining rapid and sustainable real economic growth per capita accompanied by employment creation is clearly considered the key to effective poverty reduction. Cape Verde's medium term development agenda calls for : private and financial sector development; employment creation by the growing private sector; improvements in economic and social infrastructure; public sector modernization including more efficient and effective management of financial and human resources; and reduction of the population growth rate and improvements in the fragile environment.

63. Faced with the development constraints inherent in a small island economy dominated by the public sector, the government embarked on a new course in 1991. The government's economic policy as outlined in the Third National Development Plan (PND-III) for 1992-1995 includes measures to address issues concerning: gender, urban youth, health, education, housing, employment and the FAIMOs in direct connection to the social groups identified with poverty.

64. Results are still modest in supply response, despite progress in opening up and creating gradually a private-sector-led economy by building on the country's service tradition; maritime and air transport, as well as tourism. The private sector is also gradually embarking on fisheries and light manufacturing. This bold shift in development strategy is based on sound homegrown economic and sectoral policy reforms resulting in sustained macro-economic stability including improvements in the external position. In the medium-term, assuming the sustained application of reforms, economic growth is projected to average 5.5 percent a year in real terms. Public investment will provide the main engine of growth in the short-term. Over time, the share of export-oriented activities will increase moderately. Specifically, growth will come from: (i) investments in infrastructure, modernization of telecommunications, and housing, water supply, and sewerage systems in urban areas; (ii) moderate private investment in fisheries, tourism, services (including banking and "teleports"), and export processing; (iii) higher agricultural output (depending on reliable rainfall); (iv) continuous growth of commerce; and (vi) growth in services to international air and maritime transport, including transshipment.

65. Over time, a better established and dynamic export-oriented economy led by the private sector is expected to be the engine of growth and employment creation. Private sector investment is likely to increase in fisheries, tourism, export processing zones, shipping, and other services (i.e., banking, international data processing, transshipment, etc.) in response to structural reforms, macroeconomic stability, a conducive business environment, public investment in infrastructure and human resources and political stability. At present, fisheries and tourism have low shares in total value added and a marginal

contribution to economic growth because of the low efficiency of the public enterprises which still dominate these activities. Their contributions to economic growth, however, are expected to increase significantly as private sector investment increases over time.

66. Current government *decentralization policies* will devolve many responsibilities from the central to local governments to improve the coverage and provision of public services. Given the positive experience of on-going active social safety nets employed in Cape Verde at the national level, care must be taken to ensure continuity and adequate management capacity at the local level to ensure ongoing assistance to vulnerable groups.

67. Other current policies such as public sector retrenchments, privatization and public enterprise restructuring could contribute to increasing unemployment and poverty, unless private sector development with new job opportunities does offset these trends. This underlines the need to maintain social sector spending. The combined effects of public sector retrenchment and privatization are likely to have an impact on 3,300 to 3,500 people. In the worst case scenario unemployment rates will be driven up by 3.1 percent (assuming all 3,300 become unemployed) and in the best by 0.8 percent (assuming only 25 percent of 3,300 become unemployed). Given the current functioning of the labor market and the numbers to be redeployed, a doubling of the number of jobs normally created in one year will be required. Guidance on the use of compensation packages to provide productive employment for the individual and potential employment for others will help the government to build on the experience gained elsewhere. Such assistance will be provided under the IDA-financed Public Sector Reform and Capacity Building project.

Considerations for Poverty Reduction Policies

68. Poverty in Cape Verde is in essence a structural problem which will be addressed in the longer run by continued government's commitment to sound economic and sectoral policies, which aim at economic growth through building an outward oriented service economy. Equally important is the government's commitment to sound social policies aimed at improving quality and efficiency in the provision of social services. In the shorter-run, however, it remains necessary to address the current needs of the poor in order to enable them to play an active part in the growth strategy. For the following recommendations to succeed, external assistance will be required in order to increase access of the poor to productive activities and/or to improve the productivity of their current activities. Major objectives toward this goal are:

- improve human capital of the poor to increase their productivity and to assist them in availing themselves of existing opportunities;
- continue to assist the poor who will not be reached by the above measures;
- improve efficiency of existing government, municipal, and community institutions and structures to ensure greater poverty reduction at a lower cost; and
- improve data collection and monitoring capabilities of the government to keep programs on track and better target the poor.

69. The following policies underpin the government's development and poverty alleviation strategy which the Bank supports:

(i) **Growth and Productivity Enhancing Policies.** Over and above sound economic growth policies, there is the necessity to implement policies that will benefit groups and geographic regions identified as poor through improvements in access to employment opportunities, markets and inputs. The recommended measures include:

- *Vocational training:* essential given that many of the poor lack skills and are unable to engage in productive and lucrative activities.
- *Information* on urban poverty and the role of the informal sector: crucial to designing sound employment promotion policies for the urban poor.
- *Land tenure system* changes to benefit the poor particularly. However, this is likely to be difficult to implement because of the multiple dependency structure of the rural population and the conservative mind set of the population. Attempts, however, should be made to address land tenure issues squarely given currently low agricultural productivity and the difficulties of establishing adequate user fees for irrigation water.
- *Access to and affordable credit:* required for farm modernization, including the introduction of higher yielding crops, and incentives for cooperatives and other forms of collective farming. The small scale activities of FAIF (an Agricultural Development Fund) should be extended to provide production credit to the poor, charging affordable rates, with loan ceiling limits in line with the increase in household resources.
- *Low cost housing construction,* financed by credit, in small towns along with job creation could relieve the migratory burden on Mindelo and Praia by encouraging other destinations.

(ii) **Improved Access to and the Quality of Social Services.** Improved education, health, and nutrition are crucial to enable the poor to benefit from economic opportunities generated by growth. Specific measures include:

- *Investments at the primary education level* will generate the greatest return. The government plans to integrate the current two stage primary cycle into one 6-year cycle. Increased access to the later years of primary education is crucial in rural areas. The reform includes restructuring the curriculum and its content, and will make school attendance compulsory for 6 years as opposed to the present 4. School lunch programs provide an incentive for attendance by the poor. Improved quality of both teaching and materials would lower drop out and repeater rates.
- *Health education,* combined with improvements in access to safe water and sanitation would help to combat intestinal and diarrheal diseases which undermine the otherwise relatively good health indicators.

- *Improved cost recovery in health care* would enhance both provision and quality of health services. Health care services are expensive, and the current relatively low spending on areas other than personnel costs contributes to poor service quality. Better provision in the future will depend on initiating user fees which, at the same time, will recognize the ability to pay. This may necessitate a combination of public and private health care provision, with the government provision focused on those least able to pay.
- *The quality of health service provision* would also be improved by strengthening managerial capacity. A more balanced distribution of trained staff would also benefit the poor in rural areas. Inducing staff to work in the rural areas is likely to require a financial incentive structure as well as improved working conditions.
- *A National Nutrition Policy Plan*, in line with the recommendations of the International Conference on Nutrition in 1992, would improve both nutritional surveillance and the efficacy of interventions. Given the rise in chronic malnutrition, it is necessary to undertake studies which document its extent and causes and use their recommendation to improve the policy design.
- *Improved access to safe water* is probably the most significant input to improve the quality of life for the poor in Cape Verde. The priorities in terms of rural supplies should be Santiago, Santo Antão and Fogo where 85 percent of the population lives.
- Improvements to *irrigation* are crucial to increase the efficiency of water use. Water provision should also better reflect the true cost of its production and distribution.
- *Urban planning* is crucial to future development of major cities. Rapid rural urban migration is overwhelming the two principal cities of Praia and Mindelo. It is essential to establish urban planning to prevent further deterioration in living standards among the poor. Consideration should be given to extending self help building projects, drawing on the experience of PACIM and PROMEBAD (self-help construction projects). Packages which would reduce the initial cost of housing such as cheaper building materials, modular units which would facilitate later expansion, and provision of credit are crucial. These measures should be achieved through decentralization efforts, also favoring other smaller towns to provide alternatives to the migratory flow.

(iii) **Social Safety Nets.** The main funding agency of current social safety net activities, PAM, has announced its intention to reduce its level of commitment. This action would increase the urgency to improve both the efficiency and effectiveness of the existing programs. The government is legitimately concerned that current welfare programs are inefficient and they are not always adequately targeted to those in need. To address these concerns, the government is committed to proceed with:

- *Decentralization* which brings management closer to the beneficiaries would be one way forward. Tighter criteria for initial access to programs, as well as for

exclusion when the criteria are no longer fulfilled would also help. Given the long droughts and persistent poverty in Cape Verde, there is also the need to dispel the myth that assistance is for life and to encourage those who could be productive.

- *Improved planning* which establishes goals, pinpoints target groups and regions, identifies delivery instruments, and defines the roles of various players would increase the efficiency of welfare assistance programs.

(iv) **Improvement in existing institutions and structures.** Usage of *existing structures* should be maximized. For example, schools could be used not only for the delivery of food assistance, as at present, but also for information on family planning, the environment, the use of water, forestation, and vocational training. Increased knowledge of both demography and environment will assist people in combatting poverty in the future.

- *Improvements of FAIMOs.* A good starting point to improve existing structures is to look into the better usage of the FAIMOs and their output. *FAIMOs* are an excellent channel for reaching the poor. They operate as a social insurance structure that creates productive work with national coverage. In essence, they function as a labor market with fixed wages. Concern has been expressed about the quality of the created infrastructure and assets. Incorporation of FAIMOs within the National Development plan ensures infrastructure creation in line with national needs and targets. A more decentralized implementation, however, allowing local communities to identifying their needs within the broader National Development plan together with increased technical support, would result in higher quality assets. A more decentralized structure for the FAIMOs would facilitate their use at a local level on projects which have maximum benefit to the poor--basic sanitation, school, health facilities, and low cost housing. Ownership of projects at the local level is also more likely to ensure proper maintenance in the future.
- *Improvements in data collection and monitoring.* Support is being provided by the IDA financed Public Sector Reform and Capacity Building project (PSRCB) to upgrade the current level of maintained statistics in order to better track poverty. Currently, however, there is no information available on the very poor urban areas particularly in relation to the dire housing problems, and the type of workers who seek employment through the FAIMOs.

Conclusions

70. This Poverty Assessment, prepared by the government, is the first of its nature produced on this subject in Cape Verde. The government's initiative and determination in preparing this report demonstrates its genuine attempt to understand and to come to grips with the nature and the extent of poverty. This is the first step toward putting in place a coherent long-term strategy and an action plan to address poverty issues in Cape Verde. The Bank concurs with the government's approach to poverty reduction through:

- fostering a conducive environment for accelerated and sustained economic growth and employment creation through market-based economic and sectoral policies;
- improving access to and the quality of social services, in particular education and health, through sound policies supported through adequate allocation and efficient and effective management of financial and human resources;
- assisting vulnerable groups through institutional safety nets which are either direct welfare programs for elderly, disabled and school feeding programs for children, or labor intensive public works (FAIMOs); and
- strengthening the existing institutional structures and improvements in data collection and monitoring with a view of improving the quality of their services.

71. The Bank has been providing and will continue to provide support through a number of instruments as exemplified by the Bank's medium-term Country Assistance Strategy summarized below.

CAPE VERDE: Development Objectives and Country Assistance Strategy		
Objectives	Actions/Goals	Instruments/Timing
A. Promote human resources development, deal effectively with poverty issues.	Consolidate universal primary school enrollment and improve quality. Develop professional education and training system to increase availability of skilled persons in response to demand in the economy.	Round Table on PIP/WID (FY95) Basic Education and Training Project (FY95) Poverty Assessment (FY94) Support to Social Sector Project (FY97)
B. Maintain the pace of policy reforms, maintain macroeconomic stability.	Consolidate PE and trade reforms. Develop financial sector, legal and institutional framework. Foster growth of entrepreneurship and promote new growth sectors.	Private/Financial Sector Project (FY 96)
C. Promote private sector development and infrastructure development.	Promote national and foreign private investment. Promote domestic savings. Reform legal and institutional framework for private business operations.	Public Sector (FY94) Private/Financial Sector (FY96)
D. Public sector reform, grassroots development, capacity building, improved allocation and efficiency of public expenditures.	Improve PIP preparation and increase PIP execution rate. Strengthen institutional capacity at local levels. Modernize civil service and the Judicial System. Restructure the national accounting system and build analytical capacity.	Round Table on PIP/WID (FY95) Public Sector (FY94) PER/PIP (FY 96)
E. Environment	Address issues related to the Cape Verde's fragile environment	CESP (FY94) NEAP (FY95)

Table 1: Cape Verde - Key Economic Indicators /1

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
											Projections				
	(percentage annual real growth)														
GDP at market prices	2.6	7.6	7.6	5.5	2.2	3.3	4.9	5.6	6.3	6.2	5.9	5.9	5.6	5.6	5.4
GDP per capita	-0.1	4.9	4.9	2.8	-0.5	0.6	2.2	2.9	3.6	3.8	3.6	3.6	3.3	3.3	3.1
Private consumption	0.0	2.0	10.7	10.1	4.4	-1.2	4.5	4.0	4.5	4.3	4.2	4.8	4.0	4.0	4.0
Imports of GNFS	17.0	-4.0	-3.3	-6.0	6.5	-10.3	9.1	3.4	5.0	2.9	2.5	-5.1	-4.6	-2.6	-1.4
Exports of GNFS	-11.0	22.4	-19.2	3.8	2.2	-2.5	2.3	1.8	6.1	6.7	6.6	7.0	6.8	6.8	6.5
	(shares-current prices)														
Gross Investment/GDP	52.2	39.3	33.2	30.7	28.5	25.9	29.5	31.2	32.9	33.6	34.1	31.0	27.9	26.4	25.4
Domestic savings/GDP	-3.8	-1.4	-2.7	-3.2	-6.6	-2.8	-1.8	0.4	2.7	5.0	7.2	9.2	10.3	11.9	13.3
Public Investment/GDI	75.7	81.4	66.6	58.0	51.3	60.6	62.0	63.7	64.7	65.6	65.3	60.7	54.6	49.2	43.2
	(shares of GDP in current prices)														
Government finance															
Budgetary revenue	21.9	22.0	20.9	20.3	19.8	19.0	19.4	19.3	19.5	19.6	19.8	19.5	19.5	19.6	19.6
Current expenditures	21.5	22.3	20.6	20.3	20.1	18.5	19.5	18.8	18.5	18.3	18.1	17.6	17.3	17.1	16.8
Government savings	0.4	-0.3	0.3	0	-0.3	0.5	-0.1	0.5	1.0	1.3	1.7	1.9	2.2	2.5	2.8
	(millions of US\$)														
Exports of goods and services	38.8	51.0	48.2	64.0	68.2	71.7	77.3	82.0	90.3	99.7	107.5	116.5	127.0	138.8	151.6
Imports of goods and services	-108.1	-118.3	-126.0	-137.1	-151.0	-156.8	-179.5	-192.7	-210.1	-224.9	-235.2	-230.1	-226.5	-227.5	-231.2
Balance of GNFS	-69.3	-67.3	-77.8	-73.1	-82.8	-85.0	-102.2	-110.7	-119.8	-125.3	-127.7	-118.6	-99.6	-88.8	-79.6
Official transfers (grants)	42.2	46.9	38.7	27.5	25.5	32.2	37.2	42.4	46.7	52.3	54.9	47.8	38.2	30.6	27.5
Current account balance															
before grants	-40.6	-33.3	-38.3	-30.0	-30.7	-32.4	-47.4	-53.7	-60.5	-65.1	-66.4	-55.2	-42.7	-34.7	-27.2
after grants	1.6	13.6	0.4	-2.4	-5.2	-0.2	-10.2	-11.3	-13.9	-12.9	-11.5	-7.4	-4.5	-4.1	0.3
Overall balance	2.2	11.8	1.6	-5.4	-14.3	2.8	0.9	1.6	2.5	4.1	2.2	1.1	2.1	1.7	4.4
	(share of GDP in current prices)														
Resource balance	-44.8	-35.4	-36.9	-33.5	-31.1	-28.7	-31.4	-31.4	-31.3	-29.7	-28.0	-22.8	-18.4	-15.1	-12.5
Balance of goods and services	-47.6	-36.8	-37.1	-32.7	-30.3	-28.1	-30.7	-30.8	-30.7	-29.1	-27.2	-22.2	-17.8	-14.5	-11.9
Current account balance															
before grants	-27.9	-18.2	-18.3	-13.4	-11.2	-10.7	-14.3	-14.9	-15.5	-15.2	-14.1	-10.8	-7.6	-5.7	-4.1
after grants	1.1	7.4	0.2	-1.1	-1.9	-0.1	-3.1	-3.1	-3.6	-3.0	-2.4	-1.5	-0.8	-0.7	0.0
	(millions of US\$)														
Debt and debt services															
DOD / (2)	107.5	126.3	129.3	128.2	152.2	157.2	169.4	183.1	198.1	215.0	222.6	224.4	223.0	221.8	215.4
Principal payments due	-4.8	-5.2	-6.0	-4.7	-8.1	-6.0	-5.1	-7.3	-9.3	-7.9	-10.5	-10.9	-11.4	-9.3	-10.4
Debt service/XGS (in percentage)	23.1	17.3	19.5	11.7	16.5	13.8	12.0	14.2	16.2	13.7	13.3	12.2	11.6	8.9	8.7
Debt service/GDP (in percentage)	6.2	4.8	4.5	3.4	4.1	3.3	2.8	8.2	3.8	3.2	3.0	2.8	2.6	2.0	2.0
DOD/XGS (in percentage) / (2)	12.0	14.31	13.80	17.10	13.51	15.93	18.22	15.72	13.52	15.75	15.61	15.77	15.19	17.90	16.31
DOD/GDP (in percentage) / (2)	73.8	69.0	61.7	57.4	55.6	51.9	50.9	50.9	50.8	50.0	47.4	48.8	39.9	36.3	32.3

Sources: Cape Verdean authorities and Bank staff estimates.

Note: (1) Official data on National Accounts and external sector in Cape Verde are weak. Bank staff estimates are subject to further revisions.

(2) Includes only official public and publicly guaranteed debt.

