



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform the Congress of our intent to provide funding of up to \$66,230,000 under a Millennium Challenge Compact with the Republic of Cape Verde. If you or your staff would like to arrange a meeting to discuss the Compact, please contact me or Jim Mazzarella, Managing Director of Congressional Affairs, at (202) 521-3850.

This notification is being sent to the Congress on January 5, 2012. Obligation of funds may be incurred on or after 15 days from the date of this notification.

In addition, an attached summary describes the projects and other key elements of the planned Compact.

Sincerely,

T. Charles Cooper
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

January 5, 2012

PROGRAM: Eligible Countries

APPROPRIATIONS CATEGORY: Fiscal Year 2012 Program Funds

OBLIGATION AMOUNT: \$66,230,000

Pursuant to section 7015(c) and the heading "Millennium Challenge Corporation" of the Consolidated Appropriations Act, 2012 (P.L. 112-74, Division I), the Millennium Challenge Corporation ("MCC") wishes to notify the Congress of its intent to sign a Millennium Challenge Compact (the "Compact") with the Republic of Cape Verde ("Cape Verde"), through which MCC will grant up to a total amount of \$66,230,000 under the Millennium Challenge Act of 2003, as amended (the "Act"). To accelerate implementation of the Compact, MCC intends to obligate up to \$4,000,000 ("Compact Implementation Funding") of the overall grant under section 609(g) of the Act, using Fiscal Year 2012 funds, when the Compact is signed by the parties. MCC intends to obligate up to \$62,230,000 under section 605 of the Act, using Fiscal Year 2012 funds, when the Compact enters into force. After the Compact enters into force, Compact Implementation Funding that is not needed to accelerate implementation of the Compact may be deobligated, and up to an equivalent amount of funding may be obligated under section 605 of the Act. Such funding is included in the total amount of MCC funds under the Compact and will not increase total Compact funding.

Compact funding will support a water and sanitation project and a land project.

SUPPLEMENTAL INFORMATION

MILLENNIUM CHALLENGE COMPACT BETWEEN THE UNITED STATES OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION, AND THE REPUBLIC OF CAPE VERDE

January 5, 2012

The Millennium Challenge Corporation's Board of Directors has approved a five-year, \$66.2 million compact with the Government of Cape Verde (the "GoCV") aimed at reducing poverty through economic growth (the "Compact"). To this end, the Compact's two projects are intended to increase household incomes in project areas by reforming the water and sanitation and land management sectors, both critical constraints to economic growth.

I. Project Overview and Activity Descriptions

To advance the goal of reducing poverty through economic growth, the Compact will fund two projects.

The \$41.1 million *Water, Sanitation, and Hygiene Project* is designed to establish a financially sound, transparent, and accountable institutional basis for the delivery of water and sanitation services to Cape Verdean households and businesses. The \$17.3 million *Land Management for Investment Project* is designed to reduce the time required to establish secure property rights and to provide conclusive land information in areas of near-term high development potential in Cape Verde.

Water, Sanitation and Hygiene (WASH) Project

Cape Verde is an extremely water-scarce country, and relies heavily on desalinization of water, which is an expensive and energy-intensive process. The WASH sector is characterized by relatively poor levels of service, including intermittent water supply. In addition, domestic water consumption in Cape Verde is, at approximately 35 liters per day, half that of a low-income peer group of countries, and barely above subsistence levels; not surprising given that Cape Verde has the highest water tariff in Africa and among the highest in the world. The poor, and particularly female-headed households, are especially vulnerable as only 9% of poor households have access to the networked public water supply network. Additionally, Cape Verde is not on track to meet its Millennium Development Goal for sanitation. Low levels of water supply, combined with a population in which over 50% is without any access to improved sanitation services, results in significant public health problems, including diarrhea, malaria and dengue.

The GoCV has worked closely with MCC to develop an ambitious performance-based project. Through extensive consultation with civil society, private sector and government stakeholders, as well as MCC technical assistance, the Cape Verdean team identified the core of the problem as policy and institutional challenges, in addition to lack of infrastructure. The GoCV therefore developed a clear policy and institutional reform action plan for the sector, and has already demonstrated political will and reform momentum by approving a policy reform paper for the sector, and establishing a policy reform commission.

The \$41.1 million project is expected to improve delivery of water and sanitation services to Cape Verdean households and firms. The approach to improving sector performance relies on a three-pronged strategy: (i) reforming national policy and regulatory institutions; (ii) transforming inefficient utilities into autonomous corporate entities operating on a commercial basis; and (iii) improving the quality and reach of infrastructure in the sector.

The WASH Project comprises the following three activities:

- **National Institutional and Regulatory Reform Activity.** Institutional and regulatory reform activities at the national level are expected to improve planning systems and regulatory processes including tariff setting. MCC will support the creation of a new National Agency for Water and Sanitation responsible for policy and planning of all water resources, domestic water supply, wastewater and sanitation. MCC will also strengthen the existing regulatory organization to better regulate economic and technical aspects of the WASH sector. Finally, the project will build the capacity of the environmental directorate to expand its existing environmental protection functions to include water and wastewater quality. As part of the proposed reform of institutions and regulation, the WASH project will provide technical assistance and resources for the integration of gender and social analysis and objectives into national policies and planning.
- **Utility Reform Activity.** The objective of this activity is to assist highly inefficient municipal utility departments to merge and restructure themselves into financially and administratively independent corporate entities. Regulatory changes will be required to support this transition. Once formed, the new utilities will require support and capacity building to improve their planning capacities and operating efficiency, and to reduce their high levels of commercial losses. MCC efforts will focus on supporting the formation of the proposed utility on the island of Santiago, which represents half the population of Cape Verde, and will be designed so as to facilitate similar utility restructurings elsewhere in the country. The social and gender assessment (SGA) work at this level will integrate these objectives into policy, planning, human resources and budgets.
- **Infrastructure Grant Facility.** The proposed compact will provide funding for an Infrastructure Grant Facility to fund much needed infrastructure capital improvements in the WASH sector while also promoting continued national level reform and providing an incentive for utilities to accelerate the corporatization process. MCC will only release funds into the Infrastructure Grant Facility once broad national policy and utility reform conditions precedent have been met. The Infrastructure Grant Facility will provide grants to any eligible utility, qualifying based on continuous improvement on commercialization of utility operations. Project grant applications from qualified applicants will be evaluated based on a set of transparent financial, economic, technical, implementation, environmental, and social criteria. Given the central role that women and girls play in water and sanitation at the household level, ensuring that infrastructure investments are selected and designed with due attention to social and gender considerations and appropriate information, education, and communication is critical to meeting the ultimate health and economic objectives of the WASH project.

Land Management for Investment Project

No conclusive source of information about land property exists in Cape Verde. Research suggests that up to 92 percent of land rights claims in Cape Verde do not have the legal protection that would be accorded by proper rights registration. Two different land registries, judicial and municipal, each contain partial information about only a fraction of the country's land parcels. Additional records systems hold information about state-owned land. The information tends to be outdated and is often conflicting. No source contains map-based information indicating actual location of a parcel of land over which a right is claimed. Confusion over ownership and boundaries has resulted in unauthorized land sales and the delay or cancellation of public as well as private investment projects. Confusion also limits the ability of small firms and households to create value and increase incomes through investment in their property. When coupled with lengthy procedures across a range of institutions, inconclusive information also generates time-consuming and costly land rights registration processes for all land users, further hampering domestic and foreign investment and economic growth. Cape Verde ranks #104 out of 183 economies in the property registration indicator in the 2011 IFC Doing Business report.

The \$17.3 million project is expected to improve Cape Verde's investment climate by: (i) refining the legal, institutional, and procedural environment to increase the reliability of land information, achieve greater efficiency in land administration transactions, and to strengthen protection of land rights; (ii) developing and implementing a new land information management system; and (iii) clarifying parcel rights and boundaries on targeted islands with high investment potential.

The project supports the GoCV creating a single reliable and easily accessible source of land rights and land boundaries information, which is expected to strengthen Cape Verde's investment climate for large and small investors and to reduce land registration costs for all users. The project comprises two activities:

- **Legal and Institutional Foundations Activity.** This activity will work at a national level to support necessary legal reform, as well as the creation of a new, common information and transaction system for each of the country's core land administration institutions. This system is designed to achieve greater efficiency in land registration-related transactions and land administration in the short term, and more efficient tax administration in the long term.
- **Rights and Boundaries Activity.** Building on the legal and institutional groundwork, the Rights and Boundaries Activity will support actual clarification of parcel rights and boundaries in targeted islands of high tourism investment potential. This new information will be input into the information system, enabling all land users to more quickly and conclusively identify land parcel boundaries and rights.

II. Compact Budget

Projects and Activities	Budget (Millions)
Water, Sanitation, and Hygiene (WASH) Project	\$41.10
<i>National Institutional and Regulatory Reform Activity</i>	<i>\$6.68</i>
<i>Utility Reform Activity</i>	<i>\$12.07</i>
<i>Infrastructure Grant Facility</i>	<i>\$22.35</i>
Land Management for Investment Project	\$17.26
<i>Legal and Institutional Foundations Activity</i>	<i>\$4.22</i>
<i>Rights and Boundaries Activity</i>	<i>\$13.04</i>
Monitoring and Evaluation	\$1.39
Program Administration	\$6.48
TOTAL MCC Funding	\$66.23
GoCV Contribution	\$9.93
TOTAL (including GoCV contribution)	\$76.16

III. Administration

The Compact includes program administration costs estimated at \$6.48 million over a five year timeframe, including the costs of administration, management, auditing, and fiscal and procurement services. In addition, the cost of monitoring and evaluation of the Compact is budgeted at \$1.39 million.

IV. Benefits and Beneficiaries

The **Water, Sanitation and Hygiene Project** is expected to yield an economic rate of return (ERR) of 13 percent. ERR calculations are an estimate, using the best information available at the time. This figure represents a potential range of outcomes that account for the uncertainty of core parameters. The National Institutional and Regulatory Reform Activity and the Utility Reform Activity are expected to: (i) reduce the average cost of water; (ii) reduce commercial losses; and (iii) release government resources from unproductive subsidization of the sector to productive spending to increase growth. The expected ERR for the proposed institutional development activities is 15 percent, and the initial beneficiaries are the population of Santiago Island, which numbered approximately 278,000 in 2010. With GoCV and other donor efforts, the

corporatization of utilities is expected to extend throughout Cape Verde during or following compact completion.

The second part of the economic analysis considers the cost effectiveness of operating the Infrastructure Grant Facility to finance infrastructure investments among corporatized utilities. The expected ERR for the Infrastructure Grant Facility is 11 percent, with a wide variance because of the uncertainty regarding the number and types of projects to be financed, and the entities meeting the criteria. Any project financed under the facility must meet a minimum ERR of 12 percent. The analysis estimates that, on average, a population of 48,000, or just over 10 percent of the current national population, would benefit from the operation of the Infrastructure Grant Facility.

The ERR for the **Land Management for Investment Project** is expected to be 22 percent. Based on estimates of incremental employment opportunities, it is estimated that at least 13,000 people would benefit from increased tourism development as a consequence of improving the process of land registration. This number does not include the broader population on the islands, which also is expected to benefit from land registration improvements. Based on incremental employment beneficiaries (i.e., new jobs created), investment costs are relatively high per beneficiary, but the payoffs to the economy in terms of the accelerated development of tourism-related employment are potentially significant.

Because tourism is a key economic driver, the projected tourism impact was selected as the most quantifiable ERR model with demonstrable and observable impact within a short to medium timeframe. Other potential benefits at the national level due to the legal and institutional change and new information systems, or other benefits to the 118,000 people living in the target islands beyond tourism impact, are not included in the ERR model, but will be tracked as part of the monitoring strategy and impact evaluation.