PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

10/05/2015

Report No.: 100067

Operation Name	ML- Second Recovery & Governance Reform Support Credit (RGRSC-2)
Region	AFRICA
Country	Mali
Sector	Central Government Administration (100%)
Operation ID	P151409
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF MALI
Implementing Agency	Ministry of Economy and Finance
Date PID Prepared	August 24, 2015
Estimated Date of Appraisal	October 9, 2015
Estimated Date of Board Approval	November 17, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

The calendar year 2012 witnessed the occupation of the Northern regions of Mali by armed separatist groups, and a military coup in March overthrowing 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. In 2013, a new President and Parliament were elected through fair and transparent elections. While the North of Mali is still subject to sporadic episodes of violence and the presence of armed groups controlling some cities, the security situation has nonetheless been stabilizing with the establishment of a UN peace-keeping force since July 2013. In June 2015, a peace agreement was signed between the Government and most separatist groups. This agreement underlines the importance of effective political and fiscal decentralization for peace and stability.

The political crisis of 2012 had a significant impact on the economy, as entailing significant destructions 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. From 0% in 2012, GDP growth accelerated to 2% in 2013 and 7% in 2014. Poverty developments are more difficult to estimate given the impossibility to conduct surveys in North Mali. However, it is believed that the crisis put a halt on the reduction of poverty observed during the last decade, when the poverty rate was reduced from 56% to 44%. This trend was nonetheless already insufficient to reduce the number of poor given Mali's rapid growth rate and it is thus likely that the number of poor further increased since 2010.

The crisis of 2012 has generated a wide range of opinions on the quality of institutions in Mali and their ability to equitably serve and protect citizens (in low population density areas in particular, such as Northern Mali), and on the role of external factors in Mali's destabilization – such as the impact of the Libyan crisis and drug trafficking for instance. One point of consensus though 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 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 further eroded in recent years as the region increasingly became home to trafficking and criminal networks. But they cannot be explained only by developments in the North. The deterioration in the control of corruption points indeed to the need to restore the social contract between the State and citizens through greater transparency, and strengthened internal and external controls in budget execution and in the use of public financial resources. Recognizing its importance for peace and stability, the new President sworn in on September 2013 made the fight against corruption one of the top priorities – the other two being economic recovery, and return to normalcy and security in the Northern regions. In 2014, the discovery of important off-budget expenditures (2.0% of GDP) revealing severe public financial management lapses, confirmed the persistence of profound governance issues.

Thus, the Government faces in the short term the twin challenges of repositioning the Malian economy on a rapid and sustainable growth trajectory while boldly tackling governance challenges. In 2015, Brussels-related official development assistance should peak to FCFA 486 billion (7% of GDP) before declining from 2016. This exceptional assistance will accompany Mali's recovery efforts engaged since 2013. But it will also exert additional pressure on a public financial management system poorly equipped to accelerate disbursements while minimizing fiduciary risks – the 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 prepare for the post aid boom to ensure fiscal sustainability. Given structural difficulties to rapidly enlarge the tax base, efforts will need to focus on improving the efficiency of current public expenditure, at central and local levels.

II. Operation Objectives

The proposed operation is a single tranche Development Policy Operation, the second in a programmatic series of two. It shares the objectives of the World Bank Group's Interim Strategy Note (ISN) for FY14-15, and is fully aligned with the World Bank's Strategy for Africa and its focus on governance. It prolongs efforts initiated with the Recovery and Reform Support Credit (RRSC) implemented in 2013. Government's efforts supported by the series 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 the civil service;

(c) Implement the transparency code and the law on illicit enrichment; publish transaction audits of off-budget expenditures 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 submit to the National Assembly the project 2016 Budget Law including an annex discussing the policy rationale for public subsidies to the electricity utility;

(e) Adopt and implement the policy framework establishing performance contracts between the State and regional governments;

(f) Adopt and implement the action plan developed to reduce delays in public procurement and revise the procurement code;

(g) Create a budget line for financing public investment projects feasibility studies; and

(h) Publish annually the Medium Term External Resource Framework.

High-order results anticipated from the operation include the improvement in various governance and transparency indicators over the medium term, the maintenance of high levels of public investment combined with lower overall deficits, and greater effectiveness in fiscal decentralization. Expected results which could be directly attributed to the set of actions supported by the proposed series include the strengthening of the recruitment process and establishment controls of the public workforce, greater oversight capacity of local governments finance, greater transparency in public finance and the mining sector, enhanced accountability of officials and local governments, greater public awareness on the consequences of electricity subsidy, improved public investment selection and procurement process, and higher predictability of Official Development Assistance.

III. Rationale for Bank Involvement

4.1. **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.**[1] 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. But if governance problems remain unaddressed and the quality of education remains low, insecurity is likely to remain, service provision will stay inadequate and levels of human capital will remain 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 transparency for greater executive accountability and allocation of public resource to pro-poor interventions, at the central and local levels.

[1] World Bank (2015), "Republic of Mali: Priorities for Ending Poverty and Boosting Shared Prosperity", report 94191-ML, July, Washington D.C.

IV. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0
International Development Association (IDA)		40
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	**40**

V. Institutional and Implementation Arrangements

In line with the arrangements used for previous DPOs in Mali, the Ministry of Economy and Finance (MEF) will be responsible for managing the proposed operation.

VI. Risks and Risk Mitigation

The overall risk rating for the proposed operation are: (i) Political, Governance and Security; (ii) Macroeconomic; (iii) Sector strategies and policies; (iv) Technical design of project or program (v) Institutional capacity for implementation and sustainability; and (vi) Fiduciary.

VII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Measures supported by the proposed operation are expected to have a significant positive and direct effect on poverty reduction, though through various degrees. Greater resource mobilization is expected to provide fiscal space to authorities for pro-poor programs, while providing some buffers to improve macro-economic resilience against shocks to which poor are particularly exposed. Actions to promote effective fiscal decentralization are expected to improve service delivery at the local level, in deprived areas in particular. The selection of public investment projects with high social returns and cost-effective public procurement are expected to foster inclusive growth over the medium term. More indirectly, greater executive accountability and budget transparency are expected to reduce fiduciary risks 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.

Environment Aspects

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

The Government’s reform agenda builds on Mali’s robust environmental institutional framework. Its backbone 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 has adopted the National Policy for

Environmental Protection (NEPP) in 1998, the main components of which are related to (i) fight 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 CSCRP-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. The mining code also entails environmental and social sustainability provisions. The coordination of the policies and strategies, and the enforcement of the specific regulations are under the responsibility of the following institutions: (i) the inter-ministerial committee for the coordination of cross-sectoral environmental issues; (ii) the Ministry in charge of Environment; (iii) the National Directorate of Control of Pollution and Nuisances (DNACPN); (iv) the Environment and Sustainable Development Agency (AEDD); (v) 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 of the strategic environmental assessment; this is a source of inefficiency which need to be solved.

VIII. Contact point

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