

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

October 6, 2016
Report No.: 109784

Operation Name	Mali - Poverty DPO
Region	AFRICA
Country	Mali
Sector	General agriculture, fishing and forestry sector (25%); General education sector (25%);Microfinance (25%);General public administration sector (25%)
Operation ID	P157900
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF MALI
Implementing Agency	Ministry of Economy and Finance
Date PID Prepared	October 6, 2016
Estimated Date of Appraisal	November 1, 2016
Estimated Date of Board Approval	December 8, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

Mali's political environment has continued to stabilize with the successful implementation of the Peace Agreement, signed in May and June 2015. An important element of the Peace Agreement is an accelerated decentralization of competencies and spending, reflected by the commitment in the Agreement to almost double the share of spending by non-central entities (collectivités territoriales) from approximately 16% of the budget in 2016 to 30% in 2018. The CREDD supports this through policy reforms that accompany the decentralization of spending, but also facilitates reconstruction, for instance through policy measures to expand the coverage of the mobile phone network to presently uncovered cercles, of which a number are found in Mali's North. Still in addition to commodity price shocks and weather variation, security challenges, governance risks and popular dissatisfaction with the ability of their leaders to deliver, remain major risks for Mali's development. Security threats are no longer limited to northern Mali as terrorist attacks occurred in Bamako in March and November 2015, and March 2016. To address complex security challenges, the Government has increased security spending to 14.9 percent of 2015 budget, a level at which it is expected to stay for the years to come. The impact of these risks on the proposed operation is deemed moderate, but the risk associated with popular dissatisfaction and governance remains difficult to gage.

The macroeconomic framework of Mali remains solid, though subject to downward risks mainly related to the country's security situation and external vulnerabilities. The economic recovery continued in 2015, though with an expected weaker impetus over the medium term as GDP growth converges to its potential level. Inflation will rest subdued in spite of the accommodative monetary policy conducted by the regional central bank. The fiscal position will

deteriorate in the short term due to substantial increases in capital expenditure in compliance with the commitments made by the Government in the Peace Agreement. However, in the medium term the fiscal situation will strengthen owing to improved domestic revenue mobilization and the maintenance of greater discipline in recurrent expenditure. In the same vein, the current account deficit is expected to widen in the short term under the pressure of higher public investment and negative terms of trade, but it will reverse to lower levels – though remaining sizeable – as a result of the fiscal consolidation.

Poverty has been declining, but human capital indicators remain low. Poverty has declined rapidly between 2001 and 2011 from 55.4 percent to 48.4 percent¹, through a combination of growth and reduced inequality driven by increased agricultural productivity in cereals. However, the poverty rate is expected to have increased between 2011 and 2013 as a result of the 2012 political crisis and aggravated by poor rains in 2011. In 2013, the poverty rate was estimated at 50.9 percent. From that time onward poverty is believed to be on a slightly downward trajectory thanks to positive per capita growth rates. Other dimensions of poverty and indicators of human capital, remain low. Malnutrition is a major challenge (28 percent of children are stunted), health services are inaccessible and of poor quality and the average number of years of formal education of the adult population is 2.4 years.

The PRIGSO series takes a new approach to budget support in Mali. As the country was coming out of the 2012 security, political, and economic crises, the previous DPO series supported the authorities' efforts to address the twin challenges of fiscal consolidation while boldly tackling governance problems by focusing on strengthening Public Financial Management (PFM) and Governance. Past reforms included efforts to improve budget transparency, strengthen fiduciary and establishment of controls, and improve public investment management, as well as actions to reduce opportunities for corruption, accelerate public procurement and build local government financial management capacity. The present series, by contrast, aims to sustain the foundations for robust and inclusive economic growth, decentralization and protection of the most vulnerable. Support to governance and PFM reforms is now pursued through an active policy dialogue in the context of the annual Country Policy and Institutional Assessment.

II. Operation Objectives

The operation has two development objectives: (i) to foster inclusive growth, and (ii) to support pro-poor decentralized transfers and social protection.

III. Rationale for Bank Involvement

This operation proposes the first Poverty Reduction and Inclusive Growth Support Operation (PRIGSO) in the amount of US\$40 million equivalent to the Government of Mali. The series is designed to support the implementation of the Growth and Poverty Reduction Strategy Paper for the period 2016-18, known as the “Cadre Stratégique pour la Relance Economique et le Développement Durable du Mali”(CREDD), adopted by the Government of Mali in early 2016. The objective of CREDD is to promote inclusive and sustainable development for reducing poverty and inequality in a united and peaceful Mali by harnessing the

¹ Based on \$ 1.90 a day international poverty line, harmonized to be comparable with other countries in the region, particularly Niger and Chad.

country's potential and capabilities of resilience in order to achieve the Sustainable Development goals in 2030. The PRIGSO series supports the policies defined in the CREDD by fostering inclusive growth and supporting pro-poor decentralized transfers and social protection and will partially finance the national budgets of 2016-17. This is the first credit in the proposed credit series, which consists of two single tranche credits to be disbursed in 2016 and 2017. Current programming under IDA17 envisages US\$ 80 million equivalent for the two operations combined, but amounts may change in response to an evolving economic and institutional context.

The proposed operation is structured around two pillars: (i) fostering inclusive growth, and (ii) supporting pro-poor decentralized transfers and social protection.

IV. Tentative financing

Source:		(\$m.)
BORROWER/RECIPIENT		0.00
International Development Association (IDA)		40.00
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	40.00

V. Tranches *(if applicable)*

N/A.

VI. Institutional and Implementation Arrangements

In line with the arrangements used for previous DPOs in Mali, the Ministry of Economy and Finance (MEF) will be responsible for managing the proposed operation. Bank staff will focus on monitoring progress towards the expected results of the program

VII. Risks and Risk Mitigation

The overall risk rating for the proposed operation is substantial. In particular, political, risks could jeopardize the expected outcomes of the operation.

Political, Governance and Security Risks are high. Lack of progress in the security situation in the North, and/or its extension to the South (through terrorist attacks) could distract Government's attention and divert resources from its recovery and development agenda. The Government security apparatus has so far been unable to counter this trend and there is a real risk of growing divide within Mali's population. The proposed series does not directly entail measures to mitigate such risks or their impact, even if the focus put on poverty reduction and resilience is intended to generate buffers needed to absorb security shocks.

Fiduciary risks are substantial. In spite of progress made through the adoption of various regulations to improve PFM, recent procurement issues and the weaknesses reported on the compliance with the internal control rules as well as the external scrutiny and audits make evidence that fiduciary risks remain substantial. Mitigation measures includes the monitoring of continuous progress noted following latest IMF Safeguards Assessment of the BCEAO and the demonstrated commitment of the Government to implement other wide ranging reforms in the area of PFM.

Macroeconomic risks are substantial. An unexpected reversal in the downward oil prices trend and a drop in gold prices would both affect negatively fiscal accounts. A negative climatic shock would aggravate food insecurity, raise social spending needs and raise food inflation and would significantly reduce GDP growth –also in the non-agricultural sectors. Given Mali’s limited fiscal buffers, such risks could affect budget execution, and, in particular, domestically-financed public investment, possibly generating the accumulation of expenditure arrears. However, Mali’s fiscal situation and management already remained sound during the crisis and should continue as such given the stabilizing effect of WAEMU membership and PFM reforms undertaken in recent years. Risks of contagion effects to the financial sector or to the balance of payments would continue to be moderate as the financial sector continues to be highly liquid and Mali benefits from the pooling of WAEMU foreign currency reserves to cover its balance of payments needs in bad times, including debt service obligations.

Institutional capacity risks are also rated substantial. There is a large number of ministries (Economy and Finance, Agriculture, Transports, ICT, and Solidarity, Humanitarian Action and Reconstruction of the North) in charge of the implementation of the supported reforms, all of them being endowed with limited well-qualified, in-house resource personnel. However, capacity enhancement is being provided through technical assistance by the World Bank and other development partners in the areas considered for policy reforms in the proposed series (MFI, ICT, agriculture, social protection, decentralization, transports, etc.). Monitoring and evaluation arrangements commonly in place in the Ministry of Economy and Finance are largely adequate and have proven their effectiveness during previous DPO series.

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The SCD highlights how poverty reduction in Mali experienced has been associated with a rapid increase in the production of cereals following market liberalization, as well as sustained subsidies on fertilizer, increased remittances, improved off farm income opportunities (informal gold mining; telecom) and improved road connectivity. The SCD also notes how for accelerated poverty reduction, attention needs to shift to raising agricultural productivity in the semi-arid zones, while paying attention to creating an enabling business environment. The SCD finally points to the significant contribution scaled up social protection could make to poverty reduction. The continued relevance of focusing on improving rural productivity and resilience is demonstrated by data collected in July 2016 by the World Bank’s Permanent Monitoring System (Suivi Permanent) which demonstrated that levels of levels of food insecurity in the semi-arid agro-ecological zone are much higher (65 percent) than elsewhere (20-30 percent).

The measures supported by the proposed series operationalize the recommendations of the SCD. The expansion of the e-voucher scheme enhances the efficiency, transparency and traceability of agricultural subsidies, subsidies which, analysis prepared for this operation, have a demonstrated (and significant) positive effect on productivity. To ensure e-vouchers reach households in the more isolated areas –where the poorest live, this DPO series supports mobile phone network extension and its upgrading through the prior action for the AGEFAU and the award of the 4G license/ introduction of a fourth operator. Better maintenance of rural roads, reform of the micro-finance sector and measures in support of enhanced social protection complement these measures that are aimed at productivity enhance by on the one hand ensuring market access, and on the other improving the ability of households to invest in productive assets. The latter is supported by impact evaluations of cash transfer schemes implemented under similar agro-ecological circumstances to which team members contributed.

Measures that indirectly support the core priorities of the SCD are support to fiscal decentralization and the promulgation of the land act. Increased fiscal decentralization bears the premise of improved service delivery because by bringing decision making to the local level local priorities can be better reflected and because more purchasing power at the local level may incentivize those who make up Mali’s personalized political settlement to invest more in rural areas. To ensure that the results of decentralization are carefully monitored the team has invested –in collaboration with the authorities in a CEQ analysis for 2015. This analysis considers the distributional impact of revenue collection and budgetary spending and serves will serve baseline against which future (more decentralized) budgets will be evaluated. In addition, the team has set up a high frequency monitoring system that assesses on a quarterly basis the quality of service delivery. The system monitors particularly households in northern Mali, and resources allowing, could be expanded to the remainder of the country. Yet even without doing so, the impact of increased decentralization should certainly be picked up by the Suivi Permanent.

The adoption of the Rural Land Act and the revision of the Domains and Land Act are expected to reduce tenure uncertainty, a constraint brought out by the SCD. The new Rural Land Act gives greater recognition to customary land rights, requires consent of family members for land transactions, promotes land administration (land holdings and transactions), promotes access of women and young people to agricultural land managed by government (irrigation schemes in particular) and supports the establishment of village land commissions. The new land act also supports the establishment of an amicable settlement procedure of agricultural land disputes prior to referral to the competent courts, a measure which is believed to enhance the ability of family farmers to access justice and reduce costs of conflict resolution. Enhancing tenure security, including of customary land and for secondary right holders like women and other family members, access to conflict mediation contributes to productivity enhancing investments and reduces the costs of protecting rights while improving community level land administration will provide more security for land transactions.

As none of the proposed measures is expected to have a negative impact on the poor, PSIA analyses were not commissioned. The team does, however, continue to follow closely the evolution of poverty in Mali, using various tools. The CEQ analysis and Suivi Permanent were already mentioned. In addition the team works with the authorities in strengthening the

household survey system. A revised living standards survey was designed, in collaboration with the WAEMU Commission, and will be fielded in 2017.

The reforms which are included in the proposed operation are expected to have a positive impact on gender equality. Some gender issues are driven by an insufficient allocation of resources to key services. The proposed operation includes measures to foster inclusive growth and sectoral efficiency and support the resilience of poor and vulnerable populations through higher transfers at the decentralized level and larger coverage of social protection mechanisms. These measures will contribute to gradually correct gender disparities by easing girls' and women's access to basic social services and new economic opportunities.

Environment Aspects

Measures supported by the proposed operation are not expected to have any significant negative impact on the environment. Should the Rural Land Act and the revision of the Domains and Land Act be enforced following an inclusive participatory process, they would contribute to improving tenure security, particularly smallholder farmers and reducing land related conflict. Nevertheless, the team recognizes that the key challenges will stem from implementation provisions of these land reform measures in the field. The environmental and social negative impacts due to any poor implementation of the reform remain however uncertain. To reduce the risk of poor implementation, the Government, once adopted, will need to organize an inclusive nationwide awareness campaign. Specific simple and easy access guidelines will also have to be prepared in order to ensure ownership of the reform by stakeholders. The Government will finally need to strengthen the land reform monitoring and evaluation system by including Civil Society Organizations representatives.

The Government's reform agenda builds on Mali's robust environmental institutional framework. The backbone of this framework is the Constitutional Law of 1992 which states that: "Everyone has the right to enjoy a healthy environment. Environmental protection and promotion of quality of life is an obligation of all and the state". To this end, Mali adopted the National Policy for Environmental Protection (NEPP) in 1998, the main components of which are related to: (i) fighting against desertification, (ii) pollution prevention and control, and (iii) poverty reduction. In line with NEPP objectives, specific policies/strategies have been adopted such as: the National Plan of Environmental Action Plan, the National Strategy for Managing the Protected Areas, the National Policy for Adaptation to Climate Change, and the National Strategy of Management of Biodiversity. Furthermore, the CSCR-3 as well as many regional and local development action plans have been "greened" through a participative approach. In addition to traditional regulations governing the management of natural resources such as forests, water courses and basins, hygiene and sanitation, specific regulations are in place to enforce environmental assessment procedures.² The mining code also entails environmental and social sustainability provisions. The coordination of the policies and strategies, and the enforcement of the specific regulations are under the responsibility of the following institutions: (i) the inter-ministerial committee for the coordination of cross-sectoral environmental issues; (ii) the Ministry in charge of Environment; (iii) the National Directorate of Control of Pollution and Nuisances (DNACPN); (iv) the Environment and Sustainable Development Agency (AEDD); (v)

² Decree No. 08-346/P-RM of June 26, 2008.

the Sewage Treatment Plants Management Agency. Regarding the integration of environmental aspects in sector policies, programs and projects, the DNACPN is responsible for the enforcement of Environmental Impact Assessments (EIA) and Environmental Audit procedures while the AEDD is responsible for the strategic environmental assessment; this is a source of inefficiency which needs to be solved. Finally, Mali's Investment Committee is in charge of public investment project selection and includes as a full member the Environment and Sustainable Development Agency (AEDD), and retains environmental impacts as an essential criteria of selection.

Climate change remains at the top of the Government's agenda. In July 2011 the Government of Mali adopted a National Strategy on Climate Change (SNCC) in consultation with public and private sector partners. The Government established an Institutional Framework on Climate Change headed by a National Committee. To implement the SNCC, Mali Climate Fund was created to combine financing from a range of sources. This Fund began in 2014 and remains the first public-private fund in Africa to strategically leverage funds pilot and test interventions that can identify and scale resilience for the country at-large, in the face of immense climate impacts.

However, environmental institutions are lacking expertise and funding. The Ministry of the Environment and Sanitation and its line institutions have little leverage on the enforcement of environmental management/assessment regulations and procedures. On the one hand, there are few formal fora for inviting public input though the EIA regulation provides an adequate space to this end. On the other, without sound environmental standards and norms, the judicial system has no capacity to fairly handle complaints related to environmental matters.

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