




CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation plans to negotiate a Millennium Challenge Compact with the Government of the Republic of Cape Verde.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with Cape Verde, please contact me at (202) 521-3850. This notification is being sent to the Congress on October 12, 2011 and negotiations with Cape Verde may be started on or after October 27, 2011.

Sincerely,



James Mazarella
Vice President (Acting)
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

October 12, 2011

Pursuant to section 610(a) of the Millennium Challenge Act of 2003, as amended, this notification is (1) to advise you that the Millennium Challenge Corporation (MCC) intends to start negotiations with the Government of the Republic of Cape Verde for a Millennium Challenge Compact and (2) to initiate the 15-day consultation period before the start of negotiations.

Attached please find a summary of the objectives and mechanisms to be used for the negotiations of this Compact.

SUPPLEMENTAL INFORMATION
MCC COMPACT DEVELOPMENT WITH THE REPUBLIC OF CAPE VERDE
October 12, 2011

Overview

The MCC Board of Directors selected Cape Verde as eligible for a second compact in December 2009, and reselected the country in January 2011. In January 2010, the Government of Cape Verde (GoCV) assembled a task force under the Ministry of Finance and Planning to serve as the core team for second compact development (the Task Force). The Task Force completed a constraints analysis in July 2010, proceeded to develop five concept papers, and then narrowed the selection to two projects for full design and due diligence: water/sanitation and land management. MCC has worked intensively with the GoCV to develop and perform due diligence on these two projects over the past 15 months. Extensive consultation with national and local government stakeholders, civil society, and the private sector was conducted throughout the process.

The GoCV has shown it is prepared to fully meet the expectations and requirements set out in MCC's *Second Compact Guidance* issued in January 2011. For second compacts, countries are expected to commit significant country resources in compact development and implementation. The GoCV has fully financed the Task Force throughout the development process, and is prepared to meet the 15% contribution requirement for lower-middle income second compact countries. Second compacts are expected to reflect MCC's corporate priorities of strategic policy reform, enhanced private sector engagement and innovation.

Extensive private sector consultation throughout the compact development process helped to identify core constraints to economic growth and shape project design. In the case of the Land Management for Investment Project, the project focuses on a critical constraint for foreign and domestic investors. The Water, Sanitation and Hygiene Project transitions the sector towards corporate principles and creates concrete opportunities for private sector investment. Both projects are designed with an innovative structure that incentivizes performance at the national and municipal level. MCC's corporate priority of gender and social integration is reflected in a gender strategy that is fully integrated into program design and tightly linked to the achievement of sustainable results.

Both the water/sanitation and land sectors are high priorities in the national Governance Program for 2011-2016, and the GoCV has demonstrated strong political will to address these challenges. Reform in both sectors is critical to achieving the country's economic transformation agenda, focused on shifting from dependency on aid and remittances towards increased mobilization of private sector investment and improved management of domestic resources.

MCC now plans to enter into compact negotiations with the GoCV.

Program Overview and Budget

Below is a summary describing the components of the proposed compact with the GoCV. The budget is preliminary based on initial due diligence and project appraisal and is subject to change following compact negotiations.

PROJECT	Total
Water, Sanitation and Hygiene (WASH) Project	\$41,099,850
Land Management for Investment Project	\$17,114,300
Monitoring and Evaluation	\$1,396,000
Program Administration	\$6,623,350
TOTAL COMPACT BUDGET:	\$66,233,500

Water, Sanitation and Hygiene (WASH) Project

Project Rationale and Description

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 the 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 and 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 proposed project evolved significantly from the initial concept paper to final design. 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. Principally driven by the MCC process, the Government therefore developed a clear policy and institutional reform action plan for the sector, and have already demonstrated political will and reform momentum by approving a policy reform paper for the sector, and establishing a policy reform commission. The Government has worked closely with MCC to develop an ambitious performance-based project, directly linking infrastructure financing with performance on policy reform milestones and utility reform benchmarks.

The proposed \$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 to reduce implicit subsidies and increase overall transparency within the sector, (ii) corporatizing and commercializing utilities as a means of reducing losses and improving operational efficiencies, and (iii) improving the quality and reach of utility infrastructure. The proposed project has a preliminary estimated economic rate of return (ERR) of 13%. 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 proposed 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 capacity of the environmental directorate to expand its existing functions on environmental protection, 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, planning, human resources, and budgets.
- **Utility Reform Activity.** The objective of this activity is to assist highly inefficient municipal utility departments to aggregate 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 efforts 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 work at this level will integrate these objectives into policy, planning, human resources and budgets.
- **Water and Sanitation 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 a reward to utilities for adopting commercial principles. MCC will only release funds into the Grant Facility once broad national policy and utility reform conditions precedent have been met, assuring that the right institutional environment is in place for effective investment in hard infrastructure. This design reflects MCC's corporate priority of integrating policy reform into program design. The 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 required to meet a 12% ERR hurdle rate, as well as a set of transparent 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 hardware component of the WASH project.

Land Management for Investment Project

Project Rationale and Description

In Cape Verde, no conclusive source of information about land property exists. Research suggests that up to 92% 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 domestic and foreign investment that is critical for the country's economic growth. Cape Verde ranks #104 out of 183 economies in the property registration indicator in the 2011 IFC Doing Business report. Unclear land rights also limits the ability of small firms and households to create value and increase incomes through investment in their property.

The proposed \$17.1 million project is expected to improve Cape Verde's investment climate by i) refining the legal, policy, and institutional environment in order to establish a unified land information system, to achieve greater efficiency in land transactions, and to strengthen protection of land rights, ii) developing and implementing the new information system in targeted islands of high investment potential, and iii) populating the system with more definitive parcel rights and boundaries information generated through field information gathering on targeted islands. The proposed project has a preliminary estimated economic rate of return (ERR) of 22%. 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 GoCV seeks to create a single reliable and easily accessible source of land rights and land boundaries information. This 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 for Land Management and Property Rights Activity.** This activity will 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 Clarification Activity.** Building on the legal and institutional groundwork, the Rights and Boundaries Clarification 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.