

# IEG

## ICR Review

Independent Evaluation Group

<b>1. Project Data:</b>		<b>Date Posted :</b>	11/02/2006	
<b>PROJ ID:</b>	P083272		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b>	Mali: SAC IV	<b>Project Costs (US\$M)</b>	25	25
<b>Country:</b>	Mali	<b>Loan/Credit (US\$M)</b>	25	25
<b>Sector(s):</b>	Board: EP - Central government administration (65%), General finance sector (12%), Agro-industry (12%), Law and justice (7%), Irrigation and drainage (4%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b>	C4044			
		<b>Board Approval (FY)</b>		05
<b>Partners involved :</b>		<b>Closing Date</b>	01/16/2006	01/16/2006
<b>Evaluator :</b>	<b>Panel Reviewer :</b>	<b>Division Manager :</b>	<b>Division :</b>	
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## 2. Project Objectives and Components

### a. Objectives

The Fourth Structural Adjustment Credit (SAC IV) provides continued support to Mali for its macroeconomic stabilization efforts. SAC IV has two objectives: (i) contributing to broad-based growth and poverty reduction by strengthening the fiscal policy and financial sector underpinnings of stable, long-run growth; and (ii) improving efficiency, accountability, and transparency in public expenditure management.

### b. Components (or Key Conditions in the case of Adjustment Loans):

There are 2 main components corresponding to the 2 objectives.

(1) The first main component is strengthening fiscal policy and financial sector. With respect to fiscal policy, the project sub-components are: (i) maintaining a coherent macroeconomic framework; (ii) minimizing the budget risks related to the cotton sector; and (iii) improving the alignment between the Poverty Reduction Strategy Paper (PRSP), the Medium-Term Expenditure Framework (MTEF), the Macroeconomic Framework, and the Annual Budget. With respect to the financial sector, the project sub-components are: (i) strengthening the portfolio of commercial banks (audit of bad loans); (ii) eliminating fiscal and regulatory constraints on the leasing companies; (iii) strengthening the business climate for insurance companies; and (iv) strengthening the pension system (audit of Government arrears to the pension fund).

(2) The second main component is strengthening public expenditure management, transparency and controls. The project sub-components are: (i) improving budget execution and monitoring; (ii) strengthening internal/external audits and performance evaluation; and (iii) improving transparency.

In total, 25 activities were completed under SAC IV, of which seven are pre-Board conditions.

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

This is a US\$25 million single tranche credit with standard IDA terms of 40-year maturity and 10-year grace period. The Credit was approved by the Bank Board on March 22, 2005, and became effective on May 13, 2005. The Bank approved the request for disbursement of the entire tranche on May 15, 2005.

## 3. Relevance of Objectives & Design :

SAC IV is aimed at supporting two of the four pillars of the 2002 PRSP: accelerating shared private-sector led growth; and strengthening institutions, governance, and participation. The objectives of SAC IV are therefore relevant.

With respect to the objective of accelerating shared private-sector led growth, the project components relating to fiscal policy are relevant, since maintaining macroeconomic stability is essential for growth.

With respect to the same objective of accelerating shared private-sector led growth, the financial sector component of strengthening the portfolio of the commercial banks is relevant, being an important first step towards strengthening the financial sector, and for reducing the contingent liabilities of the government, both of which are important for supporting growth. However, the other project components of developing the leasing and insurance industries (albeit

they are not pre-Board conditions) do not appear to be priority needs of the Malian financial sector at the moment; typically, development of such industries is important only for more mature financial sectors than the one Mali has at the moment.

With respect to the objective of strengthening institutions, governance, and participation, the project components were relevant.

SAC IV provides continuity with SAC III which supported restructuring of the cotton sector, and reform of public expenditure management. SAC IV was envisaged as a transitional instrument towards a possible Poverty Reduction Support Credit (PRSC), and hence was designed as a limited, one-tranche operation that support some elements of a wider policy agenda and provide a framework for the medium-term policy dialogue with the authorities. In this context, the design of having certain post-SAC IV activities as triggers for a follow-on operation is appropriate.

#### **4. Achievement of Objectives (Efficacy) :**

The pre-Board conditions were met, by definition, since this is a one-tranche operation.

The objective of maintaining macroeconomic stability was achieved pre- and post-Board, with the IMF Poverty Reduction Growth Facility (PRGF)-supported program being broadly on track according to the March 2006 Article IV Consultation and second and third reviews of the PRGF.

There was substantial achievement of the objective of strengthening fiscal policy to contribute to broad-based growth and poverty reduction. A flexible pricing mechanism for cotton was adopted which reduced producer prices by 24 percent in the 2005/06 season. This reduced the budget risks of the cotton sector which was important for maintaining macroeconomic stability, in turn a key element for sustaining growth. The health and education MTEFs were consistent with the Medium-term Budget Framework for 2006-08; the 2006 budget provided for increased shares allocated to health (from 6.8 percent in 2005 to 7.8 percent in 2006) and education (from 15.3 percent in 2005 to 16.9 percent in 2006), which was important from the poverty reduction perspective.

There was modest achievement of the objective of strengthening the financial sector to contribute to broad-based growth and poverty reduction. The audit of non-performing loans of all commercial banks was completed, which is an important first step towards strengthening the financial sector. However, the clean-up of non-performing loan portfolio--a trigger for the follow-up operation--was not implemented.

The objective of improving efficiency, accountability, and transparency in public expenditure management was substantially achieved: key budget-related departments in the Ministry of Economy and Finance (MEF) were connected at the central level; actions towards interconnection at the decentralized government level and establishing an automated auxiliary accounting system in the Treasury were initiated; a reference list of procurement prices was updated and made available to staff; monitoring indicators were introduced in MEF's Financial Controls Department to track quality of control activities; a Consolidated Government Action Plan was adopted to modernize and strengthen public finance management which integrates diagnostics and recommendations of various donor reports; and a plan for implementing the transfer of resources and responsibilities to the local levels for water supply, health, and education was adopted.

SAC IV was not followed by SAC V, but by an Economic Policy and Public Finance Management Credit (EPPFMC), which was approved by the Board on January 19, 2006. The EPPFMC builds on and expands the program under SAC IV; it is therefore likely that SAC IV would be sustained.

#### **5. Efficiency :**

IEG does not rate efficiency of adjustment operations.

#### **6. M&E Design, Implementation, & Utilization:**

M&E design was generally adequate, with the list of 25 post-SAC IV activities--five of which are triggers for the follow-up operation--being particularly useful. MEF has set up a Technical Committee, chaired by the Secretary General of the Ministry, to monitor implementation and impact of the project. Quarterly implementation reports prepared by the Committee were submitted to an Inter-Ministerial Committee chaired by the Prime Minister for analysis and decision before being sent to the Bank.

#### **7. Other (Safeguards, Fiduciary, Unintended Impacts--Positive & Negative):**

The implementation of the public sector reform program is not expected to have any negative environmental impact in the short run. In the longer run if cotton sector reforms lead to increase in cotton production there may be increase in pesticide/fertilizer use; the potential environmental impact in this instance would be addressed by the ongoing Agricultural Services Project. A Country Financial Accountability Assessment (CFAA) completed in FY03 concluded

that the Malian Public Expenditures Management system is quite sound, although financial accountability needs to be strengthened. To that end, an integrated action plan has been agreed and discussed with the Government; some of the actions are taken into account in SAC IV.

<b>8. Ratings:</b>	<b>ICR</b>	<b>ICR Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- ICR rating values flagged with ' \* ' don't comply with OP/BP 13.55, but are listed for completeness.

**9. Lessons:**

The lesson here is that in the presence of limited capacity as in Mali, a simple one -tranche operation with a limited number of objectives and components is appropriate . Also appropriate is the design of post operation triggers for a follow-up operation.

**10. Assessment Recommended?**  Yes  No

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

The quality of the ICR is satisfactory overall . It provides useful information particularly on post operation activities . However, there are some presentational short-comings, as follows. First, there is a mistake on the credit amount on the cover page (the ICR indicated a credit amount of US\$ 16.5m. when it should be SDR 16.5m.). Second, there is a mistake in its discussion of project components (section 3.3). The component of addressing budget arrears to the social security fund appears both under discussion of the "Fiscal Policy" subcomponent, and the discussion of the "Financial Sector" subcomponent (it should only have been in the latter), whereas the component of supporting the Office du Niger reforms was missing in the discussion of the "Fiscal Policy" subcomponent. The discussion of the project components under "Strengthening public expenditure management, transparency and controls " did not accurately reflect the project components presented in the loan document . Third, while some information on post operation activities was provided, it was not presented as such, thus necessitating going back to the project document annex on the Matrix of Development Policy Actions to ascertain whether the triggers for the follow -up operation were met. Fourth, the ICR did not discuss whether the post-SAC IV activities which were triggers for SAC V were completed; this would have provided more information on sustainability . Finally, and relatedly, the ICR also did not mention that SAC V was replaced by the EPPFMC, and the reasons for that .