PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: 92509
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Operation Name	ML- Second Recovery & Governance Reform Support Operation (RGRSO2)
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, Finances and Budget
Date PID Prepared	May 29, 2015
Estimated Date of Appraisal	September 22, 2015
Estimated Date of Board Approval	November 15, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

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 May 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.[1]

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.[2] 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, including subsidies and tax exemptions

II. Proposed Objective(s)

The proposed operation supports the authorities' efforts to (i) deepen executive accountability and (ii) consolidate the economic recovery as the political transition ends and the security situation improves. Expected results comprise improvements in various governance and transparency indexes over the medium term (Worldwide Governance Indicators, the Open

[1] World Bank (2015), Republic of Mali: Systematic Country Diagnostic, Washington D.C.
[2] See World Bank (2013), Interim Strategy Note for the Republic of Mali for the Period FY14-15, Report # 76233-ML, June 18, Washington DC, for a discussion on Mali's drivers of fragility.

Budget Index, and the Mohamed Ibrahim Index on Accountability), as well as higher domestic revenue collection and higher disbursements on public investment.

III. Preliminary Description

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.

The proposed operation focuses on reforms to improve transparency (officials' assets declaration, civil service census and recruitment, extractive industries), strengthen fiduciary controls, reduce opportunities for corruption (public procurement, utility's fuel procurement), strengthen local government budget management capacity, and integrate domestic and foreign aid budgets.

Direct impact on poverty of the proposed operation is difficult to estimate. The systematic country diagnostic recently completed for Mali considers weak public financial management, social accountability and transparency among the most binding constraints to poverty reduction

IV. 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.

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

Environment Aspects

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

V. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0
International Development Association (IDA)		30
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	30

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