# ICR Review
Operations Evaluation Department

Report Number : ICRR11158

| 1. Project Data: | | Date Posted : 02/25/2002 | | |
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| PROJ ID : | P001735 | | Appraisal | Actual |
| Project Name : | Economic Mgmt | Project Costs (US$M) | 60 | 85 |
| Country: | Mali | Loan/Credit (US$M) | 60 | 85 |
| Sector(s): | Board: EP - Central government administration (67%), General education sector (14%), Health (9%), Banking (5%), Media (5%) | Cofinancing (US$M) | 0 | 0 |
| L/C Number: | C2894; CP940 | | | |
| | | Board Approval (FY) | | 96 |
| Partners involved : | none | Closing Date | 12/31/1998 | 06/30/2001 |

| Prepared by : | Reviewed by : | Group Manager : | Group: | |
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## 2. Project Objectives and Components

### a. Objectives

(i) Improve domestic resource mobilization and reduce distortions in the existing income tax system; (ii) improve the efficiency, effectiveness and poverty focus of expenditures; and (iii) support measures to address gender-based constraints to access to land and credit for women .

### b. Components

(i) Domestic revenue mobilization: Policy measures focused on direct tax reform and included the introduction of a single tax on larger firms, the creation of a tax for small and informal sector firms, and the replacement of a general income tax by a simplified tax levied on salary income . Administrative measures included a reorganization of the customs unit, strengthening the audit function, improving inspection in trade corridors, and upgrading the tax department.

(ii) Expenditure efficiency and effectiveness : Reform of the budget process, monitoring of expenditure through annual public expenditure reviews, improving the poverty focus of expenditures .

(iii) Gender issues: Facilitate access to land for women by adopting a decree on the award of land; financing small-scale activities of women's cooperatives; and conducting media campaigns on the role of women in economic development.

### c. Comments on Project Cost, Financing and Dates

Two floating tranches would be disbursed as and when specific policy reforms were completed . Three regular tranches to be disbursed annually upon satisfactory execution of the financial program . The first regular tranche would be made available upon credit effectiveness by August 1996. The other two tranches of US$10 million each would be released at yearly intervals. No dates were set for the release of floating tranches . The credit agreement was amended four times: three extensions of the closing date for a total of two years to accommodate completion of mining legislation, followed by a six month extension to increase the credit amount by US$ 25 million to counter the effects of the 1999-2000 oil shock.

## 3. Achievement of Relevant Objectives:

(i) A large taxpayer unit was created in early 1997 to improve taxpayer monitoring. The taxpayer identification system was improved with the implementation of unique identification numbers . Tax auditing was strengthened and audits have become more frequent and better targeted . A comprehensive reorganization of the customs department was carried out. Internal control was strengthened and staff was redeployed to cover major trade corridors . A single tax on consolidated income of larger firms was introduced, as was a tax for small firms and informal sector taxpayers . The general income tax was replaced by a simplified tax levied on salary income with only five tax brackets instead of ten. A new mining law shifted taxation from input/output to profits-based taxes and ended exemptions on income tax and customs duties in the first three years of production .

(ii) A procedures manual was prepared to be used by all staff in the budget process, budget preparation has been entirely computerized and staff trained in new procedures, and a new format for presentation of the budget has been used since 1997. Annual PERs were launched. Budget allocations and expenditures in education and health sectors have increased. At least 600 teachers were recruited annually, CFAF 300 million a year was allocated to maintain school buildings, and resources were allocated for teaching materials . In the health sector, the Government recruited about 200 additional medical and other health care staff each year .

(iii) The Government adopted a new decree to facilitate access of women to land . The Government also allocated CFAF 800 million in 1997 and 1998 to improve the microfinance institution's capacity to extend credit to women . The Ministry in charge of women's affairs has conducted information campaigns on women's rights .

**4. Significant Outcomes/Impacts:**

According to the ICR, as a percent of GDP, budgetary revenues increased from 13.8% in 1996 to 14.9% in 1998. Technical capacities in the areas of expenditure reviews and budget preparation in the Ministry of Finance have been reinforced, and the structures and staffing of the direct tax and customs departments have been strengthened . Exports from the mining sector increased and GDP in the mining sector grew by 21.9 % in 1998 and 9.8% in 1999. Actual gross enrollment ratio in basic education (grades 1 to 6) increased from 42.3% in 1996 to 56% in 1999 but these percentages include *non-public* schools. The number of women who gained access to land increased from less than 100 to over 200.

**5. Significant Shortcomings (including non-compliance with safeguard policies):**

According to the numbers presented in the IMF staff report of January 2002, the increase in budgetary revenues was less than indicated in the ICR. Budgetary revenues as a percent of GDP increased from 14% in 1996 to 14.6% in 1998 (about half of the increase noted above in the ICR) and this increase was led by tax revenues from trade. In 1999, budgetary revenues increased to 14.8% of GDP but declined to 13.6% in 2000. Taxes on net income and profits (as a percent of GDP) increased only marginally between 1996-98 from 2.6 percent to 2.7 percent and taxes of goods and services remained unchanged at 1.9 percent of GDP. According to the President's Report customs fraud was particularly prevalent in the collection of petroleum revenues, but the customs revenue increase reported in the ICR excludes petroleum revenues and it is unclear from the write -up in the ICR how much progress was made in collecting petroleum revenues.

While both the Bank and the IMF were supporting improvements in tax administration and simplification of direct tax, the Bank was leading in improving expenditure efficiency and effectiveness . However, it is unclear whether annual reviews have fulfilled the monitoring function as expected in the President's Report which was to (i) evaluate expenditure executions vis-a-vis budget allocations and explain any shortfalls or overruns; (ii) identify expenditures executed in violation of existing budget execution procedures and take corrective actions; (iii) provide information on the regional and sectoral breakdown of expenditures; and (iv) closely monitor expenditures in key areas with poverty links, notably primary education, health, agricultural extension and road maintenance .

Despite some improvements, the impact on women was unsatisfactory . The institution that was to deliver credit to women was not performing well. The effect of campaign programs was unknown. And although the number of women with access to land doubled to 200, it is still a very small proportion of the 14,000 land titles issued.

The relevance of the operation can also be questioned . The US$60 million credit, expanded to US$85 million, included weak conditionality. Conditions for negotiations were (i) submitting a draft letter of development policy and (ii) finalizing the terms of reference for and launching the study on constraints to access to credit for women . The second and third tranches had three conditions each . Conditions for resource mobilization were quantitative (in amounts of CFAF to be mobilized) but did not specify how much was to come from improvements in customs administration and how much from improvements in domestic tax departments . A second condition on expenditure restructuring (in both second and third tranches) called for recruiting 600 teachers, recruiting 150 medical staff (200 in second tranche), incurring specific quantitative expenditures for learning materials, and presenting to IDA a satisfactory review of the execution of the budget. The relationship between inputs and expected outcomes (gross primary enrollment rates and immunization rates) at loan closing should have been specified. Data on these indicators are available. Three of the four conditions for the first floating tranche consisted of *amending* the tax code, *carrying out a study*, and *adopting a budget* preparation methodology. A fourth condition, on restructuring the taxation and customs department was to be done in accordance with actions in the Government's letter of development policy, which were also weak. The actions consisted of organizing, strengthening the department, applying penalties, updating customs code, providing necessary equipment, modifying procedures, and publishing information. The three conditions for the second floating tranche can also be considered unsubstantive (carrying out a *study*, carrying out a *media campaign,* and replenishing the fund to support women's activities by CFAF 500 million.).

| **6. Ratings:** | **ICR** | **OED Review** | **Reason for Disagreement /Comments** |
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| **Outcome :** | Satisfactory | Moderately Unsatisfactory | Low relevance and questionable efficacy . See para.5 |
| **Institutional Dev .:** | Modest | Modest | |
| **Sustainability :** | Likely | Likely | |
| **Bank Performance :** | Satisfactory | Unsatisfactory | Low relevance, lack of continuity in staff (three different task managers in a three-year period), less intense supervision after the presidential elections in 1997/98 when the new team needed crucial assistance. |
| **Borrower Perf .:** | Satisfactory | Satisfactory | However, staff turnover in Ministry of Finance caused delays and it was poorly equipped to supervise the gender component. |
| **Quality of ICR :** | | Unsatisfactory | |

**NOTE**: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

Tranche releases should be based on meaningful actions with clear links to outcomes .

**8. Assessment Recommended?** ○ Yes ● No

**9. Comments on Quality of ICR:**

The ICR could be rated moderately unsatisfactory . It covered important subjects but did not provide sufficient evidence on the quality of monitoring of expenditure execution or the achievement of the poverty focus of health expenditures. It says that efficiency and effectiveness of public expenditures improved markedly to poverty -sensitive sectors. However, annex 1 shows that the actual share of basic education was 59% of recurrent expenditures in 1996 and this fell to 56% in 1998. The actual share of the health sector in recurrent expenditures increased from 10% in 1996 to 11 % but no data are provided on *primary* health care spending. No data are provided on increases in actual direct tax revenues. The component on gender has not been sufficiently analyzed . The ICR doesn't say what happened to the CFAF 800 million that was given to the saving and credit institution to extend credit to women . It simply says that the institution was underperforming . The project's contribution to institutional development is rated "satisfactory" when it should have been rated modest as per annex 5 of the ICR. No plan for future operation or borrower input was evident in the ICR. The lessons learnt section says that "a macroeconomic adjustment program... should not have been combined with a grassroots operation in a widely dispersed rural area (such as gender component)". However, in a country with wide disparities in gender in education and health, an adjustment program could be used to further women's education and health through budgetary allocations in these gender sensitive areas. Inclusion of a new decree to facilitate access of women to land was also appropriate, although prior ESW might have highlighted the additional issues that needed to be addressed for more women to get land titles . Extension of credit to women might have been appropriate in an adjustment operation .