Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: **11-Nov-2019** | Report No: PIDA27993
BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Mali</td>
<td>P167547</td>
<td>Mali Sustainable Energy and Improved Service Delivery for Increased Stability Development Policy Financing (P167547)</td>
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<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
<th>Financing Instrument Development Policy Financing</th>
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<tr>
<td>AFRICA</td>
<td>12-Dec-2019</td>
<td>Energy &amp; Extractives</td>
<td>Development Policy Financing</td>
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<tr>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
<th>Government of Mali - Ministry of Finance</th>
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Proposed Development Objective(s)

Delivering a more financially sustainable electricity sector, more targeted and efficient agricultural subsidies and supporting pro-poor decentralized service provision

Financing (in US$, Millions)

<table>
<thead>
<tr>
<th>SUMMARY</th>
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<tr>
<td><strong>Total Financing</strong></td>
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 DETAILS

<table>
<thead>
<tr>
<th>Total World Bank Group Financing</th>
<th>250.00</th>
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<tr>
<td>World Bank Lending</td>
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Decision

The review did authorize the team to appraise and negotiate
B. Introduction and Context

Country Context

1. **Reforms are being undertaken in a context of fragility, low level of decentralized service provision, and high poverty.** The Malian state remains fragile and confronted with extremist violence on part of its territory. Low level of decentralized service provision and high poverty further undermine stability. The inadequacy of service provision is reflected by the Human Capital Index which, with a score of 0.32, puts Mali amongst the world’s five worst performers. Expected years of schooling is 5.1 for girls and 6 for boys but, as quality is low, the adjusted rate of learning is 2.5 years for girls and 3.0 for boys. In other areas too, service provision is deficient. Overall access to electricity of 39 percent is below the Sub-Saharan Africa’s average and is largely confined to urban centers (86 percent urban and 19 percent rural), and of poor quality even for those who have access (EDM averages 41 major power outages per year and Mali ranked 159 out of 190 countries on getting electricity in the 2019 Doing Business Report). While poverty has been declining since 2013, it stalled above 40 percent in 2018.

2. **In its efforts to strengthen the social contract, there is an urgent need to reduce high discretionary subsidy payments for electricity with the intent that these are available in the budget for further spending on human capital.** The subsidy requirement for FY 2017 was evaluated at US$ 96 million, of which US$59 million was received from the Government which left a total revenue shortfall of US$ 38 million uncovered. In 2018, the sector’s tariff revenue shortfall increased further to US$ 160 million, driven by (i) the sector’s exposure to increased fuel costs on international markets due to high reliance on fossil fuels for power generation and (ii) a marked increase in the growth in customer demand, which leads to further budget shortfalls as consumers do not pay a cost reflective tariff. This DPF Program supports structural reforms that will enable the subsidy to peak, and then be substantially reduced over time. Reforms consistent with a significant shift in the energy mix towards an increase in more affordable electricity imports and renewable energy, debt restructuring, and improvements in the governance and operational efficiency of the utility.

3. **As part of a renewed social contract, there is also an urgent need to improve the efficiency of agricultural subsidies and the effectiveness of the delivery mechanism, which will also create budgetary space.** Agriculture is the backbone of the Malian economy, accounting for almost one-third of gross domestic product and the sustainable intensification of resource use in this sector will be critical to maintaining economic growth rates. With the existing resources available to farmers, more efficient use of land has the potential to increase the returns to labor and land - and thus household income. This increase in yield from farmed land - intensification - includes using seed and fertilizer to derive more outcomes from the resources available to farmers. Targeted subsidies would support such endeavors, as would improved land tenure rights. The improved targeting of subsidies is critical to supporting more efficient use of subsidies and would thus be part of the effort to better use scarce public funds.

4. **Whilst there are differences in the quality of public service provision across the country, Mali has been prioritizing decentralization since its transition to democracy; even so, decentralization has progressed slowly.** Decentralization refers to local autonomy and responsibilities, fiscal transfers and downward accountability. More effective decision-making at a local level around use of resources for services, such as schools and health clinics, is seen as critical to economic growth.

5. **The program focuses on (i) rapidly turning around the situation with the finances of the electricity sector – so it is less of a drain on public finances; (ii) increasing the effectiveness and efficiency of subsidies in agriculture, including subsidies to promote land intensification as part of a program that includes improving land tenure and (iii) reinforcing**
decentralization in a manner that reinforces stability by improving targeted service delivery in health and education. Reforms to improve the financial sustainability of EDM will create fiscal space for other priorities from 2021 onwards. The fertilizer subsidy program will be reformed. Under the new e-voucher scheme, targeting will improve and leakage reduce. Accompanying measures include reforms to improve the quality of fertilizer. There will be measures to strengthen rural land commissions, critical for intensification of land management and addressing land related conflict. Reforms to improve service provision will enhance state legitimacy. Mali prioritized decentralization since its transition to democracy in 1991 but the transfer of resources to local governments – the litmus test for any fiscal decentralization process, remains insufficient. This operation supports measures to ensure budget appropriations are released and transferred to front-line service providers (schools and health clinics) to improve service delivery at local level.

6. **The current macroeconomic policy framework provides an adequate basis for the proposed operation.** Growth is projected to average 5 percent over the medium term provided that the conflict is contained. The tertiary sector will be one of the main drivers of domestic economic activity owing to the expected dynamism of telecommunications and transport industries and, to a lesser extent, the development of trade and financial services. Primary sector growth is expected to slow down but will remain high and contribute significantly to GDP growth. The authorities are committed to meeting the fiscal deficit target of 3 percent of GDP by 2019 and over the medium term. The macroeconomic policy framework is anchored in the recent approved IMF Extended Credit Facility (ECF) and Mali’s membership of the WAEMU. Public debt is sustainable with moderate risk rating of overall and external debt distress.

**Relationship to CPF**

7. **The proposed DPF is aligned with the SCD which argues that it is critical to restore security and improve service delivery.** To achieve this in a context of low capacity, the SCD suggests a selective and pragmatic ‘islands of effectiveness’ approach, where developmentally-oriented stakeholders co-operate opportunistically to achieve specific objectives for which they have an incentive to see results. These proposed reform areas are consistent with the three pillars of Mali’s Country Partnership Framework for FY16-19 (decentralization; human resource development and economic recovery), which was reconfirmed, and their application extended, by the September 2019 Performance and Learning Review (PLR). In accordance with the CPF, the policy reforms sought are complementary to operational activities that seek to support energy sector reform, improve productivity and resilience in rural areas, strengthen the decentralization process and improve service delivery in health and education.

**C. Proposed Development Objective(s)**

8. The proposed development objectives are to deliver a more financially sustainable electricity sector, more targeted and efficient agricultural subsidies and support pro-poor decentralized service provision.

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Key Results

9. **The achievement of the proposed development objective will be measured against a series of results indicators.** The main results expected from the energy reforms under Pillar 1 consist of: an increase in the recovery rate of the public consumption bill to a high rate by June 2021, and improved cost recovery rate by EDM. Another expected result is an increase in imports of electricity from Cote d’Ivoire from 50MW to 180MW by 2020. This would lead to a significantly reduced revenue gap. The agriculture reforms under Pillar 2 are expected to increase the number of districts that rely exclusively on e-vouchers for agricultural subsidy distribution. In addition, laboratory results testing fertilizer quality will be, for the first time, systematically published and accessible on a website. The land reforms will improve the functioning of land commissions. For the local service provision reforms under Pillar 3, the percentage of school committees receiving their management fund at the beginning of the school year is expected to be half by 2021. For the health measures, the proportion of village health workers funded by ASACOs who provide nutritional care is expected to increase from 0 in 2019 to almost half in 2021.

D. Project Description

10. **The program supported by the DPF series is organized around three pillars:**

   - **Pillar 1: Reducing electricity sector impact on the central budget.** The objective is to rapidly turn around the financial situation of the electricity sector – so it is less of a drain on public finances. Reforms to improve the financial sustainability of EDM will create fiscal space for other priorities from 2021 onwards. The DPF series specifically supports efforts to pay outstanding arrears to EDM and adopt mechanisms to assure the timely payment of electricity bills by public and semi-public entities; and ensure that the government will pay the debt of EDM’s strategic vendors and recapitalize the company. In addition, there are measures to increase revenues and reduce costs – including the adoption of a Recovery Plan that includes operational and financial measures to put the sector on a sustainable path. The loan portfolio of EDM will be optimized and there will be significant increase in lower cost power imports.

   - **Pillar 2: Improved agriculture and land tenure.** The objective is to improve the targeting and effectiveness of agricultural subsidies and to improve security of tenure to enable more intensive sustainable investment in land by farmers (especially for the poorest, who have more limited access to land). The DPF series supports measures to switch to an efficient electronic voucher system in distributing inputs to farmers. This is expected to directly affect farmer’s labor productivity and ultimately their income.

   - **Pillar 3: Service delivery for increased stability.** The program facilitates the availability of decentralized financing for service provision. It supports measures to ensure budget appropriations are released and transferred to front-line service providers (schools and health clinics) in order to improve service delivery at the local level. Expected results are an increased autonomy of schools and health facilities as evidenced by the formation of School Management Committees responsible for recurrent spending, and the employment of Community Health Workers by local clinics.

E. Implementation

Institutional and Implementation Arrangements
11. **The Ministry of Economy and Finance (MEF) is responsible for overall coordination of supervision and monitoring of the reform program supported by the proposed series.** The MEF regularly liaises with focal points in the ministries, departments and agencies involved in the proposed series. The participating ministries, departments and agencies furnish relevant information and documentation on implementation and monitoring of their respective programs to MEF, which oversees progress towards achieving program objectives.

**F. Poverty and Social Impacts and Environmental Aspects**

**Poverty and Social Impacts**

12. **The proposed DPF series is expected to help alleviate poverty in the medium and long-run.** The electricity sector reforms will release budget for more pro-poor spending as reducing general sector subsidies will allow reallocation of public spending towards uses that proportionally benefits the poor more. The expansion of the e-voucher scheme will enhance the targeting, efficiency, transparency and traceability of agricultural subsidies. Subsidies will be allocated according to pre-defined rules, thus improving (pro-poor) targeting and limiting the reliance on discretionary allocations by officials (and hence leakage). In addition to better targeting of the poor, the improvement in the quality of inputs use will also have a positive effect on farm productivity and consequently on poverty. Measures to make land commissions functional imply that (relative to the counterfactual) land conflict will be reduced, either through preventive action or through conflict resolution. Therefore, when farmers have more secure rights, they invest more and are more likely to reap additional profit (from increase in productivity and reduction in vulnerability) that will reduce poverty. Actions to promote fiscal decentralization are expected to improve service delivery at the local level, (education and health in particular) in deprived areas which will have a positive effect on poverty reduction.

**Environmental Aspects**

13. **The reforms and policy actions supported by the proposed operation are not likely to have significant negative effects on the country’s environment.** The reforms build on Mali’s 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". None of the measures supported by the proposed operation are expected to have any significant negative impact on the environment. Reforms to change the energy mix in the electricity sector are expected to reduce the burning of heavy fuel oil and diesel. Reforms in the electricity sector are expected to have positive environmental effects in the short and long run. The e-voucher scheme is expected to have beneficial environmental effects. A World Bank study on the potential for dryland agriculture found that “subsidized maize and rice producers overuse chemical nitrogen fertilizer”. Reversing such overuse by offering an adapted mix of fertilizer will improve both environmental sustainability and fiscal sustainability. The reforms around land management (and support for mediation under the land commissions) are expected to have a positive impact.

**G. Risks and Mitigation**

14. **The overall risk of the operation is rated as high.** Political, Governance and Security risks are high: lack of progress in the security situation in the North and the Center, and/or its extension to the South (through terrorist attacks) could distract Government’s attention and divert resources from its recovery and development agenda. Macroeconomic risks are also high: a significant increase in oil prices and subsidies to EDM-SA or a drop-in gold and cotton prices would
negatively affect the current account balance and fiscal position. A negative climatic shock could create food insecurity, raise social spending needs and increase food inflation. Given Mali’s limited fiscal buffers, such risks could affect budget execution and domestically-financed public investment and growth, but if the shock is severe, recurrent spending could also be affected, including activities such as the pre-payment mechanism to EDM-SA, the operationalization of land commissions, the expansion of the e-voucher scheme or the transfers of resources to decentralized units. Sector strategies and policies risks are high, particularly with respect to scale up of the e-voucher scheme, electricity sector reform and decentralization. Risks associated with the technical design of project or program are substantial to reflect the complexity of the policy and results matrix. Institutional capacity and fiduciary risks are also rated substantial. However, capacity enhancement is being provided through technical assistance by the World Bank (via a number of IPFs under implementation in the sectors supported by the reform program) and other development partners. Monitoring and evaluation arrangements commonly in place in the MEF are largely adequate and have proven their effectiveness during previous DPO series. Mitigation measures related to fiduciary risks include the monitoring of progress following as per the (2018) IMF Safeguards Assessment of the BCEAO and the demonstrated commitment of the Government to implement other wide-ranging reforms in the area of PFM.

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APPROVAL

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