1. Key development issues and rationale for Bank involvement

Mali has established a strong economic management record over the past decade and a half, in the context of a stable democratic political environment and founded on a market-oriented policy framework. Mali has also been implementing its second Poverty Reduction Strategy, the Growth and Poverty Reduction Framework (GPRS) covering the period 2007-11. Notwithstanding recent achievements in growth (which have averaged 5 percent a year from 2003-08), Mali’s economic prospects remain vulnerable to various exogenous shocks (global crisis, climatic, pests, commodity prices,) and are hampered by deeply rooted obstacles to growth, including a poor investment climate and deficient infrastructure.

Given its significant needs for accelerating growth and reducing poverty, Mali will require sustained technical and financial support of the donor community, inclusive of the Bank, in a coordinated policy framework. The proposed operation, an integral part of the Bank’s Country Assistance Strategy for Mali, would contribute to the financing of the Government’s 2009 budget aimed at pursuing the objectives of the GPRS. The operation would provide support for the implementation of key economic, social and institutional reforms to strengthen economic growth and poverty reduction.

2. Proposed objective(s)

The proposed PRSC-3 would support the Government in the pursuit of policy objectives laid out its Poverty Reduction Strategy Paper, of accelerating growth and improving the wellbeing of the Malian populations. The reform program presented in the GPRS has three strategic orientations: (i) development of infrastructure and the productive sector, to improve the productive environment, ensure better productivity of factors of production and economic growth; (ii) pursuance and consolidation of public sector structural reforms, to ensure good management of public affairs; and (iii) strengthening of social sectors to improve the delivery of
key social services, in particular education, health, drinking water and sanitation. The operation would focus its support in helping the government improve the regulatory and institutional framework for infrastructure and private investment, strengthen public financial management and improve basic service delivery.

3. Preliminary description

The PRSC-3 supports reforms of Mali’s poverty reduction strategy and is a complement to ongoing or planned World Bank investment operations. The PRSC series would support the implementation of the Government’s reform agenda by focusing on the following areas: (i) enhancing the regulatory and institutional framework for infrastructure and private investment to improve productivity; (ii) strengthening public financial management for improved public sector efficiency; and (iii) improving service delivery to increase access to quality basic social services.

For PRSC-3 in particular, support provided includes the payment of arrears due by the public ginneries to cotton producers and adoption of a price mechanism aligning the seed cotton price to the international lint market price for the 2009/2010 campaign. Nomination of the Regulatory Board for the telecommunications sector (the CRT Board) was also included. The MTEF was expanded to 4 additional ministries, establishing the procurement control departments and the independent procurement regulatory institution. The draft "Loi de Règlement 2007" was submitted to Parliament. Finally, the PRSC-3 contributes to the Government’s efforts to improve social service delivery, including support to the integrated school feeding program in the poorest regions of the country; adoption of a Health Human Resource Policy aimed at improving the availability of staff in health services; and delegation of the management of five drinking water supply (AEP) systems to private operators.

Benefits and Risks

The proposed PRSC-3 (and subsequent operations in the series) is expected to have a significant positive direct impact on poverty reduction. Component 1 of PRSC-3 supports actions that contribute to growth in the cotton sector and private investment, including through an improved regulatory environment for telecommunications, a growing sector that is also key for business development, and facilitation of trade across borders, thus contributing to the creation of employment and poverty reduction. In particular, by supporting the clearance of arrears to cotton producers, including the poorest, the PRSC-3 contributes to the provision of incomes for consumption and future investment, directly influencing livelihoods and improving prospects for consolidated cotton production during the 2008/09 cotton season. Strengthening public financial management is expected to enhance the efficiency and effectiveness of public resources in the delivery of development services. Procurement reform, also supported by PRSC-3, promotes the value for money principle by emphasizing open and transparent bidding rather than opaque single source contracting, increasing the effectiveness of public

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1 Results from the 2006 household survey show that households deriving income from cotton are the poorest with a poverty incidence of 77.8% (the rural average is 57.6%) and while they represent 13.7% of total population, they contribute for 22.5% to poverty. In terms of depth and severity of poverty, they record the highest percentages with 33.1% and 17.9% respectively.
expenditure. The PRSC-3 also contributes to improved living standards of the poor by supporting school feeding programs in Mali’s poorest regions, access to drinking water in rural areas and a health human resource policy that seeks to ensure skilled personnel in remote areas.

The operation faces external and budget risks. External risks stem mainly from the global slowdown. Pronounced deterioration of terms of trade and a decline in aid flows and remittances would hinder Mali’s ability to finance its current account deficit (especially imports) which would then compromise its growth rate. A reduction of external assistance could have a significant adverse fiscal impact. In addition, heightened risk aversion in the WAEMU could reduce the scope for Mali to raise budget financing regionally. The heavy exposure of some banks to the cotton sector is a major risk, given the weakening global cotton markets. Other exogenous factors such as Mali’s vulnerability to climatic/natural shocks (drought, locust invasion) could compound the situation. Mitigating factors are Mali’s strong track record in macroeconomic management and the government’s renewed focus on growth-enhancing structural reforms while giving attention to key social programs. A surveillance committee has been established to systematically follow developments and propose policy responses. The operation would contribute to the mitigating measures by supporting policy actions that contribute to economic growth and diversification, further strengthen public financial management and address social service delivery issues. Additionally, the overall country dialogue would allow for some budget flexibility to address crisis-related expenses within the context of a prudently managed budget that supports priority growth and poverty reduction programs. The introduction of predictable and timely support through the PRSC series will also help mitigate the external risks. Reinforced donor coordination will also be critical to ensure external financial and technical assistance to support reforms and help progress towards the MDGs.

Budget risk stems from ongoing financial difficulties facing the cotton and electricity parastatal companies (CMDT, BHM and EDM) which could potentially require larger government transfers than included in the budget to cover the larger projected deficits in those sectors than anticipated. As a result, required budget allocations to underpin the actions described in the operation could be jeopardized compromising the objectives of the program. This risk is mitigated through strengthened management in CMDT and EDM (new management teams have been nominated for both companies) and close monitoring of their respective financial and cash positions (with both being part of the IMF and Bank macroeconomic monitoring and policy dialogue with the Government). BHM is implementing measures to improve its performance with close supervision from the regional Central Bank.

4. Environment Aspects

The specific reforms supported by the proposed development policy grant are not likely to have significant negative impacts on the country’s environment, forests and other natural resources. The reforms supported aim primarily to strengthen regulatory, institutional and public finance management at the national, regional and local government level. However, the operation touches on the cotton sector that may have very significant associated environmental risks. More broadly, the PRSC series covers the agriculture (cotton and ON), infrastructure (electricity and airports) and mining sectors that may also have significant associated environmental risks.
These sectors benefit from Bank financed investment operations for which specific Environmental and Social Impact Assessments were prepared.

5. Tentative financing
Source:
BORROWER/RECIPIENT 0
INTERNATIONAL DEVELOPMENT ASSOCIATION US$55 mn.
Total US$55 mn.

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