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INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT
FOR A PROPOSED DEVELOPMENT POLICY CREDIT
IN THE AMOUNT OF EURO 44.6 MILLION
(US\$50 MILLION EQUIVALENT)

TO THE
REPUBLIC OF MALI
FOR THE
SECOND RECOVERY AND GOVERNANCE REFORM SUPPORT OPERATION

November 11, 2015

**Global Practice - Macroeconomics and Fiscal Management
Africa Region**

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THE REPUBLIC OF MALI – FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of September 30, 2015)

Currency Unit	CFA Franc (FCFA)
US\$1.00 =	FCFA 585
US\$1.00 =	Euro 0.89162320

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

AEDD	Environment and Sustainable Development Agency
AfDB	African Development Bank
ARMP	<i>Autorité de Régulation des Marchés Publics</i> (Procurement Regulatory Authority)
BCEAO	<i>Banque Centrale des Etats d’Afrique de l’Ouest</i> (Central Bank of West African States)
BoP	Balance of Payments
CPER	<i>Contrat Plan Etat-Collectivités Régions</i> (State-Region Planning Contract)
CPF	Country Partnership Framework
CREMT	<i>Cadre des Ressources Externes à Moyen Terme</i> (Medium Term External Resources Framework.)
CSCR-3	Third Growth and Poverty Reduction Strategy Paper
CSOs	Civil Society Organizations
DCPND	<i>Document Cadre de Politique Nationale de Décentralisation</i> (Framework Document on National Decentralization Policy)
DNACPN	National Directorate of Control of Pollution and Nuisances
DPO	Development Policy Operation
DPs	Development Partners
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EDM	<i>Electricité du Mali</i> (Electricity utility of Mali)
EIA	Environmental Impact Assessment
EITI	Extractive Industry Transparency Initiative
ENA	<i>Ecole Nationale d’Administration</i> (National Administration School)
EU	European Union
FCFA	CFA Franc
GAP	Government Action Plan
GDP	Gross Domestic Product
GNP	Gross National Product
GRH	<i>Gestion des Ressources Humaines</i> (Human Resource Management)
GRS	Grievance Redress Service

ICRRs	Implementation Completion and Results Reports
IDA	International Development Association
IFRS	International Financial and Reporting Standards
IMF	International Monetary Fund
ISN	Interim Strategy Note
LFR	<i>Loi de Finances Rectificative</i> (Revised Budget Law)
MEF	Ministry of Economy and Finance
MINUSMA	Multidimensional Integrated Stabilization Mission in Mali
MOH	Ministry of Health
NEPP	National Policy for Environmental Protection
ODA	Official Development Assistance
PAGAM/GFPII	Second Government Action Plan for the Improvement and Modernization of Public Finance Management
PDARN	<i>Programme de développement Accélééré des Régions du Nord</i> (Accelerated Development Program of Northern Regions)
PDO	Program Development Objectives
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIB	Gross Domestic Product
PNACT	<i>Programme National d'Appui aux Collectivités Territoriales</i> (National Support Program to Local Authorities)
PRED	Plan for Sustainable Recovery of Mali
PRSP	Poverty Reduction Strategy Paper
RBM	Results-Based Management
RGRSO	Recovery and Governance Reform Support Operation
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SHA	Secretary of Harmonization of Aid
SORGE	<i>Schéma Opérationnel de Réorganisation et de Gestion des services publics de l'Electricité et de l'Eau</i> (Organizational and Management Operational Scheme of Electricity and Water utilities)
TA	Technical Assistance
UEMOA	West African Economic and Monetary Union
UN	United Nations
WAEMU	West African Economic and Monetary Union
WBG	World Bank Group

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REPUBLIC OF MALI
SECOND RECOVERY AND GOVERNANCE REFORM SUPPORT OPERATION
TABLE OF CONTENTS

SUMMARY OF PROPOSED CREDIT AND PROGRAM.....	v
1. INTRODUCTION AND COUNTRY CONTEXT	1
2. MACROECONOMIC POLICY FRAMEWORK	3
A. RECENT ECONOMIC DEVELOPMENTS	3
B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY	5
C. IMF RELATIONS	10
3. THE GOVERNMENT’S PROGRAM	10
4. THE PROPOSED OPERATION	11
A. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION	11
B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS.....	12
C. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY	22
D. CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS	22
5. OTHER DESIGN AND APPRAISAL ISSUES.....	23
A. POVERTY AND SOCIAL IMPACT	23
B. ENVIRONMENTAL ASPECTS	24
C. PFM, DISBURSEMENT AND AUDITING ASPECTS.....	25
D. MONITORING, EVALUATION AND ACCOUNTABILITY	26
6. SUMMARY OF RISKS AND MITIGATION	27

LIST OF TABLES

Table 2.1: Selected Economic and Financial Indicators, 2013–18	8
Table 2.2: Central Government Consolidated Financial Operations 2013–18	9
Table 4.1: Proposed Triggers, Prior Actions and Analytical Underpinnings for RGRSO2.....	21
Table 6.1: RGRSO2 Risk Rating	27

ANNEXES

ANNEX 1: POLICY AND RESULTS MATRIX.....	29
ANNEX 2: LETTER OF DEVELOPMENT POLICY	31
ANNEX 3: FUNDS RELATIONS ANNEX.....	46

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SUMMARY OF PROPOSED CREDIT AND PROGRAM

REPUBLIC OF MALI

SECOND RECOVERY AND GOVERNANCE REFORM SUPPORT OPERATION

Borrower:	The Republic of Mali.
Implementation Agency:	Ministry of Economy and Finance.
Financing Data:	An IDA Credit in the amount of EURO 44.6 million (US\$50 million equivalent) on standard IDA terms (a maturity of 38 years including a grace period of 6 years).
Operation Type:	Second in a programmatic series of two development policy operations; single-tranche disbursement
Pillars of the Operation and Program Development Objective(s):	Pillars and Program Development Objectives are strictly aligned. The first Program Development Objective is to deepen executive accountability and transparency; the second Program Development Objective is to improve public finance performance.
Result Indicators:	<ol style="list-style-type: none"> 1. Share of directors of projects, programs, public agencies and state-owned enterprises recruited through a competitive process by external posting of vacancies. Baseline 2013: n.a.; Target 2016: 100%. 2. PEFA 18-IV: Existence of payroll audits to identify control weaknesses and/or ghost workers: Baseline 2010: C; Target 2016: B. 3. Number of local governments' accounts to be judged every year by the Audit Section of the Supreme Court: Baseline (2013): 0; Target 2016: > 250. 4. Proportion of demands of information addressed to MEF regarding public finance in accordance with Transparency code provisions which were satisfactorily addressed. Baseline 2013: n.a.; Target 2016: > 75%. 5. Proportion of assets declarations submitted in time to the Supreme Court. Baseline 2013: n.a.; Target 2016: > 75%. 6. Number of audit reports on non-lethal military equipment and airplane acquisitions published. Baseline 2013: 0; Target 2014: 2. 7. Number of EITI reports validated, published in time and according to most recent EITI standards: Baseline 2013: 1; Target 2016: 1. 8. Proportion of mining conventions audited for compliance with respect to the mining code. Baseline 2013: 0%; Target 2016: >75%. 9. Budget Law annexes on electricity subsidies published. Baseline 2015:0; Target 2016: 1. 10. Funds released to local governments in accordance with signed performance contracts (in % of total public expenditure); Baseline (2014): 0%; Target 2016: >2.5%. 11. Average public procurement delays (working days). Baseline 2013: 94; Target 2016: <80. 12. Share of public investment projects in budget law selected by the Investment Committee: Baseline: Budget Law 2013: n.a.; Target: Budget Law 2017: 100%. 13. Deviation in ODA budget execution. Baseline 2013: 16%; Target 2016: <10%.
Overall risk rating:	Substantial.
Climate and disaster risks:	<i>(i) Are there short- and/or long-term climate and disaster risks relevant to the operation (as identified through the SORT environmental and social risk-rating tool)? Yes: No X</i>
Operation ID:	P151409

**IDA PROGRAM DOCUMENT FOR A PROPOSED
SECOND RECOVERY AND GOVERNANCE REFORM SUPPORT OPERATION
TO THE REPUBLIC OF MALI**

1. INTRODUCTION AND COUNTRY CONTEXT

1.1. **This program document proposes a Second Recovery and Governance Reform Support Operation (RGRSO2) for Euro 44.6 million (US\$50 million equivalent) to the Republic of Mali.** This second Development Policy Operation (DPO) of a programmatic series of two supports the authorities' efforts to (i) deepen executive accountability and transparency, and to (ii) improve public finance performance. The series shares the objectives of the World Bank Group Interim Strategy Note FY14-15 and Country Partnership Framework FY16-19, and is fully aligned with the World Bank Group's Strategy for Africa and its governance foundations.

1.2. **Since 2013, the political and security situation has significantly improved.** The year 2012 witnessed the occupation of Mali's Northern regions by armed separatist groups and a military coup in March 2012 that overthrew the elected Government. Constitutional order was thereafter progressively restored with the formation and international recognition of a Transitional Government of National Unity. In January 2013, the Malian army benefited from the support of a United Nations (UN) -mandated coalition of foreign troops to restore sovereignty over the Malian territory. A new President and National Assembly were elected through fair and transparent elections that same year. While the North of Mali is still subject to sporadic episodes of violence and armed groups controlling some cities, the security situation has nonetheless stabilized with the establishment of a UN peace-keeping force since July 2013. In June 2015, a peace agreement was signed in Algiers between the Government and most separatist groups. This agreement underlines the importance of effective political and fiscal decentralization for peace and stability.

1.3. **Progress has also been observed on the economic and social front.** The political crisis of 2012 had a significant impact on the economy, resulting in significant destruction of physical assets, the severance of trade links and tourism inflows, the suspension of foreign assistance and related public investment, and the displacement of about half a million people fleeing the North. Nevertheless, the progressive restoration of security conditions and the massive inflows of foreign assistance following the Brussels donors' conference of May 2013 helped Mali to recover part of the economic losses incurred during the crisis. After grinding to a halt in 2012, GDP growth slowly resumed in 2013 (1.7%) before accelerating in 2014 (7.2%). Poverty developments are more difficult to estimate given the absence of new household surveys since 2010. Nonetheless, it is estimated using macroeconomic aggregates that the poverty rate reached 44% in 2014, thus ending the steady poverty reduction observed between 2001 and 2010, when the poverty rate dropped from 56% to 44%. This downward trend was already insufficient to reduce the number of poor in light of Mali's rapid population growth rate. It is therefore likely that the number of poor has risen since 2010.

1.4. **The re-foundation of the State of Mali will require strengthening executive accountability through better controls in the use of public financial resources and greater transparency.** The crisis of 2012 has generated a wide range of opinions on the quality of the institutions in Mali and their ability to equitably serve and protect citizens (particularly in low

population density areas such as Northern Mali), as well as on the role of external factors in Mali's destabilization, such as the impact of the Libyan crisis and drug trafficking.¹ One point of consensus, however, is the need to strengthen central and local governance for greater State legitimacy. Indeed, governance indicators of political stability, rule of law and control of corruption have significantly deteriorated in recent years. Trends in political stability and rule of law have likely been influenced by developments in the North, where the authority and legitimacy of the State have traditionally been weak, and were further eroded in recent years, as the region increasingly became home to trafficking and criminal networks. Nevertheless, this cannot be explained by developments in the North alone. Deteriorating control of corruption points to the need to restore the social contract between the State and citizens through greater transparency and strengthened internal and external controls in the use of public financial resources. Recognizing its importance for peace and stability, the new President, sworn in September 2013, made the fight against corruption one of his top priorities, the other two being economic recovery and a return to normalcy and security in the Northern regions. In 2014, the discovery of large, off-budget military expenditures revealed severe public financial management irregularities, confirming the persistence of profound governance challenges in the country.

1.5. In the short term, therefore, the Government faces the twin challenges of repositioning the Malian economy on a rapid and sustainable growth trajectory while boldly tackling governance problems. Over the period 2013-16, US\$6.0 billion worth of official development assistance (including military assistance) should be disbursed - the equivalent of 13% of GDP each year. This exceptional assistance will accompany Mali's recovery efforts engaged since 2013. It will, however, also exert additional pressure on a public financial management system poorly equipped to accelerate disbursements while minimizing fiduciary risks – even more so if aid funds are to be increasingly managed at the local level where capacity is weaker. At the macroeconomic level, challenges lie in the authorities' ability to predict aid correctly and prepare for the post-aid boom to ensure fiscal sustainability, through greater domestic resource mobilization.

1.6. The proposed series supports the authorities in their efforts to address these challenges. This includes, on the one hand, efforts to improve transparency, strengthen fiduciary and establishment controls, reduce opportunities for corruption, and on the other, to improve public investment management, accelerate public procurement and build local government budget management capacity.

1.7. Risks to the proposed operation's objectives are substantial. Lack of progress on the security situation in the North and/or its extension to the South and climatic shocks or commodity price fluctuations could divert the Government's attention and resources from focusing on the reform agenda; while the fiduciary risks (which the proposed operation aims to mitigate) continue to be substantial. At the same time, failure to address Mali's governance agenda head-on could pose even larger risks, including missing the opportunity that such large foreign financial and military assistance provides for a sustainable economic and political recovery. The result of this could be Mali falling once again into a fragility trap, which would be extremely costly to redress and would have large negative implications for the region's stability and prosperity.

¹ See World Bank (2013), Interim Strategy Note for the Republic of Mali for the Period FY14-15, and World Bank (2015), Republic of Mali: Systematic Country Diagnostic, for discussions on Mali's drivers of fragility and governance issues.

2. MACROECONOMIC POLICY FRAMEWORK

A. RECENT ECONOMIC DEVELOPMENTS

2.1. **Mali suffered a severe economic slowdown in 2012 following the outbreak of the armed conflict in the North of the country and the coup in January and March respectively.** The GDP growth rate dropped to 0% as a consequence of the combined effects of the deteriorating security situation and the reduction in Official Development Assistance (ODA). Security troubles mainly impacted tourism (both in Southern and Northern parts of the country) and the livelihood of Northern populations. Cumulatively, some 330,000 people fled to the South of Mali and another 170,000 people fled to neighboring countries between January 2012 and June 2013, or approximately 36% of the total population of the North of Mali.² Some infrastructure and capital were destroyed, vandalized or looted (e.g. public buildings, utilities, commercial banks, and livestock). Most civil servants were redeployed to the South, which severely undermined basic service delivery in the North. The suspension of the constitutional order led Mali's Development Partners (DPs) to drastically cut disbursements against projects and programs by FCFA 323 billion in 2012 compared with 2011 (6.4% of GDP in 2011). In the absence of alternative financing opportunities, authorities cut public investment expenditures by a comparable amount, with a view to protect current expenditure (health and education) and accommodate higher security spending in a context of deteriorating domestic revenue collection.

2.2. **In 2013, real GDP growth slightly accelerated to 1.7%, benefiting on the one hand from the rapid resumption of foreign assistance but suffering, on the other, from erratic rains.** With recorded progress towards return to political normalcy and increased security, official development assistance resumed rapidly, in the form of budget support (FCFA 150 billion in 2013, 2.6% of GDP, against FCFA 4 billion in 2012) and investment projects (FCFA 161 billion in 2013, against FCFA 32 billion in 2012). To these amounts can be added humanitarian assistance, and demand for local goods and services from the United Nations military operation (MINUSMA), which amounted to US\$69 million (0.7% of GDP) per year.³ On the other hand, rainfalls were much less regular in 2013 than 2012, strongly affecting cereal production (excluding rice) which dropped by 26%, and terms of trade deteriorated (-18% with declining gold prices). Nonetheless, while the primary sector receded (-7%), secondary and tertiary sectors grew at the estimated annual rates of 5% and 9% respectively in 2013. From a demand perspective, investment and public consumption were the main drivers of growth, while exports fell.

2.3. **In 2014 GDP growth accelerated to 7.2% — its highest level since 2003 (7.6%).** All economic sectors contributed to the country's economic revival. The primary sector, particularly the agricultural production, was the major engine of growth – accounting for more than half of it. Agricultural production grew strongly at 14.8%, boosted by better weather conditions and the availability of fertilizers. The secondary sector, as the second contributor to Mali's GDP growth, displayed a high growth rate of 9.2%, mainly driven by the surge of industrial (22.9%) and energy production (10.0%). These outstanding achievements are attributable to the improvement of the business environment following the stabilization of the overall security situation and the decline in international oil prices. Mining production recorded a decline by 2.2% due to falling international

² Source: United Nations Office for the Coordination of Humanitarian Affairs.

³ Source: United Nations and World Bank (2015), "Socio-Economic Footprint Assessment of the UN Peacekeeping Mission in Mali (MINUSMA)".

prices of gold, which makes up 5% of real GDP and nearly 65% of export revenues. The tertiary sector's 2014 GDP growth rate was much lower (3.6%) compared to other sectors and the previous year's performance. Nevertheless, its contribution to GDP in 2014 remained significant and close to that of the secondary sector (1.4% against 1.7%) due to its large share in domestic production (38.0% in 2013). The most dynamic branches of this sector in 2014 were non-merchant services and transportation and telecommunication services, which grew by 6.8% and 4.0% respectively.

2.4. After a short disinflation episode in 2013 (-0.6%), consumer price inflation averaged 0.9% in 2014. Most demand components contributed to the resurgence of this positive inflation rate: an upsurge in private and public investment (+11.5%), accelerating private consumption (+5.3%), and a slight increase in import prices that reflected the FCFA depreciation against the US dollar. The substantial increase in banking credit to the economy (from 22.4% of GDP in 2013 to 24.4% in 2014) was also a driver of inflation resumption. Meanwhile, offsetting factors, such as the abundant cereal harvest campaign, the decline in international oil prices and the still-low rate of utilization of productive capacities, prevented a significant rebound in consumer price inflation.

2.5. Mali's current account deficit (excluding official transfers⁴) widened from -14.8% in 2013 to -18.1% of GDP in 2014 as the combined result of rising imports and slumping exports, despite a renewed and sizable net inflow of transfers⁵. The sustained increase in import demand (+6.0%) was fueled by the economic revival through greater domestic demand, while the downturn of export receipts primarily originated from the fall in gold prices (-10.3% on average between 2013 and 2014), as gold is the country's principal export. The large current account deficit was only partially covered by capital and financial accounts surpluses. While the net inflows of project grants and project-related official disbursements increased by nearly FCFA 29.5 billion, the sum of net foreign direct investment and budgetary disbursement incurred a severe loss of FCFA 79.4 billion compared to their 2013 amount. The resulting overall balance of payments displayed a deficit of FCFA 174.5 billion corresponding to -3.0% of GDP financed almost entirely through reserves depletion. By end 2014, Mali's imputed reserves at the central bank amounted to FCFA 623 billion — 2.7 months imports of goods and services. Nonetheless, Mali can still draw foreign currency from the Central Bank of West African States (BCEAO, Banque Centrale des Etats d'Afrique de l'Ouest), where pooled reserves are ten times larger.

2.6. Mali's exchange rate and monetary policies are set within the West African Economic and Monetary Union (WAEMU) framework. As for all WAEMU member states, monetary policy is independently run at the union level by the BCEAO, which is mandated to ensure price stability, while the exchange rate of the Union's currency is pegged to euro by law. Over the last fifty years, the BCEAO has established a strong track record in macroeconomic management, as well as keeping inflation under control across the monetary union and protecting countries' balance of payments from major disruptions. In its 2014 annual review, the International Monetary Fund (IMF) acknowledged the adequacy of the current monetary stance. However, the IMF staff also recognized the limited role monetary policies can play in addressing asymmetric shocks, as transpired in Mali in 2012, following the suspension of aid and deterioration of the security situation. Given the low degree of economic integration in WAEMU, asymmetric shocks can only

⁴ Including official transfers, the current account deficit broadened from -3.4% in 2013 to -5.5% of GDP in 2014.

⁵ Total public and private net transfers accounted for 17.4% of GDP in 2014.

be addressed through fiscal policies and the high frequency of such shocks will continue to pose significant risks to budget execution in the near future, particularly to public investments.

2.7. The stability of the banking sector has improved owing to the economic recovery and efforts by the Government to repay arrears to suppliers.⁶ Malian banks' capital to risk-weighted assets rose from 11.4% in December 2012 to 14.7% in March 2015. Outstanding non-performing loans also fell from 21.0% of total loans (8.7%, net of provisions) in December 2012 to 16.3% (6.0%) in June 2015. Wholesale and retail trade, as well as hotels and restaurants, are the main borrowing sectors of the financial system, with their share in banks' lending portfolio reaching 42.0% in 2014. Banks have remained highly liquid, even though the ratio of liquid assets to total assets declined from 34.4% in 2012 to 32.4% in 2014.

2.8. Public finances remained on sustainable footing in 2014, but faced complications from shortfalls in tax revenue and budget aid. Tax revenue represented 14.9% of GDP in 2014 — marginally higher than in 2013 — but 0.9 % below the IMF program target. Weak import and export duty collection by customs reflects conflict between the customs administration and importers, which brought trade to a standstill in August 2014, and administrative weaknesses. Donor budget aid resumed only towards the end of the year, after the authorities had addressed severe irregularities in public financial management.⁷ Total expenditure and net lending increased slightly in 2014 to 23.7% of GDP, but turned out to be much lower than projected due to the low execution rate of donor-funded projects and the Government's expenditure restraint in reaction to revenue and budget support shortfalls. As a result, the basic fiscal deficit slipped to 1.4% of GDP and the overall deficit on a payment order basis was limited to 3.4% of GDP, within a range consistent with debt sustainability. On a cash basis, the overall deficit was even smaller (2.8% of GDP), reflecting the conversion of off-budget expenditure into float in 2014 and their liquidation in 2015.

B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.9. Mali's macroeconomic outlook is based on a number of assumptions. It assumes first and foremost a consolidation of the security situation with the return to constitutional order, the signing of Algiers peace agreements, and the continued presence of UN-mandated foreign military and peace-keeping forces. This stability would facilitate the progressive return of the civil administration, refugees and displaced populations to Northern regions, and a more predictable pace of Mali's military expenditures (as foreseen in the programmatic military law). It would also allow donors to deliver on their commitments of Official Development Assistance (ODA), in line with Government expectations. Moreover, the restoration of security throughout the territory is crucial to maintain consumer confidence and ensure an environment conducive to increased investment. Under the current circumstances, however, foreign tourism inflows are not expected to resume significantly in the near future. The framework also assumes a continued decline in gold production, as well as average rainfalls throughout 2015-17. It foresees sizable improvements in terms of trade in 2015, stemming mostly from declining import prices (oil, most notably) but an uneven path

⁶ In 2014, the Government commissioned an audit of public expenditure arrears accumulated between 1995 and 2012. The audit identified FCFA 166 billion worth of valid arrears. The Government cleared FCFA 82 billion in 2013-14 and plans to clear another FCFA 84 billion in 2015-16. The difference between cash and commitment-based deficits in 2014 and 2015 is also explained by the conversion of off-budget expenditures incurred in 2014 of FCFA 85 billion into arrears, first accumulated in 2014 and then cleared in 2015.

⁷ RGRSO1, initially expected to be disbursed in 2014, was delayed to early 2015 for the same reasons.

afterwards (negative in 2016 and slightly positive in 2017). From a policy perspective, and along the lines of the IMF Extended Credit Facility (ECF) 2014-16, fiscal policy will aim at improving domestic revenue collection, with a view to progressively increase the share of public investment financed with domestic resources (in anticipation of a decline in ODA from 2016),⁸ while keeping domestic financing needs at low levels. Monetary and exchange rate policies will continue to be set at the regional level through BCEAO interventions to maintain consumer price inflation below 3%.

2.10. Under these assumptions, Mali's economic growth path is expected to stand strong over the next three years.⁹ After peaking in 2014 at 7.2% with aid and catch up effects, GDP growth is expected to progressively return in outer years to around 5.0%. The tertiary sector and, to a lesser extent, the primary sector¹⁰ would constitute the main drivers of the domestic activity over this period (with shares of contribution to growth of 54.4% and 24.5% respectively). The secondary sector is also expected to expand rapidly over the period 2015-17, thanks to the projected annual growth in energy (6.4%) and industry (4.2%). All in all, the vigorous economic expansion expected in the next three years would keep rising per capita GDP at an average annual growth rate of 2.0%. By end-2017, the poverty rate could be below 40%, down from 44% in 2010.

2.11. In 2015-18, growth in aggregate demand would primarily be driven by public investment (an annual growth rate of 13.8% in real terms, financed through higher domestic resource mobilization and ODA for investment projects), and public consumption (6.7%). Private consumption and investment would grow more modestly (5.6% and 4.5% respectively), while exports would decrease (-2.6% a year), owing to the projected depletion in gold reserves.

2.12. Inflation should accelerate to 2.4% in 2015, reflecting increased private demand, and remain in the 2–4% range over the medium term. The sizable contraction of the fiscal deficit would contribute to containing inflation at low levels, while the rate of utilization of productive capacities would come back to its pre-crisis level. With the return to normal climatic conditions and, thereby, a more stable food supply, consumer price inflation is projected to accelerate to 2.9% in 2016, before stabilizing around 2% afterwards, below the WAEMU convergence criteria of 3%.

2.13. Though positive, the macroeconomic outlook remains vulnerable to a number of risk factors. In the years to come, Mali will continue to be highly exposed to exogenous climatic and commodity price shocks, which could reduce its investment capacity in human capital and infrastructure, perpetuating a vicious circle of slow per capita growth and high vulnerability. Security threats will also remain a significant destabilizing factor, originating both within Mali and from neighboring countries, which could alter the projected record-high ODA disbursement in 2015 and distract government resources and attention from recovery and the governance reform agenda.

2.14. Such risks would be mitigated by greater resource mobilization and the establishment of fiscal buffers. At 14.9% of GDP in 2014, Mali's tax revenue to GDP ratio remains lower than the WAEMU convergence criteria of 20% and below the actual performance of all other member

⁸ The macroeconomic framework retained in the IMF ECF imposes a ceiling on foreign non-concessional borrowing. In parallel, authorities will continue to strengthen their public investment management capacity (see Section IV).

⁹ GDP growth projections range within a confidence interval of +/- 2 percentage points, reflecting the recorded standard deviation of GDP growth in the last ten years.

¹⁰ With a 4.4% average growth rate over the period 2015-17, agriculture is expected to be the most dynamic component of this sector which also include livestock, fishing and forestry.

states besides Guinea-Bissau. This ratio could decline even further, as GDP levels are being revised upwards with the planned adoption of new national accounts from 2016. This low level of revenue mobilization has so far hampered the accumulation of fiscal buffers and denied the Government the possibility of running counter-cyclical fiscal policies. In recent years, the fiscal deficit has systematically widened in faster growth periods and receded in phases of activity slowdown, thereby reflecting the lack of fiscal buffers to subdue exogenous shocks. In the face of this, the Malian authorities embarked on an ambitious resource mobilization program, which included measures to reduce subsidies in electricity,¹¹ fight fiscal fraud and review the large set of tax exemptions which amounted to 5.3% of GDP in 2014.¹² This would accompany the Government's ongoing efforts to raise petroleum taxes (0.8% of GDP in 2015), as it benefits from the drop in international petroleum prices while keeping pump prices unchanged.

2.15. The implementation of the Government's macroeconomic program should minimize the risk of external debt distress. A Joint Bank-Fund Debt Sustainability Analysis (DSA) was conducted in late 2014.¹³ By end 2013, Mali's external and domestic public debt stood at 26% and 6% respectively of GDP. Mali's external debt is entirely official, and the bulk (82%) of it is with multilateral creditors, the International Development Association, and the African Development Bank in particular. Most of Mali's domestic public debt is with the Malian banking sector. Accounting for recent developments in 2013 and 2014 (low external borrowing, good export receipts) and medium term prospects (a return to a steady state 5% GDP growth and a progressive decline in gold net export receipts with declining reserves), the DSA continues to assess Mali's external risks of debt distress as "moderate". However, debt sustainability remains vulnerable to a tightening of financial conditions, lower expatriate remittances and foreign direct investment, and an export shock due to the preponderance of gold in exports. In the face of it, the Government's ongoing efforts to diversify the country's export structure from gold (through other minerals and commercial agriculture), as well as to improve its public investment management framework (so as to raise economic returns on debt-financed public investment), would reduce Mali's exposure to these risks. Risk to the broader public debt sustainability was also assessed as moderate, in the absence of unsustainable revenue or expenditure trends, including the wage bill.

2.16. Mali's macroeconomic framework is assessed as adequate for the purpose of the proposed operation. Mali's track record of sound macroeconomic management under volatile circumstances, the consistency of the macroeconomic framework with likely domestic and foreign financing resources and with the objective of macroeconomic stability, and the credible external anchor that the WAEMU guarantees, provide adequate conditions for the proposed operation to meet its objectives, and justify the use of the International Development Association (IDA) resources.

¹¹ Electricity subsidies are projected to decline from 0.7% of GDP in 2014 to 0.5% in 2015, 0.3% in 2016 and less than 0.2% afterwards. Other components of the transfers and subsidies category would continue to grow at GDP's pace, such as agricultural subsidies (0.9% of GDP in 2014), safety nets and tertiary education scholarships (0.4% of GDP in 2014), or would grow faster than GDP, such as transfers to local governments (2.2% of GDP in 2014).

¹² An inter-directorate investigation committee was established in 2012 and was mandated to cross-check the consistency of information contained in the different fiscal datasets (customs, direct taxes, domains, public procurement). Actions to reduce fraud are supported by the IMF ECF. Authorities also report the amounts of tax exemptions in the Budget Law since 2013.

¹³ See Mali: Joint IMF and World Bank Debt Sustainability Analysis, IMF and IDA, December, 2014. Preliminary analysis using end-2014 data suggests that the risk of external debt distress would remain moderate.

Table 2.1: Selected Economic and Financial Indicators, 2013–18

	2013	2014	2015	2016	2017	2018
	(Annual change in percentage)					
National income and prices						
Real GDP	1.7	7.2	4.9	5.4	5.1	4.5
GDP deflator	1.3	1.7	3.2	2.4	1.9	1.8
Consumer price inflation (average)	-0.6	0.9	2.4	2.9	1.9	1.9
Money and credit (contribution to broad money growth)						
Credit to the government	-2.7	0.8	5.9	5.2	2.5	1.2
Credit to the economy	7.5	12.4	6.2	6.0	5.9	5.7
Broad money (M2)	7.4	7.1	13.4	12.2	9.5	8.4
	(In % of GDP, unless otherwise indicated)					
National Accounts						
Private consumption	86.5	86.3	85.5	84.4	83.9	83.2
Public consumption	9.7	9.2	10.2	10.1	10.1	10.1
Private investment	14.6	16.3	11.5	12.3	13.0	15.3
Public investment	7.1	7.7	8.1	9.1	9.9	10.1
Exports of goods and services	29.7	26.6	26.5	24.7	23.5	21.0
Imports of goods and services	39.5	41.2	39.1	39.2	39.8	40.3
Central government finance						
Overall balance (cash basis)	-2.9	-2.8	-4.3	-3.6	-3.3	-3.0
Domestic debt (end period)	7.5	7.4	8.6	8.1	8.4	8.4
External debt (end period)	28.4	28.0	27.5	27.7	28.2	28.5
External sector						
Financing requirements						
Current account deficit	-3.4	-5.5	-2.8	-3.9	-5.2	-6.9
Long term debt amortization	-2.7	-2.5	-3.9	-2.0	-1.5	0.2
Other short term capital outflows	-2.2	-0.4	0.0	0.0	0.0	0.0
Financing sources						
FDI and portfolio investment (net)	2.8	1.6	1.6	1.6	1.9	1.9
Capital grants	1.7	1.8	2.1	1.8	1.8	1.8
Long term debt disbursements	2.8	2.1	3.2	2.6	3.1	3.1
Change in reserves	1.2	3.0	-0.2	-0.1	-0.1	-0.1
Nominal GDP (FCFA billion)	5,490	5,987	6,479	6,990	7,491	7,968

Sources: Ministry of Finance, World Bank and IMF staff estimates (2013-14) and projections (2015-18), September 2015.

Table 2.2: Central Government Consolidated Financial Operations 2013–18
(In % of GDP, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018
Revenue and grants	20.7	20.3	21.7	22.4	23.0	23.5
Direct taxes	4.7	5.4	5.4	5.6	5.8	5.9
VAT	5.9	5.6	6.1	6.4	6.6	6.9
Excises on petroleum products	0.4	0.5	1.1	1.2	1.3	1.3
Import duties	2.0	1.9	2.1	2.2	2.3	2.3
Other indirect taxes	2.7	2.5	2.9	3.1	3.0	2.9
Tax refund	-1.1	-1.0	-1.1	-1.0	-1.0	-0.9
Nontax revenue	0.7	-1.0	-1.2	-1.0	-1.0	-0.8
Special funds and annexed budgets	2.0	2.0	1.6	1.5	1.5	1.5
Projects grants	1.0	1.0	0.5	1.2	1.2	1.2
Program grants	2.2	1.6	1.7	1.2	1.2	1.2
Total expenditure and net lending	23.5	23.7	24.2	25.5	26.2	26.5
Wages and salaries	5.3	5.2	5.7	5.8	5.8	5.8
Goods and services	4.4	4.0	4.5	4.3	4.3	4.3
Transfers and subsidies	4.3	4.2	4.3	4.1	4.1	4.1
Interest	0.6	0.7	0.8	0.8	0.7	0.7
Externally financed capital expenditure	2.9	3.2	3.2	3.6	4.2	4.2
Domestically financed capital expenditure	4.2	4.5	4.9	5.5	5.7	5.9
Special funds and annexed budgets	2.0	2.0	1.6	1.5	1.5	1.5
Net lending	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Overall fiscal balance (commitment basis)	-2.8	-3.4	-2.5	-3.1	-3.3	-2.9
Overall fiscal balance (cash basis)	-2.9	-2.8	-4.3	-3.5	-3.3	-3.0
External financing (net)	1.9	1.2	1.9	2.0	2.6	2.6
Loans	2.5	2.0	3.1	2.6	3.2	3.2
Project loans	1.7	1.7	2.1	2.2	2.8	2.7
Budgetary loans	0.7	0.3	1.0	0.4	0.4	0.4
Amortization	-0.8	-0.9	-1.5	-0.8	-0.8	-0.8
Debt relief	0.5	0.2	0.3	0.3	0.2	0.2
Domestic financing (net)	1.0	1.8	2.4	1.4	0.6	0.4
Banking system	-0.4	1.0	1.8	1.6	0.6	0.4

Sources: Ministry of Finance and IMF staff estimates (2013-14) and projections (2015-18), September 2015.

C. IMF RELATIONS

2.17. **The RGRSO series has been prepared in close coordination with the IMF.** Since the onset of the political crisis in 2012, the IMF and World Bank teams have collaborated closely, with a view to respond swiftly and flexibly to the new environment. Following the agreed institutional division of labor between the Bank and the IMF (as reflected in annual Joint Management Action Plans since 2013), there is a common understanding of the macroeconomic and debt sustainability situation, as well as of macro-critical sectors (e.g. energy). The IMF and World Bank teams are also closely collaborating on issues of public financial management with a clear division of labor, as reflected in the complementarity between prior actions in the proposed operation and structural benchmarks in the ongoing ECF. Reform efforts supported by the IMF's program focus on tax policy and revenue administration, as well as public financial management.

3. THE GOVERNMENT'S PROGRAM

3.1. **In late 2011, Mali adopted its third Growth and Poverty Reduction Strategy Paper (CSCR-3), for the period 2012-17.**¹⁴ The CSCR-3 was prepared through extensive consultations.¹⁵ Building on lessons from previous poverty reduction strategies (design, implementation, monitoring & evaluation) and emerging new realities (security, climatic and commodity price volatility), the CSCR-3 is based on five pillars: (i) strengthening peace and security, (ii) increasing macroeconomic stability, (iii) promoting a strong, sustainable and pro-poor growth to create jobs and generate income, (iv) strengthening the foundations for long-term development and facilitate equitable access to quality social services, and (v) improving institutions and governance.

3.2. **In 2013, the Government re-affirmed its commitment to implementing the CSCR-3, acknowledging delays in implementation and the emergence of new realities.** With reduced financial resources, unforeseen new social needs (e.g. displaced populations), and great difficulties in delivering basic services in Northern Mali, the implementation of the CSCR-3 hardly started in 2012. Nonetheless, the Government considers the medium term objectives and related programs set forth in the CSCR-3 to remain fully relevant, as backed by a strong consultative process. Thus, accounting for projected limited financial resources in 2013-14, the Government selected from the CSCR-3 a subset of programs initially envisaged to be implemented in 2012-13. This set of programs regrouped under the PRED 2013-14 (*Plan de Relance Durable du Mali – Sustainable Recovery Plan*) aims at preventing the deterioration of human development indicators during the transition. As such, the sectors covered under the PRED include security, education, health, social protection, employment, rural development and public financial management. By contrast, most programs retained under the CSCR-3 for infrastructure and industrial development were not retained in the PRED. In addition, crisis-related actions (e.g. elections, rehabilitation, reconciliation,

¹⁴ See Mali Joint IDA-IMF Staff Advisory Note on the Third Growth and Poverty Reduction Strategy Paper, World Bank and International Monetary Fund, April 2013.

¹⁵ Consultations involved parliamentarians, local elected officials in Bamako and other regions, civil society and the private sector, academia, media, trade unions, and development partners. A set of institutional mechanisms and a clear roadmap guided the development of this new framework: a Steering Committee (including its Thematic Groups), a Joint Commission-DP Mali, a Technical Secretariat, and regional, local and municipal committees.

security) which were not considered in the CSCRP-3, were included in the PRED, in support of the political transition. Given delays in project implementation, the PRED was extended to 2015.

3.3. In October 2013, the newly-elected Government listed its orientations and priorities in an action plan for the period 2013-18. The Government Action Plan (GAP) includes under its first axis of “establishing solid and credible institutions” in particular the strengthening of audit and external control capacities, the promotion of transparent and open recruitment processes (for civil servants), and the development of performance contracts between central and local governments; and under its fifth axis of “building an emerging economy” the reinforcement of tax collection capacity, public financial management reforms for accelerated disbursements and better value for money, and measures on the supply and demand sides to restore the financial viability of the national electricity company. More generally, the GAP aims at building Government’s actions on strong ethical standards, citizens’ improved access to public services, information and participation in decision-making, greater equality in access to opportunities, and balanced territorial planning. The present programmatic series was designed to support the implementation of the GAP.

4. THE PROPOSED OPERATION

A. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

4.1. The programmatic Recovery and Governance Reform Support Operations aim to support the authorities’ efforts to achieve the following Program Development Objectives (PDO): to (i) deepen executive accountability and transparency; and to (ii) improve public finance performance. These objectives are in line with CSRP-3 third pillar and GAP 2013-18 first and fifth axes. The Government’s efforts, supported by the RGRSO1, and the proposed operation concentrate on measures to:

- (a) Strengthen the legal autonomy and capacity of the Audit Section of the Supreme Court, and carry out judgments of accounts of local governments;
- (b) Adopt transparent criteria for the recruitment and promotion of high-level civil servants and undertake a census of public sector employees;
- (c) Implement the transparency code and the law on illicit enrichment, including asset declaration; publish transaction audits on the acquisitions of equipment, including an airplane, incurred in 2014;
- (d) Create a budget line for perpetuating extractive industry transparency initiative activities and publish the inventory of all existing mining exploitation contracts; and include an annex in the project Budget Law 2016 submitted to the National Assembly that reviews public subsidies to the electricity utility from an efficiency and equity perspective;
- (e) Adopt and implement the policy framework establishing performance contracts between the central government and regional councils;
- (f) Adopt and implement the action plan developed to reduce delays in public procurement; and adopt a procurement code that inter alia integrates most recent WAEMU directives, reinforces the attributions of the independent Procurement Regulatory Authority in terms of dispute settlement, and revises the treatment of simplified contracts;

- (g) Create a budget line for financing public investment projects feasibility studies; and
- (h) Publish annually the Medium Term External Resource Framework.

4.2. **The recent Systematic Country Diagnostic (SCD) for Mali identifies poor governance and low levels of education as key obstacles to poverty reduction in the long run.**¹⁶ In the short run, poverty reduction efforts will need to focus on (i) restoring security in the north; (ii) increasing the incomes of the rural poor; and (iii) redistributive efforts to reduce extreme vulnerability. In turn, improving the incomes of the poor in the short run will facilitate higher public and private investments in education and health. However, if governance problems are not addressed and the quality of education remains low, insecurity is likely to persist, service provision will stay inadequate and levels of human capital will be too low to realize “between-sector” economic transformation and a demographic transition. The SCD thus underlines the need to strengthen public financial management for higher and better public expenditure efficiency, and to foster transparency for greater executive accountability and allocation of public resources to pro-poor interventions, at the central and local levels.

4.3. **The proposed operation draws lessons from the Implementation Completion and Results Reports (ICRRs) for the first (1-2) and second (3-5) poverty reduction support credit series.** Both ICRRs underlined the need to account for country ownership and limited capacity in the selection of prior actions, in particular for sensitive sectors such as electricity and cotton, and to ensure close supervision and technical assistance to address bottlenecks and delays in implementation. Thus, the proposed operation is designed to selectively concentrate on a small number of policy areas — anti-corruption and decentralization — which the authorities consider to be political priorities and where capacity is demonstrated and/or supported through technical assistance and complementary investment projects. Cotton sector reform, which was high on the agenda of past DPOs but did not meet expectations, is not considered in the proposed operation as the Government did not retain it in the GAP 2013-18. Electricity sector reform, on the other hand, was retained in light of its high priority in the GAP 2013-18.

4.4. **The proposed series also prolongs and builds on authorities’ efforts initiated in 2013 with the support of the Recovery and Reform Support Credit.** It builds in particular on the computerization of all central government transactions; the implementation of a risk-based approach for internal controls in the Ministries of Health and Education; the adoption of the Budget Transparency Code; and the establishment of a selection committee for public investment projects.

B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Deepening Executive Accountability and Transparency

4.5. **In recent years, most of Mali’s governance indicators have deteriorated.** Indicators of corruption, rule of law, regulatory quality, government effectiveness, voice and accountability steadily dropped between 2007 and 2012, according to the Worldwide Governance Indicators.¹⁷ While corruption, rule of law and regulatory quality assessments continued to worsen in 2013, voice

¹⁶ World Bank (2015), “Republic of Mali: Priorities for Ending Poverty and Boosting Shared Prosperity”, Report 94191-ML.

¹⁷ The percentile rank of Control of Corruption dropped from 40 in 2008 to 25 in 2012; Rule of Law: from 46 to 30; Voice and Accountability: from 54 to 31.

and accountability improved but remained far below pre-crisis levels. Other indicators,¹⁸ such as political stability and absence of violence/terrorism declined more drastically, but most of the decline occurred in 2012 in light of the political crisis and could thus be considered as a consequence of the deterioration of the other indicators above mentioned and external factors. In the face of these trends, the Government is committed to act boldly to strengthen both transparency and controls in the use of public resources (human, financial, and mineral), with a view to restore State legitimacy through greater executive accountability. This is not only for the sake of reducing corruption, but also to consolidate political stability and peace.

Prior Action #1: The Recipient, through the Prime Minister's office, has published the two transaction audits conducted by the Auditor General Office and by the Audit Section of the Supreme Court on the acquisition, in 2014, of equipment, including an airplane.

4.6. In May 2014, important off-budget expenditures were uncovered, revealing severe public financial management irregularities in the procurement of non-lethal military expenditures. In response, the Government committed the two major oversight institutions to conduct audits on these transactions. Transaction audits of such acquisitions were conducted by the Auditor General Office and by the Audit Section of the Supreme Court, and the Government published both of them on the Prime Minister's office website, creating an important precedent for transparency practices. Such audits, which were widely disseminated and discussed in the press, revealed the abuse of the "national interest" clause in the Procurement Code. It prompted the Government to adopt in September 2014 a decree to restrict the use of such clause (notably via the inclusion of a positive list of goods and services eligible for a restricted bidding process) and to strengthen external ex-post fiduciary controls (by the General Controller of Public Services) on military expenditures. An audit report on compliance with this new decree was published in 2015 by the General Controller of Public Services.

Prior Action #2: The Recipient, through the Ministry of Civil Service, has conducted a census of public sector employees.

4.7. Since 1999, World Bank Governance and Anti-Corruption activities have underscored the need for anti-corruption programs to tackle the underlying causes of the poor functioning of the state, namely: (i) discretionary state powers, (ii) impunity, and (iii) lack of transparency in the conducting of public affairs, in particular in the recruitment of civil servants and the army, where appointments are made on the basis of political clientelism and vested interests rather than merit. In spite of the wide awareness of the issue and the numerous proposals to tackle it, including, for instance, the creation of an independent public service commission, little progress has been achieved in this domain. Nevertheless, through the GAP 2013-18, the Government intends to promote open and transparent recruitment processes for civil servants. Thus, the proposed series supported under RGRSO1 the adoption and enactment of the Law on the fundamental principles for creating, organizing, managing and controlling public services, which requires inter alia that all directors of projects, programs, public agencies and state-owned enterprises be recruited through a competitive process by external posting of vacancies. The proposed operation also supported conducting a census of public sector employees. Recruitment has been streamlined with the adoption of transparent processes for contests since 2010 for the National Administration School

¹⁸ In contrast, indicators of Government effectiveness and regulatory capacity only modestly declined.

and since 2012 for other public bodies; and by granting to the Minister of Finance the power to nominate all Finance and Administrative Directors deployed in line ministries from 2016.

4.8. **The 2014 census updated the 2003 census and helped reduce the significant fiduciary risks related to the effectiveness of payroll controls (Public Expenditure and Financial Accountability - PEFA, 2011),¹⁹ complementing the recent integration of payroll and personnel data bases.** While the census of 2003 did not uncover large numbers of “ghost workers”, the census conducted from October 2014-March 2015 recorded the absence of more than 13,000 officials from central and local governments and the security sector, leading to their suspension from the payroll following the validation of the report’s conclusions by the Prime Minister. In addition to keeping in check the payroll, the objective of the census is to help improve human resources management of both the central and local governments by developing a database on staff’s geographical and institutional distribution and its skills and gender profile, among other characteristics.

Prior Action #3: The Audit Section of the Supreme Court has completed the audit of at least one hundred local governments’ accounts from at least six regions, including the Bamako District, and issued the appropriate opinions.

4.9. **The RGRSO series supports the Government’s measures to strengthen the capacity of the Supreme Court to conduct external audits, of local governments’ accounts in particular.** Since 2007, important progress was recorded in areas of budget credibility, comprehensiveness and transparency, policy-based budgeting and predictability in budget execution. Such progress strongly contributed to the efficient management of the budget crisis in 2012. However, external audits remain weak and arrangements for scrutiny of public finance (at central and local levels) and follow-up by the executive are not operational. Continued efforts are required to improve the availability of central government accounts²⁰ and to clear up the institutional issues surrounding the creation of an Independent Supreme Audit Institution (“Cour des Comptes”) and build its capacities. In order to move swiftly, the Government adopted a draft organic law, rather than promoting a constitutional amendment which would itself require a referendum.²¹ This new organic law, whose adoption by Cabinet²² was supported by RGRSO1, brings together in a single text all the provisions applicable to the Supreme Court regarding its organization, operation, and procedures. In particular, the provisions enhance the capacity, competency and autonomy of the Audit Section as the supreme

¹⁹ In its assessment of the effectiveness of payroll controls, the PEFA conducted in 2011 noted the good degree of integration and reconciliation between personnel records and payroll data, as well as relatively good timeliness of changes to personnel records and the payroll and effectiveness of controls and changes to personnel and payroll controls. But the absence of payroll audits since 2004 audits to identify control weaknesses and/or ghost workers led to an overall rating of C+ for the PEFA indicator 18, and a rating of C for its sub-indicator IV. A new civil service census would remedy this issue and improve the rating of the PEFA indicator 18-IV to B (see Annex 2).

²⁰ In recent years, the Government has been improving the timeliness of submissions to the National Assembly of budget settlement laws and related legal opinions from the Supreme Court on an N-2/N+1 basis. Also, with a view to enhance effectiveness and efficiency of external audit reviews, the Government proposed a framework for the treatment of audit backlogs for the period 1960-1991 which was adopted by the National Assembly in January 2013. The accelerated audit of the management accounts (“comptes de gestion”) for the period 1992-2008 was also completed in December 2013.

²¹ The Government submitted the creation of the Independent Supreme Audit Institution as part of a package of constitutional amendments to the National Assembly, which approved them in July 2011. As this would imply an amendment to the Constitution, a referendum would then be required to create the Court legally.

²² This project Law is expected to be approved by the National Assembly during the end-2015 parliamentary session.

audit institution. The main innovations translate into increased staffing, a specific budget allocation to enhance the financial autonomy of the section, creation of regional audit entities, and the enlargement of competencies to cover the evaluation of public policies.

4.10. The proposed second operation supported the Supreme Court’s Audit Section completing audits of at least one hundred local governments’ accounts from at least six regions in 2014 and issuing appropriate opinions. Focusing on judgments of local governments’ accounts responds to a legal obligation that was until now unfulfilled due to capacity constraints at the Supreme Court’s Audit Section, as well as to the perception of high fiduciary risks at the local level. As the authorities intend to accelerate fiscal decentralization, it is therefore critical to strengthen external controls of local governments’ public financial management. Compared with the proposed trigger in RGRSO1, the prior action was revised to reflect the higher ambition of the Audit Section to cover all the major local governments in the six southern regions (Segou, Sikasso, Kayes, Mopti, Koulikoro and the Bamako District). Accounts in the northern regions were destroyed during the 2012 crisis.

Prior Action #4: The Recipient, through the Council of Ministers, has adopted the draft Decree on the implementation of the law on the prevention and sanctioning of illicit enrichment which includes an annex with a template for asset declaration.

4.11. With a view to improve budget transparency and strengthen executive accountability, the National Assembly adopted the Budget Transparency Code in 2013. The Code notably clarifies the institutional responsibilities, format and frequency for the publication of information related to public finance (central and local levels), audits, public contracts (including for natural resource management) and procurement, public private partnerships, as well as access rights to such information and related obligations for the administration. The Code also stipulates legal obligations for officials (all civil servants and elected officials) to frequently declare their assets (including that of their families), and to denounce any fraud in the management of public resources they could be made aware of through their official functions. Within the framework of the Code, a Law against illicit enrichment was adopted in May 2014 by the National Assembly. Notably, the Law introduces the possibility to directly deduct fines from payroll for false or incomplete asset declaration, preventively seize assets of offenders during investigation, and deprive them of their political rights. It also mandates the Audit Section of the Supreme Court to receive and declare the conformity of assets’ declarations, with the support of the Central Office against Illicit Enrichment created by this Law²³ to coordinate investigations regarding assets declarations. Thus, the series supported under RGRSO1 the adoption of the implementation decree of the Transparency Code. And second, the proposed operation supported the adoption by the Government of the draft implementation decree of the Law against Illicit Enrichment and template for assets declaration.

4.12. Since 2011, the authorities have also been publishing the “Citizen’s Budget”, with a view to familiarize citizens with national budgets and strengthen their capacity to monitor and influence them. The Citizen’s Budget discusses in a user-friendly manner macroeconomic assumptions, the main sources of revenue, spending choices, and major policies supported by the budget. The budget laws are also translated in local idioms and posted on the Ministry of Economy

²³ While the Law 2014 against illicit enrichment defines the general mandate of the Office, it also called for a second Law to specify its composition, organizational structure and means of functioning. Such a project Law (ordonnance) and its related decree of implementation were adopted by the Government in 2015.

and Finance (MEF) website. Moving forward, the recorded progress in the computerization of the expenditure chain and the use of BOOST²⁴ software will pave the way for a more frequent and user friendly dissemination of budget execution reports. In this domain too, the programmatic operation has been providing support to Civil Society Organizations (CSOs) to directly monitor and evaluate the implementation of the transparency code, notably with regard to citizens' access to information on public finance.

Prior Action #5: The Recipient, through the Ministry of Mines, has published the current mining exploitation contracts.

4.13. With a view to promote the development of the extractive industry while reducing opportunities for corruption, the Government published all ongoing mining exploitation contracts, within the Extractive Industry Transparency Initiative (EITI) framework, for which Mali was declared compliant in 2011. Mali's extractive sector is dominated by gold, but potential for development of other mineral resources including bauxite, iron ore, diamond, limestone, manganese, nickel, petroleum, phosphates, tin, uranium and petroleum, is promising and exploration has started for some. This puts even more pressure on the authorities to transparently monitor and report developments in these sectors. Thus, the series firstly provided support under RGRSO1 for the adoption of the Budget Law for 2014 including in the budget, *inter alia*, a budget line for financing EITI activities.²⁵ The proposed second operation supported the publication on the Ministry of Mines website²⁶ of all existing mining exploitation contracts.²⁷ This action is fully consistent with the implementation of the Transparency Code and with the new EITI standards, and is expected to encourage greater compliance with fiscal and environmental regulations of the mining code. Compliance will be assessed through the 2015 technical, financial and environmental technical diagnostic of all ongoing exploitation contracts. The diagnostic will also inform the planned revision of the mining code in 2015, intended, most notably, to limit abuse of tax exemptions through transfer of titles and transfer pricing, but also to address issues of fiscal stability and ring-fencing, community development, environmental and mine closure, mine title and licensing regime. Meanwhile, an on-line database comprising the geo-localization of all mining permits (exploration and exploitation) is being developed for better overall management of the sector and should be completed and deployed in all regions in 2016.

Prior Action #6: The Council of Ministers, through the General Secretariat of the Government, has submitted to the National Assembly the draft Annex on the policy rationale for public subsidies to the electricity utility, as part of the draft 2016 Budget Law.

²⁴ Mali's first BOOST was finalized by the Government with continued World Bank support in April 2015. It includes budget expenditure data covering the period 2004-2014 and executed figures by different central and local government agencies. The data is disaggregated by administrative, economic, geographic and functional classification and captures the different stages of budget execution (appropriation, revision, commitment, liquidation and payment).

²⁵ FCFA 108 billion and FCFA 120 billion were respectively allocated to this budgetary line in revised budget laws 2014 and 2015. The amount allocated in 2014 financed the production of the EITI report covering the year 2012, see <https://eiti.org/report/mali/2012>. The 2013 report, to be published in 2015, will report on the use of funds collected by local governments, through local taxation of mining activities and voluntary contributions from mining companies.

²⁶ www.mines.gouv.ml.

²⁷ Compared with the proposed trigger in RGRSO1, the prior action was revised to specify Government's intentions to primarily focus on ongoing exploitation and reflect the fact that there is no petroleum exploitation.

4.14. **In 2013, operational subsidies to the state-owned electricity utility (Electricité du Mali, EDM) amounted to FCFA 57.5 billion (1.0% of GDP).** Such subsidies compensated for large losses (a negative net result of FCFA 38.6 billion in 2013) in the absence of sufficient tariff adjustment since 2003.²⁸ Operational subsidies received by EDM are not targeted to the poor²⁹ and complicate budget management in the face of unpredictable oil prices and climate shocks. Moreover, EDM's precarious operational and financial situation prevents proper maintenance and discourages EDM to invest in additional capacity.³⁰

4.15. **Acknowledging the excessive reliance of the electricity sector on public subsidies, in 2014 the authorities put in place a Task Force jointly chaired by the Ministers of Energy and Budget with the aim to identify and implement key actions to redress the sector.** Other members of the Task Force include the national regulator, EDM, and the World Bank and the French Development Agency as observers and technical partners. The Task Force developed a recovery plan to eliminate the need for subsidies by 2018, while being able to accommodate rapidly-growing demand. The recovery plan foresees important investments in hydro capacity, conversion to heavy fuel and gas, metering, imports from cheaper suppliers (Ivory Coast, Mauritania), as well as increased tariffs. However, the recovery plan's objective of stabilizing EDM's losses before-subsidies in 2014 to 2013 levels, which had been retained in RGRSO1 as a trigger for the proposed operation (with a related indicator in the results framework concerning subsidies to EDM), was not met, as total losses amounted to FCFA 56.6 billion. In retrospect, this poor performance can primarily be attributed to a number of exogenous shocks (insufficient electricity supply from external suppliers, technical incidents, difficulties to bill and collect in the Northern regions given security conditions), as well as the authorities' decision not to implement the tariff increase retained for 2014 in the recovery plan, inducing a loss of FCFA 6.6 billion.

4.16. **As identified as an important risk in RGRSO1, the authorities considered that the fragile situation in 2014 did not offer the political opportunity to raise tariffs before significant results were registered for the governance of the sector.** While continuing to invest in capacity to reduce average production costs, the authorities are therefore envisaging to split EDM into an asset-holding structure and an operating structure for greater transparency. The Government also outsourced the procurement and supply of fuel in 2015, in light of strong perceptions of poor governance in this area.³¹ Furthermore, for the sake of transparency in public resource allocation, and in order to build public consensus on the need for a progressive alignment of tariffs to costs, the authorities included an annex on the policy rationale for public subsidies to the electricity utility in the project Budget Law 2016 submitted to the National Assembly. Such an annex reports the evolution of past and projected subsidies, their estimated distribution within the population, and measures of the utility's economic efficiency. It is hoped this will raise public awareness on the consequences of such subsidies on equity, opportunity costs in the use of public resources, and the

²⁸ In 2013, the average sales price of electricity was 95 FCFA/kWh and its cost was 136 FCFA/kWh. Between 2003 and 2013, there were 5 tariff adjustments: 2 decreases and 3 increases, cumulatively leaving nominal tariffs in 2013 3% below their level of 2003. Meanwhile, consumer prices increased by 46% and oil prices tripled.

²⁹ Only 5% of the poor have access to electricity, and it can be conservatively estimated that at least 90% of electricity subsidies go to non-poor households.

³⁰ Current rates of access to electricity in Mali are estimated at 30% nationally, corresponding to an access rate of 55% in urban areas and 18% in rural areas. EDM-SA today has a client base of about 350,000 connections, against 120,000 ten years earlier.

³¹ In 2014, EDM procurement of fuel amounted to FCFA 70 billion, or 44% of EDM total operational costs and 1.2% of GDP. Conversion to heavy fuel will also reduce risks of diversion of fuel from their intended use.

potential for extending the electricity network. Compared with RGRSO1, the indicator in the results framework was thus also modified, from a cap on subsidies to the publication of the annex, to reflect the new policy direction taken by authorities. While delays were incurred compared with initial objectives of the utility's losses retained in the recovery plan, EDM losses before subsidies are projected to decline to FCFA 37 billion in 2015, thanks to reduced oil prices, the rehabilitation and extension of hydro capacity and conversion to heavy fuel and gas. The draft budget law 2016 includes FCFA 20 billion to cover EDM losses, and projections for outer years are of similar magnitude, tariff increases and efficiency gains offsetting the planned increase in connections.

4.17. Anticipated high-order results from deepening executive accountability and transparency include improvements in various governance indicators. These include the various Worldwide Governance Indicators, the Open Budget Index, and the Mohamed Ibrahim Index on Accountability. These should be influenced by the larger GAP, which also foresees the strengthening of the capacity of economic and financial poles, implementation of asset registries in all public administrations, support to Civil Society Organizations (CSOs) providing judicial support to citizens, the creation of new commercial and labor courts, and the strengthening of institutions in charge of controlling magistracy.³² Annex 1 lists expected results which could be directly attributed to the set of actions supported by the proposed series, concerning the recruitment process of high-level civil servants, the effectiveness of payroll controls, the judgment of local governments' accounts, access to information, assets declaration, conventions' compliance with the mining code, and the publication of audit reports, EITI reports, and of the Budget Law annex on electricity subsidies.

Improving Public Finance Performance

4.18. The RGRSO series supports the Government's efforts to improve public finance performance through: (i) larger transfers to local governments and accelerated investment budget execution; (ii) improved public investment selection, implementation and evaluation; and (iii) better integration of domestic and foreign financed government budgets.

Prior Action #7: The Recipient, through the Ministry of the Decentralization and State Reform, has signed two performance contracts with the Regional Councils of Segou and Sikasso.

4.19. The Government believes that larger transfers to local governments and greater discretion by local governments in the use of such transfers are essential to improving service delivery and ensure national cohesion. Malian experience though, since the establishment of the legal framework for decentralization in the 1990s, suggests that transfers from central to local governments can be hampered by the poor capacity of local governments to manage them efficiently and transparently, generating frustration from local populations against Bamako, as well as against local governments accused of incompetence and corruption. In 2014, 11.6% of total public expenditures was directly executed by local governments, while another 8.1% was executed for local governments by the Central Government through de-concentrated structures. In order to further decentralize public resources management, the Government intends to strengthen fiduciary controls on local governments, while improving their public financial management capacity. It also

³² With a view to strengthen the transparency of the justice system, the authorities have also been publishing judicial decisions taken for cases of corruption, economic and financial delinquency since 2014. See www.reforme-justice.gouv.ml.

intends to develop an incentive mechanism, whereby transfers would increase with demonstrated ability from local governments to manage them efficiently and transparently. Thus, the series supported first under RGRSO1 the adoption of the draft implementation decree, establishing performance contracts between the State and Regional Governments, and the proposed second operation supported the signing of such contracts between the State and two Regional Governments, Sikasso and Segou, in September 2015. Such contracts are meant to engage signatories in a mutually-accountable relationship based on a clear division of responsibilities in the design, financing, development, and monitoring and evaluation of multi-year investment projects within the overall legal framework for decentralization. They are also meant to support the renewed decentralization agenda stemming from the 2015 peace agreement and, indeed, are a central component of it. In 2016, the Government plans to sign performance contracts with three other regions. FCFA 400 million is planned per year and per contract, typically of a 5-year duration. Compared with RGRSO1, the outcome indicator related to performance contracts was modified to reflect the direct contribution of such contracts to the transfers from the central government to local governments.

4.20. Decentralization efforts would be complemented by government actions to support more demand for good governance interventions at the national, transversal, and local levels.

These interventions would consist of establishing a framework for effective participation of key stakeholders (including women and youth) in the monitoring and evaluation of the allocation and use of public resources, establishment and implementation of a mechanism for the collection and treatment of financial data to inform community surveillance committees, and provision of training on the use of the said mechanism. In 2013, Mali joined the Global Partnership for Social Accountability.

Prior Action #8: The Recipient has adopted: (i) through the Council of Ministers, the decree on the procurement code that, inter alia: (a) integrates most recent WAEMU directives; (b) reinforces the powers of the independent Procurement Regulatory Authority in terms of dispute settlement; and (c) revises the treatment of simplified contracts; and (ii) through the Minister of Finances, its regulation.

4.21. Long delays in procurement processes are another major impediment in accelerated disbursements. Failure to reduce such delays not only slow down economic growth, but also maintain high suspicion levels for corruption and force contractors to add risks premiums in anticipation of bribes and unpredictable payment dates. In fact, Mali compares poorly with most WAEMU peers, both in terms of investment budget execution rates and time required to complete the procurement process.³³ Two reasons stand out to explain such a poor performance: (i) poor coordination between line ministries, planning and finance upstream, when investment projects are being defined and budgeted, which leads to poor quality feasibility studies, budget forecasts and bidding documents; and (ii) an excess of duplicative ex-ante control steps, made worse by low procurement thresholds that are not risk-based. Based on WAEMU procurement directives and the delegation of authority of decision making on procurement in each member state, the ex-ante approval process should take around 60 days, instead of more than 300 currently in Mali.

³³ World Bank (2013), « Accroître l'efficacité des investissements publics: Etat des lieux et perspectives des réformes de la passation de marché et des finances publiques en zone UEMOA », FCFA Zone Ministerial Meetings, October, Paris.

4.22. **Through greater delegation of authority in line ministries, it is expected that duplications and delays could be reduced, building on the risk-based approach for ex-post controls developed since 2013.** Thus, the series supported under RGRSO1 the implementation of measures to reduce delays in public procurement, including increased thresholds for conclusion and approval of contracts; the elimination of double procurement clearance mechanisms from donors and the Government for donor-financed projects; the reduction in legal administrative delays for public procurement; the reduction in the number of administrative documents to be submitted in order to be eligible for the contract; the reduction in the number of visas required for contracts approbation; and the possibility to launch public procurement plans from the submission of the Budget Law to the National Assembly. These new provisions were in turn formalized through the adoption of a procurement code and its regulation (*arrêté d'application*). The new code clarifies a number of clauses subject to various interpretations, integrates the most recent WAEMU directives, reinforces the attributions of the independent Procurement Regulatory Authority (ARMP, Autorité de Régulation des Marchés Publics) in terms of dispute settlement, and revises the treatment of simplified contracts (for amounts below certain thresholds), which have been the source of important fiduciary risks through the deployment of procurement units in contracting institutions. Meanwhile, the procurement chain was computerized and all ministries were connected, giving private operators and concerned institutions the possibility to trace all active procurement files.

Prior Action #9: The Recipient, through its Secretary of Aid Harmonization, has timely published, within the budget preparation cycle, a medium term external resource framework acceptable to the Association.

4.23. **In May 2013, donors pledged extraordinary levels of official development assistance to Mali.** A total amount of US\$4.2 billion (40% of GDP) was pledged for 2013-14, combining new financing with renewed commitments and merging aid and military assistance.³⁴ While most pledges have been clarified and accounted for, the lack of harmonized systems to monitor aid constitutes a great challenge for Mali in terms of budget preparation and macroeconomic management. Moving forward, the Government intends to encourage all development partners to adopt national public accounting norms when pledging, committing and disbursing aid, in order to facilitate the integration of domestic and foreign financed budgets. Thus, the proposed operation supported the publication (in full consistency with the Transparency Code) by the Secretary of Harmonization of Aid (SHA) of the Medium Term External Resource Framework, with a view to strengthen aid predictability and integrate it with the national budget preparation cycle. The new published framework was deemed acceptable to the Association. Compared with the proposed trigger in RGRSO1, the prior action was revised to reflect final publication dates after integration of comments from DPs and the difficulty in measuring the integration of the Medium Term External Resource Framework in joint budget reviews and high-level quarterly meeting between Government and DPs. The ongoing development of an interface between the datasets of the Direction for Planning and Development (in charge of the public investment plan), the Direction of Public Debt (in charge of credits to Government), and the Ministry of Foreign Affairs (in charge of grants) should also contribute to the better integration of domestic and aid budgets from 2018.

4.24. **Anticipated high-order results include the maintenance of high levels of public investment combined with lower overall deficits.** Annex 1 lists expected results which could be directly attributed to the set of actions supported by the proposed series, concerning transfers to

³⁴ Out of the pledged US\$4.2 billion, a total of US\$3.1 billion was disbursed in 2013-14.

local governments through performance contracts, public procurement delays, the selection of public investment projects, and aid predictability.

Table 4.1: Proposed Triggers, Prior Actions and Analytical Underpinnings for RGRSO2

Proposed Triggers*	Prior Actions	Analytical Underpinnings
Deepening Executive Accountability and Transparency		
Publish the transaction audits of off-budget expenditures incurred in 2014.	1. The Recipient, through the Prime Minister's office, has published the two transaction audits conducted by the Auditor General Office and by the Audit Section of the Supreme Court on the acquisition, in 2014, of equipment, including an airplane.	World Bank (2012), Policy Note on Governance Diagnostics; World Bank (2015), Mali Systematic Country Diagnostic: determinants of corruption. WAEMU (2013), Diagnostic on Financial Decentralization in WAEMU: external controls of local governments. PEFA (2011): public financial management issues. Mali EITI reports (2013, 2014): reconciliation and use of mining revenues Government of Mali (2014): Task Force report on Electricity Sector Recovery 2014-2020: electricity sector financial sustainability.
Conduct a census of the civil service.	2. The Recipient, through the Ministry of Civil Service, has conducted a census of public sector employees.	
The Audit Section of the Supreme Court carries out the judgment of the five largest local governments' accounts	3. The Audit Section of the Supreme Court has completed the audit of at least one hundred local governments' accounts from at least six regions, including the Bamako District, and issued the appropriate opinions.	
Adopt the draft implementation decree of the Law on Illicit Enrichment.	4. The Recipient, through the Council of Ministers, has adopted the draft Decree on the implementation of the law on the prevention and sanctioning of illicit enrichment which includes an annex with a template for asset declaration.	
Publish the inventory of all existing mining and petroleum contracts.	5. The Recipient, through the Ministry of Mines, has published the current mining exploitation contracts.	
In line with the electricity sector recovery plan, the recipient's utility stabilizes losses (net result) before subsidies in 2014.	6. The Council of Ministers, through the General Secretariat of the Government, has submitted to the National Assembly the draft Annex on the policy rationale for public subsidies to the electricity utility, as part of the draft 2016 Budget Law.	
Improving Public Finance Performance		
Two performance contracts are signed between the State and Regional Governments.	7. The Recipient, through the Ministry of the Decentralization and State Reform, has signed two performance contracts with the Regional Councils of Segou and Sikasso.	Government of Mali (2014), Feasibility study of State-regions contracts; IMF (2015), Managing Fiscal Decentralization: performance contracts, fiscal decentralization issues.
Adopt the revised procurement code.	8. The Recipient has adopted (ii) through the Council of Ministers, the decree on the procurement code that, inter alia: (a) integrates most recent WAEMU directives; (b) reinforces the powers of the independent Procurement Regulatory Authority in terms of dispute settlement; and (c) revises the treatment of simplified contracts; and (ii) through the Minister of Finances, its regulation.	World Bank (2014), Boosting capital budget execution in WAEMU; PEFA (2011): procurement reforms.
Publish annually Medium Term External Resource Framework before April 30 and integrate it in joint budget reviews and high-level quarterly meeting between Government and DPs.	9. The Recipient, through its Secretary of Aid Harmonization, has timely published, within the budget preparation cycle, a medium term external resource framework acceptable to the Association.	Secretary of Harmonization of Aid (2013), ODA 2013 disbursement analysis and projections 2015-17; Government of Mali (2013), Sustainable Recovery Plan: ODA projections.

* As envisaged under RGRSO1.

C. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

4.25. **Accounting for political, security and economic uncertainties, the Interim Strategy Note (ISN) FY14-15 aims primarily at accompanying the ongoing transition.** The series was built under the ISN. The ISN acknowledges the volatile institutional, political and security outlook for Mali in the years to come, weak implementation capacity, uncertain rehabilitation costs and institutional reforms in conflict-affected areas, and, in this context, wishes to (i) lay the foundations for longer term accountability and stability, (ii) protect human capital and build resilience, and (iii) prepare the conditions for economic recovery. As a component of the Strategy, the proposed operation is expected to support reforms aimed at strengthening executive accountability and at facilitating and consolidating the economic recovery.

4.26. **The proposed operation is also well-aligned with the forthcoming Country Partnership Framework (CPF) 2016-19.** While designed under the ISN, the series will be closed under the forthcoming CPF and will contribute to its first objective of improving governance, focusing on public resource management at central and local levels and fostering citizen engagement. As such, the proposed operation is expected to contribute to the World Bank twin goals of ending poverty and boosting shared prosperity. Nonetheless, it will be methodologically challenging to estimate the direct contribution of actions supported by the series to these goals, given their high-order nature.

4.27. **The proposed operation is part of a larger program of support to Mali that notably focuses on governance, decentralization, extractive industries, energy, and economic recovery.** It complements and benefits from a number of Bank Technical Assistance (TA) and project activities. The Governance and Fiscal Decentralization TA (P112821) and the Urban Local Government Support Project (P116602) support Government efforts to build PFM capacity, including procurement, in local and de-concentrated institutions and to encourage demand for good governance interventions. The Post Compliance EITI Implementation (P143834) project supports greater participation from stakeholders in EITI activities, and the Legal and Technical Negotiations Support Project (P149445) aims to strengthen negotiation and oversight capabilities (including support on mining code, cadaster, legal and technical diagnostic). In energy, the proposed operation has benefited from the ongoing dialogue and sector knowledge developed under the Energy Sector Support Project (P108440) to review the effectiveness and efficiency of public subsidies. The Reconstruction and Economic Recovery Project (P144442) supports the recovery through improved basic infrastructure and socio-economic opportunities of communities impacted by the crisis in Mali. Along with these operations, the RGRSO series contributes to reaching the following ISN results: (i) greater predictability of public transfers received by local governments; (ii) improved quality of internal and external audit controls; and (iii) increased electricity connections.

D. CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

4.28. **Consultations.** The proposed operation was developed within the consultative framework existing in Mali, namely the Poverty Reduction Strategy Paper (PRSP) framework developed over the years to design and monitor PRSP progress and budget development. This has included consultations with the Government and CSOs, undertaken during the preparation of the ISN FY14-15, and around the design and monitoring of the PRED 2013-14. All the bills supported by the proposed operation have also followed the traditional consultation process involving public

institutions, unions and civil society organizations active in the relevant sectors. Furthermore, the selection of prior actions in the proposed operation builds on the political platform of the President elected in August 2013 with a large majority. More generally, Mali is known for its profound culture of meaningful consultations and “consensus politics”.³⁵

4.29. **Collaboration with development partners.** The World Bank is an important member of the harmonized aid architecture in Mali. It is currently a member of the troika, the group of three DPs appointed on a 3-year rolling basis to conduct policy dialogue with authorities on behalf of the larger development community (comprising 36 members in 2013). As for budget support, the Government and a group of donors signed a Memorandum of Understanding in March 2006 and renewed it on July 1, 2010 to provide Mali with a harmonized framework. This group of donors includes the African Development Bank (AfDB), Canada, Denmark, the European Union (EU), France, Germany, the Netherlands, Sweden, and the World Bank, and became instrumental since 2006 to promote joint approaches regarding policy matrices, disbursement calendars and annual reviews. With the crisis in 2012, however, the group became less active as budget support was suspended by all DPs. Since then, only the EU, France, Denmark and AfDB have resumed budget support operations.³⁶ In this context, the World Bank agreed directly with authorities on the nature of the operation, while consulting with interested partners at the different stages of its preparation. In 2015, DPs resumed the production and exchange of an indicative common matrix of reforms supported in the various budget support operations.

5. OTHER DESIGN AND APPRAISAL ISSUES

A. POVERTY AND SOCIAL IMPACT

5.1. **Measures supported by the proposed series are expected to have a positive effect on poverty reduction.** Greater resource mobilization is expected to provide fiscal space to authorities for pro-poor programs,³⁷ while providing some buffers to improve macroeconomic resilience against shocks to which the poor are particularly exposed. Actions to promote fiscal decentralization are expected to improve service delivery at the local level, (education and health in particular) in deprived areas in particular. Improved public investment project selection, and the more careful consideration of their social impact by the Investment Committee created in 2013 are expected to increase the impact of public investment on poverty reduction. More indirectly, actions supported by the operation to foster greater executive accountability and budget transparency at central and local levels are expected to reduce fiduciary risk and ensure the allocation of public financial resources where voted by the National Assembly. This is likely to reduce corruption and political capture, which are both generally detrimental to the poorest and most vulnerable segments of the society. Nevertheless, the nature of the actions supported by the proposed series make it

³⁵ See World Bank (2015), Republic of Mali: Systematic Country Diagnostic.

³⁶ Since 2013, the various budget support operations concentrated, in a consistent and coherent manner on the following policy areas: political transition (EU), macroeconomic stabilization and economic recovery (AfDB, EU, France, WB), PFM (AfDB, EU, WB), pro-poor expenditure allocation and food security (AfDB, EU, France, WB), decentralization and return of the administration in the North (AfDB, EU, WB), and anti-corruption (EU, WB).

³⁷ From 6.1% of GDP in 2012 and 6.5% in 2013 and 2014, pro-poor public expenditures (education, health and social expenditures) are projected to reach 7.4% of GDP in 2015.

methodologically challenging to quantitatively assess their direct impact on poverty reduction. Poverty and social impact assessment studies were therefore not conducted as part of this series.³⁸

5.2. **More generally, the Government is also developing the institutional framework for managing and coordinating social safety nets.** Improving social protection has become a priority of the Government of Mali, and, in 2011, an action plan for the extension of the social protection strategy was prepared and adopted. In 2013, the Government established a steering committee and a technical unit at the MEF in charge of coordination and management for the safety net system, including the World Bank sponsored safety net project approved in 2013.

B. ENVIRONMENTAL ASPECTS

5.3. **Measures supported by the proposed operation are not expected to have any significant negative impact on the environment.**

5.4. **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.³⁹ 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); and (v) 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.

³⁸ The last poverty and social impact assessment conducted within a Development Policy Operation was done under the Recovery and Reform Support Credit (World Bank Report No. 67541-ML, June 2013), and assessed the impact of electricity tariffs increases on the poor.

³⁹ Decree No. 08-346/P-RM of June 26, 2008.

5.5. **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. Finally, the country had recently engaged in the setting up of a financial mechanism which will be used as a strategic tool to channel international instruments (carbon funds) to support the implementation of sustainable land and water management and renewable energy projects.

C. PFM, DISBURSEMENT AND AUDITING ASPECTS

5.6. **The Government had adopted the updated integrated public finance management action plan (Second Government Action Plan for the Improvement and Modernization of Public Finance Management, PAGAM / GFP II).** The action plan addresses the main issues highlighted in the 2011 PEFA, which indicated that: (1) budget credibility is satisfactory, except for arrears management; (2) budget comprehensiveness and transparency are rated as adequate but further progress requires inclusion in the budget of information such as data of autonomous government agencies, on the programs financed by donors and on fiscal information between central and local entities; (3) budgeting is based on sectoral policies and multi-year policies; (4) the quality of the instruments, rules, and procedures is generally sufficient. The procurement system has been modernized in three dimensions namely the legal and institutional framework and the control system of bidding documents. In addition despite that some actions of the PFM reforms were delayed because of the political crisis, the OP7.30 Assessment of 2012 confirmed the fiduciary environment had remained resilient and acceptable for the Bank to process its operations.⁴⁰ Finance laws, including for the year 2015, have been regularly published with all detailed tables and annexes, on the website of the Ministry of Economy and Finance.⁴¹ However, besides the apparent strong policy and legislative frameworks and systems including detailed procedures for procurement and financial management, the Government is still struggling with compliance and effective implementation. As per 2011 PEFA, capacity building is required for the implementation and monitoring of budget execution, especially of planned actions in the area of data processing, analysis, and control systems. The compliance with internal control rules and the effectiveness of internal audits need to be improved; and accounting and reporting, as well as external scrutiny and audits, are reported to be weak.

5.7. **The Central Bank of West African States (BCEAO) is the common central bank of WAEMU member state countries, including Mali.** The latest assessment of the BCEAO was completed on December 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAEMU, enhanced its governance framework. Specifically, an audit committee was established and progress is underway to strengthen its capacity with external expertise to oversee the audit and financial reporting processes; transparency has increased with more timely publication of the audited financial statements on BCEAO's website. In addition, as planned, the central Bank has adopted all the International Financial and reporting standards (IFRS) applicable to its operations

⁴⁰ The World Bank Operational Policy 7.30 defines conditions under which the World Bank can deal with *de facto* governments.

⁴¹ http://www.finances.gouv.ml/Loi_de_finances_2015/index.html

except IFRS 1. As such, 2014 financial statements were prepared in compliance with IFRS. Furthermore as per IMF assessment recommendations to strengthen the external audit process, 2014 financial statements were audited jointly by two independent external auditors with an unqualified audit opinion and published on the central Bank website.

5.8. **Overall, the fiduciary risk of the operation is rated “substantial”.** This is based on the country’s recent procurement issues and the weaknesses reported on the compliance with the internal control rules as well as the external scrutiny and audits. The continuous progress noted following the latest IMF Safeguards Assessment of the BCEAO and the demonstrated commitment of the Government to implementing other wide ranging reforms in the area of PFM will contribute to mitigate that risk.

5.9. **Disbursement and Accounting.** The Borrower is the Republic of Mali, represented by the Ministry of Economy, Finance and Budget. The credit will be released in one tranche of EURO 44.6 million (US\$50 million equivalent) upon effectiveness and provided the Association is satisfied (i) with the Program being carried out by the Recipient, and (ii) with the adequacy of the Recipient’s macroeconomic policy framework. The proposed operation will follow IDA’s disbursement procedures for development policy operations. Upon approval of the operation and effectiveness of the Financing Agreement, the proceeds of the credit will be disbursed by IDA into a dedicated account of the Government for budget support at the central bank (“BCEAO”) and which forms part of the country’s foreign exchange reserves. The proceeds of the credit will not be used to finance expenditures excluded under the Financing Agreement. The Borrower shall ensure that upon the deposit of the credit into said account, an equivalent amount is credited in the Borrower’s budget management system, in a manner acceptable to the Bank. Based on previous experience, the execution of such transaction from the Central Bank to the Treasury (Ministry of Economy and Finance) does not require more than four (4) days. The Borrower will report to the Bank on the amounts deposited in the foreign currency account and credited in local currency to the budget management system. Assuming that the withdrawal request is in Foreign Exchange, the equivalent amount in FCFA reported in the budgetary system will be based on the market rate at the date of the transfer. The Borrower will promptly notify the Bank within thirty (30) days of transfer by fax or email that such transfer has taken place, and that proceeds have been credited in a manner satisfactory to the Bank.

5.10. **Auditing.** The Bank reserves the right to seek an audit of the dedicated account by independent auditors acceptable to the Bank. If the Bank at any time determines that any amount withdrawn under the Bank credit has been used for expenditures excluded under the legal agreement, such amount shall be refunded promptly upon notice from the Bank. The amount so refunded is credited to the loan account and cancelled.

D. MONITORING, EVALUATION AND ACCOUNTABILITY

5.11. **The Ministry of Economy and Finance (MEF) will be responsible for overall coordination of supervision and monitoring of the reform program supported by the proposed series.** The MEF will liaise with focal points in the Ministries, departments and agencies involved in the proposed series. The participating ministries, departments and agencies will furnish relevant information and documentation on implementation and monitoring of their respective programs to MEF, which will oversee progress in achieving program objectives. Annex 1 lists the institutions responsible to provide the data to monitor outcomes. With the exception of data

regarding access to public finance information, and assets declaration, for which monitoring capacity still needs to be built at the Ministry of Economy and Finances and at the Audit Section of the Supreme Court respectively, all other data are already being produced by responsible institutions. A new PEFA, covering fiscal years 2012-14 shall be finalized and made public in 2016.

5.12. The closing date for the operation is December 31, 2016.

5.13. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org”.

6. SUMMARY OF RISKS AND MITIGATION

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

Table 6.1: RGRSO2 Risk Rating

Risk Categories	Rating
1. Political, governance and security risks	High
2. Macroeconomic	Moderate
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and sustainability	Moderate
6. Fiduciary	Substantial
7. Environment and social	Low
8. Stakeholders	Low
Overall	Substantial

6.2. **Political, Governance and Security Risks.** 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 governance reform agenda and recovery. 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 experience from 2012 shows how quickly public support for the Government can shift; reports of growing levels of insecurity in southern regions, regular protests in Bamako and increasing crime levels in general are all indications of the likelihood of such a shift. The proposed series does not directly entail measures to mitigate such risks or their impact, even if the focus put on resource mobilization is intended to give authorities the possibility to generate buffers needed to absorb security shocks. In addition anti-corruption measures

supported by the series are likely to be fiercely opposed by officials benefiting to it, posing a high risk to their effective implementation. The strengthening of external controls (including on the assets of officials), and the efforts undertaken to promote transparency in public financial management would nonetheless mitigate these risks, as this was demonstrated with the publication of transaction audits in 2014 and its consequences on procurement practices.

6.3. Macroeconomic risks. An unexpected reversal in the downward oil prices trend and a further 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. 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. Yet, risks of contagion effects to the financial sector or to the balance of payments will continue to be moderate. Indeed, Mali's fiscal situation and management remained sound during the crisis and should continue as such given the stabilizing effect of WAEMU membership, Public Financial Management (PFM) reforms undertaken in recent years and continued economic and financial surveillance from the IMF. The financial sector continues to be highly liquid and Mali benefits from the pooling of WAEMU foreign currency reserves to cover its BoP needs in bad times, including debt service obligations.

6.4. Sector strategies and policies. Risks to sector strategies and policies are rated moderate in light of the Government's continued and strong commitment to tackle governance and public finance lapses through its major strategic policy documents, notably the third Growth and Poverty Reduction Strategy Paper and the Government Action Plan. In addition, all prior actions in the proposed operation have a strong underpinning in the existing sector strategies adopted by official government documents.

6.5. Technical design of project or program. There is a moderate risk that factors related to technical design of the program may adversely impact the achievement of the PDO. Indeed, the technical content and the existing national implementation procedures of the supported governance and economic recovery reforms are moderately complex. Moreover, the design of prior actions was informed by adequate analytical work covering all the sectors (Table 4.1) targeted by the series.

6.6. Institutional capacity for implementation and sustainability. Risks related to institutional capacity for implementation and sustainability are rated moderate. There is a limited number of ministries (Economy and Finance, Civil Service, Mines, Justice, and Territorial Administration and Decentralization) and institutions (Audit Section of the Supreme Court) in charge of the implementation of the supported reforms, all of them being endowed with well-qualified, in-house resource personnel. Further capacity enhancement had been provided through technical assistance by the World Bank and other DPs in the sectors of public financial management, governance, decentralization and energy. 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. Although the signing of the Peace and Reconciliation Agreement in June 2015 with armed groups occupying northern regions of the country may entail a government reshuffle, there is a moderate likelihood that such changes will alter the adequate capacity of implementing bodies to ensure the operation's sustainability.

6.7. Fiduciary risks. Fiduciary risks are rated substantial, as discussed in Section 5. This DPO series mitigates these risks by supporting a set of measures to strengthen controls on budget execution and transparency.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions RGRSO1	Prior Actions RGRSO2	Expected Results
Deepening Executive Accountability and Transparency		
The Recipient, through the Council of Ministers, adopts the draft Law on the fundamental principles for creating, organizing, managing and controlling public services.	The Recipient, through the Ministry of Civil Service, has conducted a census of public sector employees.	Share of directors of projects, programs, public agencies and state-owned enterprises recruited through a competitive process by external posting of vacancies. Baseline 2013: n.a.; Target 2016: 100%. Source: Ministry of Civil Service. PEFA 18-IV: Existence of payroll audits to identify control weaknesses and/or ghost workers: Baseline 2010: C; Target 2016: B. Source: Ministry of Economy and Finance.
The Recipient, through the Council of Ministers, adopts the draft Law on the organization, functioning and procedure of the Supreme Court strengthening the autonomy and capacity of the Audit Section of the Supreme Court.	The Audit Section of the Supreme Court has completed the audit of at least one hundred local governments' accounts from at least six regions, including the Bamako District, and issued the appropriate opinions.	Number of local governments' accounts to be judged every year by the Audit Section of the Supreme Court: Baseline 2013: 0; Target 2016: > 250. Source: Supreme Court.
The Recipient, through the Council of Ministers, adopts the draft implementation decree of the Transparency Code.	The Recipient, through the Council of Ministers, has adopted the draft Decree on the implementation of the law on the prevention and sanctioning of illicit enrichment which includes an annex with a template for asset declaration. The Recipient, through the Prime Minister's office, has published the two transaction audits conducted by the Auditor General Office and by the Audit Section of the Supreme Court on the acquisition, in 2014, of equipment, including an airplane.	Proportion of demands of information addressed to MEF regarding public finance in accordance with Transparency code provisions which were satisfactorily addressed. Baseline 2013: n.a.; Target 2016: > 75%. Sources: Budget Monitoring Group; and Ministry of Economy and Finance. Proportion of assets declarations submitted in time to the Supreme Court. Baseline 2013: n.a.; Target 2016: > 75%. Source: Supreme Court. Number of audit reports on non-lethal military equipment and airplane acquisitions published. Baseline 2013: 0; Target 2014: 2.
The Recipient enacts the Budget Law for 2014 including in the budget, inter alia, a budget line for financing extractive industry transparency initiative activities.	The Recipient, through the Ministry of Mines, has published the current mining exploitation contracts.	Number of EITI reports validated, published in time and according to most recent EITI standards: Baseline 2013: 1; Target 2016: 1. Source: EITI secretariat.

Prior Actions RGRSO1	Prior Actions RGRSO2	Expected Results
		Proportion of mining conventions audited for compliance with respect to the mining code. Baseline 2013: 0%; Target 2016: >75%. Source: Ministry of Mines.
	The Council of Ministers, through the General Secretariat of the Government, has submitted to the National Assembly the draft Annex on the policy rationale for public subsidies to the electricity utility, as part of the draft 2016 Budget Law.	Budget Law annexes on electricity subsidies published. Baseline 2015: 0; Target 2016: 1.
Improving Public Finance Performance		
The Recipient, through the Council of Ministers, adopts the draft implementation decree establishing performance contracts between the State and Regional Governments.	The Recipient, through the Ministry of the Decentralization and State Reform, has signed two performance contracts with the Regional Councils of Segou and Sikasso.	Funds released to local governments in accordance with signed performance contracts (in % of total public expenditure); Baseline (2014): 0%; Target 2016: >2.5%; Source: Ministry of Economy and Finance.
The Recipient implements measures to reduce delays in public procurement.	The Recipient has adopted, (i) through the Council of Ministers, the decree on the procurement code that, inter alia: (a) integrates most recent WAEMU directives; (b) reinforces the powers of the independent Procurement Regulatory Authority in terms of dispute settlement; and (c) revises the treatment of simplified contracts; and (ii) through the Minister of Finances, its regulation.	Average public procurement delays (working days). Baseline 2013: 94. Target 2016: <80. Source: Ministry of Economy and Finance.
The Recipient enacts the Budget Law 2014 including in the budget, inter alia, a budget line for financing public investment projects feasibility studies.		Share of public investment projects in budget law selected by the Investment Committee: Baseline: Budget Law 2013: n.a.; Target: Budget Law 2017: 100%. Source: Ministry of Economy and Finance.
	The Recipient, through its Secretary of Aid Harmonization, has timely published, within the budget preparation cycle, a medium term external resource framework acceptable to the Association.	Deviation in ODA budget execution. Baseline 2013: 16%; Target: 2016: <10%. Source: Ministry of Economy and Finance.

ANNEX 2: LETTER OF DEVELOPMENT POLICY

MINISTRE DE L'ECONOMIE
ET DES FINANCES

SECRETARIAT GENERAL



N° 0 39 5 8 /MEF-SG

REPUBLIQUE DU MALI
Un Peuple-Un But Une Foi

02 NOV 2015

Bamako, le

Le Ministre de l'Economie et des Finances

A

Monsieur le Président de la Banque Mondiale

Washington

Objet : Lettre de Politique de Développement

Monsieur le Président,

1. La présente Lettre de Politique de Développement fait le point sur l'évolution de la situation économique récente, en 2014, et les perspectives en 2015-2016. Elle présente également l'état de mise en œuvre des réformes adoptées en 2014 et le programme de réformes en 2015 pour soutenir la reprise économique et réduire la pauvreté.
2. Ce programme de réformes s'inscrit dans le cadre de la mise en œuvre du CSCRP 2012-2017 adopté en décembre 2011, du Programme de Relance Durable du Mali 2013-2014 adopté en avril 2013 et du Plan d'Actions du Gouvernement (PAG) 2013-2018.
3. En vue d'atteindre les objectifs de ce programme de réforme, le Gouvernement sollicite auprès de la Banque Mondiale un financement pour l'appui à la reprise et aux réformes de gouvernance. Ce financement servira de soutien au renforcement de la transparence, ainsi qu'à l'amélioration de l'efficacité des dépenses publiques.

Faits saillants en 2014

Contexte Politique, Social et Economique

4. Le Mali se remet progressivement de la crise survenue en 2012 grâce au rétablissement de la sécurité, consécutif au lancement, en 2014, des négociations entre le Gouvernement et les mouvements armés présents dans le Nord du pays, dans le cadre du processus d'Alger. Ces pourparlers inter-maliens conduits sous les auspices de la République d'Algérie ont abouti à la signature de l'Accord pour la paix et la réconciliation le 20 juin 2015 et au retour des Partenaires Techniques et Financiers. Cette signature ouvrira le chemin de la paix et de la réconciliation dans le pays.
5. Le redéploiement de la force française sera remplacé par la force barkedane à vocation régionale, la Mission européenne de formation des militaires maliens (EUTM) ainsi que les soldats de plusieurs pays composant la Mission multidimensionnelle intégrée des Nations Unies pour la stabilisation au Mali (MINUSMA) ont appuyé l'armée malienne pour sa reconstruction, et pour rétablir globalement l'autorité et l'intégrité de l'Etat dans les régions Nord du Mali. Aussi, le Gouvernement a-t-il adopté la loi d'orientation et de programmation militaire qui

consacre la volonté des hautes autorités politiques et militaires maliennes de doter le pays d'un outil de défense capable de préserver ses intérêts fondamentaux.

6. La Conférence pour le Développement du Mali qui s'est tenue à Bruxelles le 15 mai 2013 et les cinq réunions de suivi ont été un grand succès. Elles ont réuni 80 pays et 28 organisations internationales qui se sont engagés à apporter 3,3 milliards d'euros (soient 4,4 milliards de dollars US et 2200 milliards de FCFA, équivalant à 39 pour cent du PIB), dont 66 pour cent ont déjà été décaissés, y compris 33 pour cent à travers le budget de l'Etat. La cinquième et dernière réunion de suivi a eu lieu à Bamako le 17 février 2015.

Développements macroéconomiques et réformes récentes

Au niveau macroéconomique

7. La reprise économique se consolide en raison des politiques de soutien à l'agriculture et à l'assainissement des finances publiques grâce au paiement des arriérés de l'Etat à l'égard de ses fournisseurs. La croissance réelle du PIB en 2014 a été de 7,2 pour cent contre 1,7 pour cent en 2013. Cette performance est due à un rebond de la croissance dans les secteurs primaire et secondaire. Grâce à une pluviométrie favorable et la mise en place des intrants agricoles en début de campagne, la production agricole a augmenté de près de 15 pour cent. Dans le secteur secondaire, la production s'est accrue de plus de 9 pour cent à la suite d'un rebond particulièrement vigoureux dans le secteur des industries manufacturières. La croissance du secteur tertiaire a été inférieure à 4 pour cent. L'inflation des prix à la consommation n'a été que de 0,9 pour cent en raison de la bonne campagne agricole.

8. Les finances publiques ont affiché en 2014 un déficit budgétaire global (base caisse, dons inclus) de 2,8 pour cent du PIB comparé à 2,9 pour cent en 2013. Les recettes et dons ont été de 1215 milliards de FCFA (20,3 pour cent du PIB), en baisse par rapport aux prévisions (23,7 pour cent du PIB), en raison, parmi d'autres facteurs, d'une contre-performance des recettes douanières et du retard de décaissement des dons au titre de l'aide budgétaire et sectorielle initialement prévus en 2014 mais déboursés en 2015. Les dépenses totales et prêts nets ont été de 1420 milliards de FCFA (23,7 pour cent du PIB). Le solde budgétaire de base a été déficitaire de 86,7 milliards de FCFA (1,4 pour cent du PIB), soit un peu moins du double du niveau prévu.

9. Le déficit du compte courant (dons inclus) de la balance des paiements s'est creusé à 5,5 pour cent du PIB comparé aux 3,4 pour cent de 2013. Ce déficit s'est creusé à la suite de la baisse des cours de l'or et de l'augmentation des importations concomitante avec la reprise économique. Ce déficit du compte courant n'a été que partiellement financé par des entrées nettes de capitaux, principalement sous la forme d'aide extérieure et d'investissements directs étrangers. En conséquence, le solde global de la balance des paiements a enregistré un déficit de 174 milliards de francs CFA (353 millions de dollars US), financé par l'utilisation des réserves de changes de la Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

10. La masse monétaire a crû de 7,1 pour cent en 2014, sous l'impulsion du crédit à l'économie qui a progressé de 18,7 pour cent. Les banques commerciales profitent de la politique monétaire accommodante de la BCEAO en recourant à ses avances pour financer l'économie malienne et souscrire aux titres émis par les Etats de l'Union Economique et Monétaire Ouest Africaine (UEMOA).

Au niveau des réformes

Améliorer la Gestion publique, assurer la transparence et promouvoir la redevabilité

11. L'administration malienne fait face à un défi de modernisation et de stabilité pour promouvoir des méthodes innovantes dans le fonctionnement de tous les services et de toutes les institutions du secteur public. Pour participer activement et gagner dans la compétitivité des savoirs et des services, le Gouvernement a créé des opportunités nouvelles notamment la formation à travers l'Ecole Nationale d'Administration et entend mettre en place la mise en concurrence des emplois administratifs supérieurs. A cet effet, le Gouvernement a adopté le projet de loi portant principes fondamentaux de la création, de l'organisation, de la gestion et du contrôle des services publics. Ce texte adopté par l'Assemblée Nationale a été promulgué par la Loi N°2014-049 du 19 septembre 2014, introduisant le principe de l'adéquation entre le profil et le poste pour la nomination aux emplois supérieurs et le principe d'égalité, d'équité et de transparence. En outre, il a permis d'introduire l'appel à candidature pour la nomination aux postes de directeurs d'établissements publics, de projets et programmes organisés sous forme de services rattachés en vue d'accroître l'efficacité des effectifs de l'administration publique tout en améliorant le niveau des compétences.

12. Le dispositif de reddition et de jugement des comptes des comptables publiques participe à la transparence et la redevabilité. La Section des Comptes de la Cour Suprême est l'acteur principal de ce dispositif. Malgré de nombreuses initiatives entreprises par le Gouvernement tendant au renforcement des capacités de la Section des Comptes pour faire face à ses obligations juridictionnelles, les réformes en profondeur tardent à voir le jour. En attendant l'érection de la Section des Comptes de la Cour Suprême en une Cour des Comptes comme le prévoient les Directives de l'UEMOA, le Gouvernement a adopté le projet de loi organique visant le renforcement des capacités de la Section des Comptes pour remplir ses missions juridictionnelles de manière très visible au sein de la Cour Suprême.

13. Le droit d'accès à l'information est essentiel pour le développement. Ce droit est un élément fondamental de la bonne gouvernance qui donne à chacun les moyens de participer activement à la réalisation des objectifs du développement. Ainsi, le Gouvernement a encouragé la publication de plusieurs documents budgétaires notamment la liste des contribuables, les documents du budget annuel, la situation d'exécution du budget, le plan de passation des marchés d'appel d'offre, bien que la diffusion de ces informations ne soit pas réglementée. Ainsi, le Gouvernement a adopté le Code de Transparence dans la Gestion des Finances Publiques. Pour mettre en application ce Code, le Gouvernement a adopté le Décret N°2014-0607/P-RM du 13 août 2014 visant à déterminer les modalités d'accès et de publication des informations et documents administratifs relatifs à la gestion des finances publiques conformément aux principes et obligations standards.

14. La délinquance économique et financière constitue une menace pour la stabilité et la sécurité. Elle sape les institutions et les valeurs démocratiques, les valeurs éthiques et la justice, compromet et précarise toutes les perspectives de développement. Afin de renforcer le dispositif de lutte contre la délinquance économique et financière, le Gouvernement a adopté en 2013 la loi portant prévention et répression contre l'enrichissement illicite.

15. En vue d'assurer la transparence des paiements issus de l'exploitation des extractions des ressources naturelles, le Mali a adopté les normes de l'Initiative pour la

transparence des industries extractives (ITIE) pour devenir un pays conforme à l'ITIE 2011. Afin de promouvoir cette pratique, le Gouvernement a introduit une ligne budgétaire dans la loi de finances 2014 pour le financement des activités du Secrétariat permanent de l'Initiative pour la transparence des industries extractives.

Améliorer l'efficacité de la dépense publique pour favoriser la relance économique

16. Face au besoin récurrent et croissant des transferts budgétaires à la société Energie du Mali (EDM.SA) en raison du déséquilibre structurel entre les prix de vente de l'électricité et les coûts de production, le Gouvernement a adopté et appliqué le mécanisme d'ajustement tarifaire de l'électricité en 2013 tout en procédant à une augmentation moyenne des tarifs de l'électricité de 7%. Malgré cet ajustement tarifaire, la viabilité financière de la compagnie d'électricité reste préoccupante. Ainsi, le Gouvernement a adopté et met en œuvre le plan d'action visant à restaurer durablement la viabilité financière de la compagnie Electricité du Mali tout en stabilisant les pertes opérationnelles d'EDM.SA à partir de 2014. A cet effet, le Gouvernement compte sur l'assistance des services de la Banque mondiale, en matière de transferts ciblés sur les couches les plus vulnérables de la population qui pourraient être affectées en cas de hausse des prix des produits énergétiques ou alimentaires.

17. L'objectif primordial de la décentralisation est le développement équilibré du territoire national. D'autres objectifs importants de la décentralisation sont (i) l'amélioration de la prestation des biens et services publics, (ii) la promotion d'une meilleure gouvernance, et (iii) la satisfaction de la demande d'autonomie locale. L'insuffisance quantitative des transferts au titre du budget de l'Etat fait obstacle au développement local. Malgré l'existence d'une fiscalité locale, les collectivités mobilisent peu de ressources propres et par conséquent cela limite leur capacité à faire face au financement des compétences transférées par l'Etat. Ainsi, le Contrat Plan Etat-Collectivités- Régions (CPE) a été identifié comme un instrument majeur pour assurer la promotion du développement économique régional. Il constitue une orientation majeure de la consolidation de la réforme de décentralisation prévue par le Document Cadre de Politique Nationale de Décentralisation (DCPND), déclinée dans le Programme National d'Appui aux Collectivités Territoriales (PNACT) phase III et confirmée dans les recommandations des Etats Généraux de la décentralisation tenue en Octobre 2013. Pour mettre en place cet instrument, le Gouvernement a adopté le décret d'application établissant les contrats plan entre l'Etat et les régions en vue de promouvoir le développement régional dans le pays.

18. La délivrance des services publics passe par une administration faisant une bonne planification pour déterminer les besoins à satisfaire par une bonne préparation des commandes publiques. Les usagers des services publics trouvent souvent les délais de passation des marchés publics longs. Fort de ce constat, le Gouvernement a engagé la mise en œuvre d'actions visant à réduire les délais de passation des marchés publics. Ces actions ont concerné notamment par la relecture du décret relatif au seuil de conclusion et d'approbation des marchés et de l'arrêté d'application du code des marchés publics. Elles ont permis de responsabiliser davantage les autorités contractantes par (i) le relèvement des seuils de conclusion et d'approbation des marchés, (ii) la réduction des délais imputés à chaque acteur de la commande publique, (iii) la réduction du nombre de signataires des contrats, (iv) l'élimination des doublons dans la revue a priori des dossiers de marchés, (v) l'allègement conséquent du nombre des pièces administratives éliminatoires et (vi) la relecture de certains articles pour mieux préciser leur contenu et encadrer la préparation des plans de passation des marchés. Toutes ces actions ont contribué dans la mesure du possible à réduire les délais de passation d'au moins 28 jours améliorant ainsi le cadre

macroéconomique, le service rendu aux usagers et la performance des projets et programmes.

19. Les projets d'investissement publics souffrent d'une mauvaise préparation en matière d'évaluation des coûts et de planification des activités. Pour remédier à cela, le Gouvernement a introduit une ligne budgétaire dans la loi de finances 2014 pour le financement des études de faisabilité de projets d'investissement public, en vue de renforcer la qualité des études de faisabilité des projets et programmes.

Perspectives en 2015-2016

Au plan macroéconomique

20. Au cours de cette période post-crise, l'économie devrait retrouver son niveau de croissance structurelle, la croissance réelle connaîtra un repli en 2015 pour afficher un taux de 4,9 pour cent comparé à 7,2 pour cent en 2014. Les efforts déployés par le Gouvernement, notamment dans le secteur agricole et le retour des PTF devraient permettre un maintien de la croissance du PIB en termes réels à 5,4 pour cent en 2016. L'inflation des prix à la consommation est projetée à 2,9 pour cent en 2016 comparé à 2,4 pour cent en 2015.

21. Le déficit du compte courant (dons inclus) de la balance des paiements devrait se contracter pour atteindre 2,8 pour cent en 2015 du PIB contre 5,5 pour cent en 2014. Cette contraction est le résultat de la forte baisse des prix du pétrole depuis mi-2014. Ce déficit du compte courant devrait totalement être financé par des entrées nettes de capitaux, principalement sous la forme d'aide extérieure et d'investissements directs étrangers. En conséquence, le solde global de la balance des paiements devrait enregistrer un niveau positif qui devrait contribuer à une accumulation des réserves de changes de la BCEAO à due concurrence. En 2016, le déficit des opérations courantes (dons compris) de la balance des paiements devrait augmenter pour atteindre 3,9 pour cent du PIB en raison de la poursuite de la reprise économique et être entièrement financé par les investissements directs étrangers dans le secteur de l'or et des télécommunications ainsi que par l'aide extérieure sous forme de prêts.

22. La masse monétaire devrait croître de 13,6 et 12,2 pour cent, en 2015 et 2016, respectivement, sous l'impulsion du crédit à l'économie et au Gouvernement. Par rapport à la politique budgétaire, le déficit budgétaire global (base caisse, dons inclus) est reprogrammé à 4,3 pour cent du PIB en 2015. Les recettes fiscales brutes devraient être en ligne par rapport aux objectifs de la Loi de finances rectificative 2015 (LFR) approuvée par l'Assemblée nationale en juin. Le déficit du solde budgétaire de base attendu (49 milliards de FCFA, soit 0,8 pour cent du PIB) reste inchangé par rapport à la LFR. En dépit de la concentration des dépenses au dernier trimestre, le Gouvernement s'engage à veiller au strict respect des règles budgétaires dans l'exécution du budget. En 2016, le déficit budgétaire global (base caisse, dons inclus) devrait s'améliorer à 3,6 pour cent du PIB tandis que le déficit du solde budgétaire de base resterait quasiment inchangé par rapport à son niveau de 2015 à 0,9%.

Programme de Réformes

Améliorer la Gestion publique, assurer la transparence et promouvoir la redevabilité

23. Afin d'offrir un service public capable de répondre au mieux aux besoins des citoyens, les administrations maliennes ont mené ces dix dernières années de profondes réformes de leur système de gestion des ressources humaines (GRH) à travers la création des Directions des Ressources humaines au niveau central et des Bureaux des ressources humaines au niveau régional et le recensement des effectifs de l'Administration en [2003]. Pour maîtriser les effectifs réels de l'administration publique, **le Gouvernement a conduit un nouveau recensement physique des effectifs de la fonction publique** au cours du dernier trimestre 2014. Ce recensement permettra de rationaliser et accroître la transparence dans la gestion des ressources humaines de la fonction publique.

24. Le dispositif de reddition et de jugement des comptes des comptes publics participe à la transparence et la redevabilité. La Section des Comptes de la Cour Suprême est l'acteur principal de ce dispositif. Suite à la réforme engagée en 2014 à travers la loi organique visant à accroître ses capacités, **la Section des Comptes a procédé, en 2014, au jugement des comptes d'au moins cent collectivités territoriales issues d'au moins six régions** du pays en vue d'améliorer la transparence budgétaire.

25. En vue de renforcer son arsenal juridique de lutte contre la délinquance économique et financière, le Gouvernement a adopté en 2013 la loi portant prévention et répression contre l'enrichissement illicite. Afin de mettre en application les dispositions de cette loi, **le Gouvernement a adopté, en octobre 2015, le décret fixant les modalités de mise en œuvre de la loi sur l'enrichissement illicite et la déclaration de patrimoine** en vue de promouvoir la bonne gouvernance.

26. L'assainissement de la gestion des finances publiques constitue une priorité de l'action du Gouvernement en vue de promouvoir la bonne gouvernance. Pour ce faire, il envisage notamment de mettre un accent particulier sur le renforcement du contrôle externe des dépenses publiques par les institutions nationales habilitées. C'est dans ce cadre que s'inscrivent **les deux audits de régularité des acquisitions d'équipements militaires et de l'avion présidentiel publiés en octobre 2014, respectivement par la Section des Comptes de la Cour Suprême et le Bureau du Vérificateur Général.**

27. La transparence dans les industries extractives est une volonté affirmée par les autorités. Ce faisant, le Gouvernement a adhéré aux normes de l'Initiative pour la Transparence des Industries Extractives (ITIE) afin de devenir un pays conforme de l'ITIE en 2011. Depuis cette date, il produit régulièrement le rapport sur l'ITIE. En vue de favoriser la transparence et faciliter l'accès à l'information du public, **le Gouvernement a publié l'inventaire de tous les contrats miniers d'exploitation existants.**

Améliorer l'efficacité de la dépense publique pour favoriser la relance économique

28. La société Energie du Mali constitue un risque sur le budget de l'Etat qui continue de supporter les déséquilibres financiers structurels entre les prix de vente de l'électricité et les coûts de production. Malgré l'application timide de l'augmentation tarifaire et la mise en œuvre tardive du plan de redressement, **le Gouvernement a introduit une annexe budgétaire à la loi de finances 2016** décrivant les performances passées du secteur électrique et leurs impacts budgétaires, les intentions

du Gouvernement et leur reflet en termes de projections de performance du secteur et de subventions à EDM. L'objectif de cette annexe à la loi de finances est de favoriser un débat parlementaire sur les défis à relever en vue d'assurer l'équilibre financier de la Société Energie du Mali et de rendre publiques les conséquences de la politique tarifaire actuelle en termes d'équité, de développement du secteur électrique, et de de coûts d'opportunité dans l'usage des ressources publiques.

29. Dans le souci de créer les conditions d'une meilleure gouvernance, d'un accroissement des investissements et d'une amélioration du service au client, le Gouvernement entend initier une réforme institutionnelle du secteur de l'électricité conformément au Schéma Opérationnel de Réorganisation et de Gestion des services publics de l'Electricité et de l'Eau (SORGEE) adopté en Conseil des Ministres, en 2010. La première phase du SORGEE a permis la création, dans le secteur de l'eau potable, d'une société de patrimoine et d'une société d'exploitation, en 2011. Le Gouvernement envisage d'engager la seconde phase du SORGEE par le lancement en 2015 du processus de réforme du secteur de l'électricité dans la perspective d'une nette séparation entre la gestion du patrimoine et les activités d'exploitation du service public de l'électricité. La première étape de ce processus consistera en la réalisation d'une évaluation de la réforme menée dans le secteur de l'eau potable en vue d'en tirer les enseignements pertinents pour la définition des orientations de la réforme du secteur de l'électricité. L'entrée en vigueur effective des mesures qui seront adoptées par le Gouvernement au terme du processus de réforme du secteur est prévue pour le premier trimestre 2017.

30. Le Gouvernement attache une importance primordiale à l'approfondissement de la décentralisation qui constitue un défi majeur pour le processus de paix dans le pays. En vue de donner une nouvelle impulsion à cet approfondissement de la décentralisation, le Gouvernement envisage d'instituer des contrats plan Etat-Régions. Ainsi, conformément à l'agenda qu'il s'est fixé, **le Gouvernement a procédé à la signature en septembre 2015 de deux (02) contrats plan avec les régions de Ségou et de Sikasso.** L'objectif visé par cette politique est de doter les Régions d'outils de pilotage de financement adéquat des infrastructures nécessaires pour le développement économique et social de ces régions.

31. La gestion des marchés publics participe à l'efficacité des dépenses publiques et aux performances des services publics délivrés par les administrations. Soucieux de mettre en œuvre les normes communautaires, le Gouvernement a adopté, en septembre 2015, un nouveau code des marchés publics – dont l'arrêté d'application a été pris en octobre 2015 – reflétant les nouvelles directives de l'UEMOA en la matière.

32. La collecte des informations sur l'aide au développement permet d'en améliorer la prévisibilité et de renforcer le cadre réglementaire de suivi de l'aide officielle au développement. Pour ce faire le Gouvernement a élaboré et publié, en juin 2015, le Cadre des Ressources Externes à Moyen Terme (CREMT) et envisage de réitérer cette action chaque année avant le 30 juin.

Suivi et Evaluation

33. Le Ministère de l'Economie et des Finances (MEF) sera responsable, pour la coordination d'ensemble, de la supervision et du suivi du programme de réformes à mener dans le cadre du CSCR. A ce titre, il sera en liaison avec les points focaux dans les Ministères, les Directions et Agences impliqués dans le programme. Les Ministères, Directions et Agences participants fourniront les informations et la documentation pertinente sur la mise en œuvre et le suivi de leurs programmes

respectifs au MEF, qui supervisera les progrès dans la réalisation des objectifs du programme. Les principales sources sont : (i) le recensement de la population qui a eu lieu en avril 2009, (ii) les enquêtes ménages réalisées par l'Institut National de la Statistique, (iii) les statistiques de l'administration collectées annuellement par les Cellules de planification et de statistiques des Ministères sectoriels, (iv) les statistiques économiques produites et la Direction Nationale de la Planification du Développement et (v) les données budgétaires en provenance du MEF. Tous ces éléments contribueront au suivi-évaluation des réformes en cours, dont celles soutenues par l'appui budgétaire à la reprise et aux réformes de gouvernance.

Veuillez agréer, Monsieur le Président, l'assurance de ma considération distinguée.



Mamadou Igor DIARRA
Officier de l'Ordre National

LETTER OF DEVELOPMENT POLICY

Unofficial Translation

Subject: Letter of Development Policy

Mr. President,

1. This Letter of Development Policy assesses the trends in the economic situation in 2014 and the outlook for 2015-2016. It also discusses the implementation status of the reforms adopted in 2014 as well as the 2015 reform program aimed at supporting economic recovery and reducing poverty.
2. This reform program is taking place in the context of implementation of the 2012-2017 Growth and Poverty Reduction Strategy Paper (GPRSP) adopted in December 2011, Mali's 2013-2014 Sustainable Recovery Program [*Programme de Relance Durable* PRED] adopted in April 2013, and the 2013-2018 Government Action Plan [*Plan d'Actions du Gouvernement* PAG].
3. With the aim of achieving the objectives of this reform program, the Government is requesting financing from the World Bank to support the recovery and governance reforms. This financing will be used to help strengthen transparency and improve public expenditure efficiency.

Key developments in 2014

Political, Social, and Economic Context

4. Mali is gradually recovering from the 2012 crisis as safe conditions were reestablished following the launch in 2014 of negotiations between the Government and the armed groups in the north of the country as part of the Algiers Process. These inter-Malian talks, conducted under the auspices of the Republic of Algeria, led to the signature of the peace and reconciliation accord of June 20, 2015 and the return of technical and financial partners (TFPs). Signature of this accord will pave the way for peace and reconciliation in the country.
5. Redeployment of the French forces (Operation Serval), replaced by the regional Barkhane forces (Operation Barkhane), the European Union Training Mission (EUTM), as well as soldiers from several countries making up the United Nations Multidimensional Integrated Stabilization Mission in Mali (MINUSMA) supported the Malian army with reconstruction and with generally reestablishing the authority and integrity of the State in the northern regions of Mali. The Government therefore adopted the framework and military programming law that enshrines the commitment of the highest political and military authorities in Mali to providing the country with the appropriate defense machinery to protect its basic interests.
6. The Malian Development Conference held in Brussels on May 15, 2013 and the five follow-up meetings were a great success. They brought together 80 countries and 28 international

organizations committed to providing EUR 3.3 billion (US\$4.4 billion or CFAF 2,200 billion, equivalent to 39 percent of GDP), of which 66 percent has already been disbursed, including 33 percent through the government budget. The fifth and final follow-up meeting took place in Bamako on February 17, 2015.

Macroeconomic Developments and Recent Reforms

Macroeconomic Developments

7. Economic recovery is being achieved through policies to support agriculture and owing to fiscal consolidation resulting from the payment of government arrears to its suppliers. Real GDP growth in 2014 stood at 7.2 percent against 1.7 percent in 2013. This performance is due to a rebound of growth in the primary and secondary sectors. Owing to favorable rainfall and the use of agricultural inputs at the beginning of the season, agricultural production increased by almost 15 percent. In the secondary sector, production increased by more than 9 percent after a particularly strong rebound in the manufacturing industries sector. Growth of the tertiary sector was less than 4 percent. Consumer price inflation was only 0.9 percent owing to a strong agricultural season.

8. In 2014, public finances registered an overall fiscal deficit (cash basis, including grants) of 2.8 percent of GDP compared to 2.9 percent in 2013. Revenue and grants stood at CFAF 1,215 billion (20.3 percent of GDP), which was lower than projected (23.7 percent of GDP), owing to the customs revenue shortfall and the delay in disbursement of grants for budget and sectoral support initially planned in 2014 but disbursed in 2015, among other factors. Total expenditure and net lending were CFAF 1,420 billion (23.7 percent of GDP). The basic fiscal balance posted a deficit of CFAF 86.7 billion (1.4 percent of GDP), slightly less than double the projected level.

9. The current account balance of payments deficit (including grants) widened to 5.5 percent of GDP, compared to 3.4 percent in 2013, following the drop in gold prices and the increase in imports linked to the economic recovery. This current account deficit was only partially funded by net capital inflows, primarily in the form of foreign aid and foreign direct investment. As a result, the country's overall balance of payments deficit stood at CFAF 174 billion (US\$353 million), which was funded with foreign exchange reserves from the Central Bank of West African States (BCEAO).

10. The money supply increased by 7.1 percent in 2014 as a result of credit to the economy, which rose by 18.7 percent. Commercial banks are taking advantage of the BCEAO's accommodative monetary policy by using its advances to finance the Malian economy and to apply for bonds issued by West African Economic and Monetary Union (WAEMU) member states.

Reforms

Improving Public Management, Ensuring Transparency, and Promoting Accountability

11. The Malian Government faces a challenge in the areas of modernization and stability in order to promote innovation in the functioning of all public sector services and institutions. With a view to participating actively and achieving competitiveness gains in the areas of knowledge and services, the Government created new opportunities, in particular through training at the *Ecole Nationale d'Administration* (ENA), and intends to introduce competition for senior government

positions. To this end, the Government adopted the draft law on the basic principles for the creation, organization, management, and control of public services. This legislation, adopted by the National Assembly, was promulgated by the Law No. 2014-049 of September 19, 2014, paving the way to start matching profiles and positions in the appointment of senior officials and introducing the principle of equality, equity, and transparency. Furthermore, it facilitated the search for candidates for appointment to the positions of directors of public institutions, projects, and programs organized into units subject to oversight authority, in order to enhance the efficiency of government employees while improving competency levels.

12. The accountability and public accounting evaluation mechanism plays a role in transparency and accountability. The Audit Division of the Supreme Court is the key component of this mechanism. Despite numerous initiatives by the Government to build the capacity of the Audit Division to meet its legal obligations, in-depth reforms have been slow in coming. Pending the conversion of the Audit Division of the Supreme Court into an Audit Office as stipulated in WAEMU Directives, the Government adopted the draft organic law aimed at strengthening capacity within the Audit Division, so that it can carry out its legal obligations in a highly visible manner within the Supreme Court.

13. The right to information is essential for development. This right is a key element of good governance that provides each individual with the resources to participate actively in achieving development goals. Thus, the Government has encouraged the publication of several budget documents, among them the list of taxpayers, annual budget documents, the status of budget execution, and the procurement plan, although the dissemination of this information is not subject to regulation. For example, the Government adopted the Public Finance Management Transparency Code. To apply this code, the Government adopted the Decree No. 2014-0607/P-RM of August 13, 2014 aimed at determining the procedures for access to and publication of administrative information and documents related to public finance management in accordance with the principles and standard obligations.

14. Economic and financial crimes pose a threat to stability and security. They undermine institutions and democratic values, sound ethics and justice, and compromise and jeopardize all prospects for development. In order to strengthen the mechanisms to combat economic and financial crimes, in 2013 the Government adopted the law on the prevention and suppression of illicit enrichment.

15. In order to ensure transparency with respect to payments derived from natural resource extraction, Mali adopted the Extractive Industries Transparency Initiative (EITI) standards and became EITI-compliant in 2011. To encourage this, the Government introduced a line item in the 2014 budget law for the financing of activities undertaken by the EITI permanent Secretariat.

Strengthening Public Expenditure Efficiency to Promote Economic Recovery

16. In light of the recurring and growing need for budget transfers to the Malian electricity company (EDM.SA) linked to the structural imbalance between the selling price and production costs of electricity, the Government adopted and applied the electricity rate adjustment mechanism in 2013 while increasing electricity rates by an average of 7 percent. Despite this rate adjustment, the company's financial viability remains a source of concern. Consequently, the Government adopted and implemented the action plan aimed at the sustainable restoration of EDM's financial

viability while stabilizing the operational losses of the EDM.SA, beginning in 2014. To this end, the Government is counting on assistance from the World Bank with targeted transfers to the most vulnerable population groups whose situation could be impacted by a potential rise in energy or food prices.

17. The fundamental goal of decentralization is the balanced development of Mali. Other important decentralization goals are to (i) improve the delivery of public goods and services; (ii) promote improved governance; and (iii) respond to the need for local autonomy. Government budget transfer shortfalls are hampering local development. Despite local taxation in effect, local government resources are low, a factor that is limiting their capacity to meet the financing responsibilities transferred by the State. Consequently, the State-Regional Government Planning Agreement [*Contrat Plan Etat-Collectivités Régions* CPER] was identified as a key instrument to promote regional economic development. It is a critical element in bolstering the decentralization reform set forth in the Framework Document for the National Decentralization Policy [*Document Cadre de Politique Nationale de Décentralisation* DCPND] outlined in Phase III of the National Program to Support Local and Regional Governments [*Programme Nationale d'Appui aux Collectivités Territoriales* PNACT] and endorsed in the recommendations of the General Assembly meeting on decentralization held in 2013. To implement this mechanism, the Government adopted the implementing decree establishing performance contracts between the State and regions to promote regional development in Mali.

18. Public service delivery requires sound planning by the Government to determine the needs to be met through proper public procurement planning. Public service users often face long public procurement wait periods. In light of this, the Government has begun to implement measures aimed at reducing public procurement wait times. These measures targeted in particular a review of the decree related to the thresholds for concluding and approving contracts and the implementing decisions related to the public procurement code. They facilitated the assignment of greater responsibility to the contracting authorities by (i) increasing the thresholds for concluding and approving contracts; (ii) reducing wait times for each public procurement actor; (iii) reducing the number of signatures required for contracts; (iv) eliminating duplication in the upstream review of contract documents; (v) significantly reducing the number of qualifying documents; and (vi) reviewing a number of articles with the aim of clarifying their content and providing for the supervision of procurement plans. All these measures help reduce procurement wait times by a minimum of 28 days, thus improving the macroeconomic framework, the service provided to users, and project and program performance.

19. The preparatory process for public investment projects in the areas of cost evaluation and activity planning is inadequate. To address this, the Government introduced a line item in the 2014 budget law on the financing of feasibility studies on public investment projects in order to strengthen the quality of feasibility studies on projects and programs.

2015-2016 Outlook

Macroeconomic Outlook

20. During this post-crisis period, the economy is expected to return to its levels of structural growth, with real growth falling to 4.9 percent in 2015 compared to 7.2 percent in 2014. The efforts made by the Government, particularly in the agricultural sector, and the return of TFPs are expected

to help sustain GDP growth in real terms at 5.4 percent in 2016. Consumer price inflation is projected to rise to 2.9 percent in 2016 compared to 2.4 percent in 2015.

21. The current account balance of payments deficit (including grants) is expected to contract to 2.8 percent of GDP in 2015 against 5.5 percent in 2014. This contraction is the result of the sharp decline in oil prices since mid-2014. This current account deficit is expected to be completely funded by net capital inflows, primarily in the form of foreign aid and foreign direct investment. As a result, the overall balance of payments is expected to be positive, which should contribute to a proportionate accumulation of foreign exchange reserves for the Central Bank of West African States (BCEAO). In 2016, the balance of payments current account deficit (including grants) is expected to increase to 3.9 percent of GDP owing to the ongoing economic recovery and should be fully funded by foreign direct investment in the gold and telecommunications sectors as well as by foreign lending assistance.

22. The money supply is expected to grow by 13.6 percent and 12.2 percent in 2015 and 2016 respectively as a result of credit to the economy and the Government. With respect to the fiscal policy, the overall fiscal deficit (cash basis, including grants) is reprogrammed at 4.3 percent of GDP in 2015. Gross tax revenue is expected to be aligned with the objectives of the 2015 supplementary budget law approved by the National Assembly in June. The basic fiscal balance deficit anticipated (CFAF 49 billion, 0.8 percent of GDP) remains unchanged in relation to the supplementary budget law. Despite the concentration of expenditure in the third quarter, the Government is committed to adhering strictly to fiscal rules when executing the budget. In 2016, overall fiscal deficit (cash basis, including grants) is expected to rise to 3.6 percent of GDP, whereas the basic fiscal balance deficit should remain practically unchanged in relation to its 2015 level at 0.9 percent.

Reform Program

Improving Public Management, Ensuring Transparency, and Promoting Accountability

23. In order to create a public service that is better able to respond to the needs of citizens, in the past ten years the Malian authorities have overhauled their human resource management (HRM) system by creating central human resource directorates and regional human resource offices and conducting a survey to determine the number of government employees (2003). To gain a better grasp of the actual number of government employees, the Government conducted a census of public sector employees during the last quarter of 2014. This survey will facilitate streamlining and enhanced transparency in the management of government human resources.

24. The accountability and public accounting evaluation mechanism plays a role in transparency and accountability. The Audit Division of the Supreme Court is the key component of this mechanism. After the reform undertaken in 2014 through the framework law aimed at building capacity, in 2014, The Audit Section of the Supreme Court carried out the judgments of at least one hundred local governments' accounts from at least six regions of the country with a view to improving fiscal transparency.

25. In order to strengthen the body of legislation to combat economic and financial crimes, in 2013 the Government adopted the law on the prevention and suppression of illicit enrichment. To apply the provisions of this law, in October 2015, the Government adopted the implementation

decree of the Law against Illicit Enrichment and template for assets declaration establishing the procedures for enforcement of the law on illicit enrichment, with a view to promoting good governance.

26. Fiscal consolidation is a priority for the Government with a view to promoting good governance. To achieve this, it plans to place special emphasis on strengthening external oversight of public expenditure by the national institutions vested with this authority. It is in this context that in October 2014 the Government published the two transaction audits conducted by the Auditor General Office and by the Audit Section of the Supreme Court on the acquisitions of military equipment and airplane incurred in 2014.

27. Transparency in the extractive industries is a stated desire of the authorities. Thus, the Government adhered to the Extractive Industries Transparency Initiative (EITI) standards and became EITI-compliant in 2011. Since this date, it regularly produces the EITI report. In order to promote transparency and facilitate public access to information, the Government published the inventory of all the existing mining exploitation contracts.

Strengthening Public Expenditure Efficiency to Promote Economic Recovery

28. The Malian energy company poses a risk to the government budget, which continues to support structural financial imbalances between the selling price of electricity and production costs. Despite the halting application of the rate increase and the delayed implementation of the recovery plan, the Government introduced a budget annex to the 2016 budget law describing the past performance of the electricity sector and its fiscal impact, the Government's plans, and their implications in terms of sector performance projections and subsidies to EDM. The objective of this annex to the budget law is to spur parliamentary debate on the challenges to be met to ensure the financial stability of the Malian energy company and to publicize the consequences of the current rate policy in terms of equity, development of the electricity sector, and the opportunity costs of the use of public resources.

29. In the interest of creating the conditions for better governance, an increase in investments, and improvement of client service, the Government intends to launch an institutional reform of the electricity sector in accordance with the Operational Plan for the Reorganization and Management of the Public Electricity and Water Services [*Schéma Opérationnel de Réorganisation et de Gestion des services publics de l'Electricité et de l'Eau SORGEE*] adopted by the Council of Ministers in 2010. The first phase of SORGEE facilitated the creation of an asset holding and operating company in the drinking water sector in 2011. The Government plans to start the second phase of SORGEE by launching the process of reforming the electricity sector in 2015 with a view to clear separation of asset management and the operating activities of the public electricity service. The first stage of this process will consist of conducting an assessment of the drinking water sector reform with a view to drawing the relevant lessons to define the objectives of the electricity sector reform. The effective launch of measures that will be adopted by the Government at the conclusion of the sector reform process is planned for the first quarter of 2017.

30. The Government accords top priority to proceeding further with decentralization, which presents a major challenge to the country's peace process. In order to inject new momentum into expanding decentralization, the Government plans to introduce State-Regional Planning

Agreements. In addition, based on the timetable set, in September 2015, the Government signed two (2) performance contracts with the regions of Ségou and Sikasso. The goal of this policy is to give the regions the guidance tools for securing adequate financing for the infrastructure necessary for the economic and social development of these regions.

31. Public procurement management contributes to enhancing public expenditure efficiency and to the performance of public services provided by the authorities. To ensure that community standards are implemented, in September 2015, the Government adopted a new public procurement code - for which the implementation orders were issued in October 2015 - reflecting the new WAEMU guidelines on the subject.

32. Collection of information on development assistance helps improve forecasting and strengthens the regulatory framework for monitoring official development assistance. With this in mind, in June 2015, the Government drafted and published the Medium-Term External Resource Framework [*Cadre des Ressources Externes à Moyen Terme CREMT*] and plans to repeat this activity every year by June 30.

Monitoring and Evaluation

33. The Ministry of Economy and Finance (MEF) will be responsible for the overall coordination, supervision, and monitoring of the reform program to be conducted under the GPRSP. To this end, it will collaborate with the focal points in the ministries, offices, and agencies involved in the program. The participating ministries, offices, and agencies will provide the information and relevant documentation on the implementation and monitoring of their respective programs to the MEF, which will track the progress made with program objectives. The main sources are (i) the population census conducted in April 2009; (ii) the household surveys conducted by the National Statistical Institute; (iii) the government statistics compiled annually by the planning and statistics units of the line ministries; (iv) the financial statistics prepared by the National Directorate for Development Planning; and (v) the budget data from the MEF. All this information will facilitate monitoring and evaluation of the reforms underway, including those reforms supported by budgetary assistance for the recovery process and governance reforms.

Very truly yours,

Mamadou Igor DIARRA

ANNEX 3: FUNDS RELATIONS ANNEX

IMF Executive Board Completes Third Review under the ECF Arrangement for Mali and Approves US\$5.6 Million Disbursement

Press Release No. 15/271

June 2015

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Mali's performance under an economic program supported by a three-year Extended Credit Facility (ECF) arrangement. The Board's decision, which was taken without a formal meeting,¹ enables the disbursement of SDR 4 million (about US\$5.6 million), bringing total disbursements under the arrangement to SDR 18 million (about US\$25.3 million).

In a still fragile security environment, the economic recovery is gathering strength. Activity in 2014 was driven by a return to more normal levels of cereal production and strong growth in the manufacturing sector. The favorable medium-term outlook is based on growing business confidence following the donor reengagement and improved governance. Nevertheless, the vagaries of climatic conditions, setbacks in national reconciliation, or a quick reversal of recent declines in oil prices could undermine the recovery.

Program performance was mixed at end-December 2014 but improved during the first quarter of 2015. In spite of the implementation of measures to strengthen public financial management during the last quarter of 2014, the performance criteria for end-2014 relating to gross tax revenue and bank and market financing of the government were not met owing to administrative weaknesses at the customs administration and a conflict with importers. Steps taken by the authorities to increase oil product taxation and implement better management at the tax and customs administration have put tax revenue back on track at end-March 2015.

The 2015 draft supplementary budget is a temporary solution to pressing spending challenges, including ramped up military spending and deferred payments from earlier years. On the revenue side, it targets an increase of tax revenue by 1.8 percent of GDP to be achieved through an increase in taxes on some products (oil, telecommunication, financial transactions, alcohol and tobacco) and reforms in tax and customs administration to broaden the tax base. On the expenditure side, the composition reflects the priorities of the growth enhancing and poverty-reducing strategies, including restoring peace and security and paying arrears.

Steadfast implementation of reforms is needed to further strengthen public financial management. Tax policy and administration reforms need to be accelerated to successfully raise the tax yield. Simplifying the tax and customs administrative procedures will help improve the overall business environment. The promising results obtained by closer cooperation and information sharing between tax, customs and procurement administrations should now be used to improve tax auditing. Tighter expenditure control, supported by improvements in Treasury management, will help prevent accumulation of arrears. Paying the outstanding domestic arrears will support the recovery.

Reforms aimed at improving the business environment are essential to boost Mali's prospects for stronger medium-term growth. The authorities' agenda is ambitious and targets areas with documented weaknesses. Progress in strengthening the financial system, lightening the administrative burden for taxpayers, placing the electricity company's finances on a sustainable footing, and strengthening governance are critical to durably raising growth and employment prospects.

The Executive Board approved the ECF arrangement for Mali on December 18, 2013 for an amount of SDR 30 million (about US\$42.2 million or 32 percent of quota (see [Press Release No. 13/524](#)).

¹ The Executive Board takes decisions without a formal meeting when it is agreed by the Board that a proposal can be considered without convening formal discussions.