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Statement by Girmai Abraham
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CAPE VERDE: Country Assistance Strategy Progress Report

We would like to commend staff for this candid and succinct assessment of progress in implementing the 1997 Country Assistance Strategy for Cape Verde. The report highlights major achievements and slippages during the CAS period. Cape Verde's commitment to both political and economic reform during the last decade has been rewarded with strong growth and impressive social indicators. The economy grew significantly over the past five years, at an annual average of over 6%. But what is even more impressive, is the Country's good track record in human resource development, with universal primary school enrolment, 72% literacy and at 65 years, an average life expectancy that is higher than many other developing countries. The report notes that this has been made possible by a steady pace of structural reforms, including a well-orchestrated privatization program, tariff reform and the liberalization of staple commodity markets. The Cape Verde authorities deserve commendation for these bold steps.

The above notwithstanding, as in most small island countries with narrow resource base, Cape Verde has been extremely vulnerable to external shocks over the last two years. The country's terms of trade saw a significant deterioration between 1999 and 2000 due to a combination of high oil price and falling non-oil commodity prices. By attempting to balance the impact of this opposing trend in the economy, especially in the context of a narrow revenue base, the authorities only succeeded in increasing their fiscal deficit. This is not encouraging for sustainable macroeconomic stabilization. It is in this regard that we welcome efforts by the Fund and the Bank to re-engage the new Cape Verde administration in serious policy dialogue to reverse this trend. More importantly, we commend the Government’s efforts to vigorously curtail its expenditures through actions outlined in Paragraph 21 of the report.

The overriding objective of the Bank's assistance strategy to Cape Verde is poverty reduction. Therefore, for growth to be pro-poor, more attention needs to be paid to job creation. As evidence both in rural and urban economies seem to suggest a strong correlation exists between poverty and unemployment. Given the relatively strong human capacity in the country and considering the potential for overstaffing in the public sector, energies toward job creation should be directed at private sector opportunities.

This brings me to the main thrust of the 1997 CAS which was to (i) support macroeconomic management and debt-reduction, (ii) consolidation of policy reforms in support of private sector development underpinned with a more prominent involvement of IFC and

MIGA, and (iii) human resource development and poverty reduction. While we note with appreciation progress in two of the CAS's priorities, this progress report has not provided any details on IFC or MIGA involvement. We would be interested in knowing what role IFC would play in the coming two years, particularly given the potential the private sector holds for job creation in Cape Verde. We would also be interested in the prospects for MIGA's involvement in the country.

The Cape Verde portfolio implementation has been satisfactory during the last two years; thanks to the improved in-country capacity on both procurement and monitoring procedures. Both the development objectives and the implementation progress have been generally satisfactory. Our concern is however, that even with this improved performance, disbursements are reported to have decreased from 56.1% in 1999 to 16.9% in 2000 and is only 12.7% so far in 2001. We wonder what accounts for this steep decline within the first three years, given the fact that $43.2 million remains undisbursed. The list of non-lending services currently underway and planned in support of poverty alleviation and human capital development is impressive. We are pleased with the Bank's economic and sector work efforts. We believe that such ESW will be very useful in the future as this will form the basis for further Bank engagement, particularly in a private sector-led growth in Cape Verde.

On the composition and size of IDA lending, we agree with the CAS proposal in paragraph 52 of the document. While we agree with the proposed lending in the run-up to the new CAS, we would like to see some flexibility that takes into account the prevailing hostile external environment, particularly the slow-down in economic activity in Europe, whose fortunes currently have a strong bearing on growth prospects in Cape Verde. We would like to urge the Bank to expedite the preparation of the HIV/AIDS even without comprehensive data in the health sector.

We also welcome the level of collaboration among international partners in the effort to assist Cape Verde. We would, however, like to underscore the need for the Bank to work more closely with the African Development Bank especially in the area of poverty alleviation where the ADB has extensive knowledge in the region.

Finally, we believe that this CAS progress report, combined with the results of the proposed surveys, should provide the basis on which to develop a new CAS. We wish the new administration in Cape Verde further success in their home-grown national development plan.