

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No.: 125969

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| <b>Operation Name</b>                   | Second Poverty Reduction and Inclusive Growth Support Operation |
| <b>Region</b>                           | AFRICA  |
| <b>Country</b>                          | Mali  |
| <b>Sector</b>                           | Poverty   |
| <b>Operation ID</b>                     | P161619   |
| <b>Lending Instrument</b>               | Development Policy Lending                                      |
| <b>Borrower(s)</b>                      | MINISTRY OF FINANCE   |
| <b>Implementing Agency</b>              |   |
| <b>Date PID Prepared</b>                | April 17, 2018  |
| <b>Estimated Date of Appraisal</b>      |   |
| <b>Estimated Date of Board Approval</b> | June 26, 2018   |
| <b>Corporate Review Decision</b>        |   |

**I. Key development issues and rationale for Bank involvement**

1. **This program document presents the second Poverty Reduction and Inclusive Growth Support Operation (PRIGSO) in the amount of US\$40 million equivalent to the Government of Mali (GoM).** The series is designed to support the implementation of the Growth and Poverty Reduction Strategy Paper for the period 2016-18, known as the “*Cadre Stratégique pour la Relance Economique et le Développement Durable du Mali*” (CREDD). The CREDD, the 2015 Systematic Country Diagnosis (SCD) and the FY16-19 Country Partnership Framework (CPF) for Mali are all closely aligned. The PRIGSO series supports the policies defined in the CREDD by fostering inclusive growth and supporting pro-poor decentralized transfers and social protection. This is the second 50% credit-50% grant operation of a two single tranche operation. The first credit in the amount of \$ 50 million was approved in May 2017.

2. **Mali’s political environment remains fluid but broadly stable and continues to be affected by significant security challenges.** The peace process envisioned to end the 2012-2013 political-military crisis stalled in 2017. Then on December 30, 2017, the President of Mali, Ibrahim Boubacar Keita, appointed Soumeylou Boubèye Maiga as Prime Minister. Shortly after the signatory parties to the process agreed on a timeline to accelerate the implementation of key provisions of the Agreement ahead of the presidential elections in July 2018, but progress towards implementation has remained slow. In the north, armed groups made scant progress on disarmament while the restoration of state authority progressed slowly creating a security vacuum which has facilitating rampant banditry and continue to displace people. Security risks are no longer limited to northern Mali, and extremists who are not part of the peace process intimidate the population and disrupt public service delivery. Hundreds of schools have been closed, for instance. The spread of militant attacks from north to central Mali and across borders into Burkina

Faso and Niger sparked increased engagement by the international community, and culminated in the creation of a five-nation counterterrorism military force, the G5 Sahel Joint Force.

3. **Security risks continue to erode the fabric of society.** Intercommunal violence in central and northern Mali left scores dead, displaced thousands, and was exploited by ethnically aligned and abusive vigilante groups to garner recruits. The political attention needed to manage security goes at the expense of structural reforms which progress slowly. Increased security spending also reduces the fiscal space for spending in other priority areas. In addition to security risks, an undiversified economy exposes the country to downside risks related to commodity (gold; cotton) price shocks and weather variation (agriculture). Popular dissatisfaction is another risk factor. While difficult to gauge, it presents itself through widespread strikes amongst front-line service delivery personnel. With Presidential and Parliamentary elections planned for 2018, this dissatisfaction may find an outlet during the campaign period as well.

4. **The macroeconomic policy framework remains adequate.** The economic impact of the security risks remains limited as most economic activity is located in the south of the country where business continues as usual. Growth has been robust in recent years and will reach close to 5 percent over the medium term driven by services and agriculture and supported by public and private investment. The authorities have built a solid track record of sound macroeconomic management, even under very volatile circumstances. The macroeconomic policy framework is anchored in the ECF-supported program, which will help buttress inflows of grants and concessional aid in support of the government's objectives. The credibility of the macroeconomic framework is supported by the external anchor of the WAEMU, and its monetary and reserve management policies. The risk of external debt distress is moderate.

5. **Poverty has been declining, but human capital indicators remain low.** As few people live in the north, poverty is driven by developments elsewhere in the country. Prior to the 2012 security crisis, poverty declined from 55.4 percent in 2001 to 48.4 percent in 2011<sup>1</sup> through a combination of growth and reduced inequality driven by increased agricultural productivity in cereals. Poverty is expected to have increased between 2011 and 2013 as a result of spillovers from the 2012 political crisis and poor rains in 2011. By 2013, the poverty rate was estimated at 50.9 percent. From that time onward poverty is believed to be on a downward trajectory thanks to positive per capita growth rates and good performance of the agricultural sector. Other dimensions of poverty and indicators of human capital, remain of concern. Malnutrition is a major challenge (28 percent of children are stunted), health services are inaccessible and of poor quality and the average number of years of formal education of the adult population is 2.4 years.

6. **The PRIGSO series takes a new approach to budget support in Mali.** Previous DPO series supported efforts to address the twin challenges of fiscal consolidation while also tackling governance problems by focusing on strengthening Public Financial Management (PFM) and Governance. Reforms supported in the past included efforts to improve budget transparency, strengthen fiduciary and establishment of controls, and improve public investment management, as well as actions to reduce opportunities for corruption, accelerate public procurement and build local government financial management capacity. The present series, by contrast, aims to sustain

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<sup>1</sup> Based on \$ 1.90 a day international poverty line, harmonized to be comparable with other countries in the region, particularly Niger and Chad.

the foundations for inclusive economic growth, decentralization and protection of the most vulnerable. The dialogue on PFM reforms is now driven mostly by the IMF (division of labor) while support to institutional reform is pursued through an active policy dialogue in the context of the annual Country Policy and Institutional Assessment.

## II. Proposed Objective(s)

7. **This second operation maintains the development objectives of the first operation: (i) foster inclusive growth, and (ii) support to pro-poor decentralized transfers and social protection.** The operation supports the first objective through a set of mutually reinforcing real-sector reforms that should lead to increased incomes for poor rural households. Point of departure are reforms in the provision of agricultural subsidies. This is accompanied by multi-sectoral measures to enhance financial inclusion, improve security of tenure, to expand the mobile phone network, to increase competitiveness in the telecom sector and to improve the performance of the electricity sector. The second objective is operationalized by increasing the coverage and reducing the fragmentation of the social protection system and by supporting accelerated decentralization. This is an important element of the Peace Agreement as reflected by the commitment to almost double the share of spending by non-central entities (*collectivités territoriales*) from approximately 16% of the budget in 2016 to 30 percent in 2018. As governance remains an area of concern, the Authorities have been notified that good governance is an important prerequisite for the PRIGSO series as is maintaining macro-economic stability.

8. **The proposed operation is aligned with the CREDD.** The CREDD 2016-2018 is Mali's framework for the design, implementation and monitoring of development policies and strategies at national and sectoral level. The CREDD reflects priorities as formulated in prevailing strategic frameworks including the Cadre Stratégique pour la Croissance et la Réduction de la Pauvreté (CSCR 2012-2017), Plan pour la Relance Durable du Mali (PRED 2013-2014), Programme d'Actions du Gouvernement (PAG 2013-2018), and the Programme de Développement Accéléré des Régions du Nord (PDA/RN)<sup>2</sup>. The core objective of the CREDD is attaining the Sustainable Development Goals by 2030. The CREDD comprises two prerequisite axes, three strategic axes, 13 priority areas and 38 specific goals. Policy reforms supported by the PRIGSO can all be mapped to CREDD priority areas.

## III. Preliminary Description

### Pillar 1: Fostering inclusive growth

#### *Improve security of land tenure*

**Completed prior action #1-PRIGSO1:** The Recipient has enhanced security of land tenure through the promulgation of the Agricultural Land Act.

<sup>2</sup> The PRED was adopted by the transition government in May 2013 with the view to prevent the deterioration of human development indicators following the 2012 security and political crises. It included a subset of CSCR priority programs envisaged to be implemented in 2013-14 and financed by donor pledges made at the Brussels Conference. However, the new Government elected in August 2013 laid down, two months later, in the PAG its orientations and priorities for the period 2013-18 and drew up the PDARN, designed as an operationalization plan of PRED for the northern regions of the country most affected by the security crisis.

**Prior action #1:** The Recipient has enhanced the security of land tenure by: (i) adopting two application decrees for the Agricultural Land Act; (ii) appointing members to at least 300 sub-district agricultural land commissions; and (iii) adopting through the Council of Ministers the Domains and Land Policy.

**Expected results.** *Land commissions are functional, as evidenced by the fact that they held a meeting in the past three months*

9. **Climate change and area expansion for crop farming increasingly lead to land conflict and threaten to undermine progress in rural poverty reduction.** Climate change affects rural livelihoods in Mali in at least two ways: average temperatures increase, and rainfall becomes more variable. Climate adaptation necessitates changing farming systems and introducing new crop varieties (see next prior action on how e-vouchers enhance resilience to climate stresses) but also improving tenure security. Particularly in areas where crop farmers and pastoralists live close together and interact conflict intensity is increasing. Farmers are expanding the area under cultivation into land previously used by pastoralists; pastoralists are changing transhumance patterns and routes in response to increasingly changing weather patterns.

10. **The land tenure system is characterized by different co-existing land tenure regimes (legal pluralism<sup>3</sup>), creating legal uncertainty and vulnerability.** The typology of tenure situations includes customary possession of land, non-customary possession of land (often for plots purchased from a customary possessor and held with a certificate of sale), occupation of a plot with an administrative document, occupation of a plot with a use right (*concession*), and ownership with a title (*titre foncier*/title deed). These different tenure situations are encountered throughout the country, with *concessions* and ownership titles mostly in the urban core, and customary land or land purchased from customary owners mostly in the peri-urban areas or the rural areas. This legal pluralism is reflected in the body of law, with separate acts governing Agricultural Land and all other land (the Domains and Land Code).

11. **Improved land rights and better ways to prevent and address land conflict enhance resilience, foster productive investment and promote inclusive growth.** Security of tenure and clarity around land rights are key to reducing household vulnerability and assuring the dynamism of primary sector. As improved tenure security and land governance can be expected to reduce conflicts, improve the productivity of pastoralists and increase investments by private companies and smallholders alike, the Government of Mali has made the revision of the framework laws governing land a priority, while also intending to invest in decentralized ways to manage land conflicts through the creation of Rural Land Commissions at district level. To this end, and supported by PRIGSO1, the revised Agricultural Land Act was adopted in April 2017. This Act states the conditions of access to agricultural land and includes provisions to safeguard agricultural land rights including by creating decentralized rural land commissions which are expected to play a critical role in managing and resolving rural land disputes and conflicts. With the adoption of the revised rural Agricultural Land Act, the other land Act covering non-agricultural land (the

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<sup>3</sup> Legal pluralism is a typical feature of West African countries which experienced a succession of land regimes that were established through the pre-colonial area, the colonial period, the post-independence socialist transition, and following the market liberalization phase over the past two or three decades. The changes in both political and economic orientations that took place over time added cumulative layers to the legal and regulatory framework that governs land while never completely abolishing the previous system in place.

Domains and Land Code) needs to be amended. Doing so is complex as land is sensitive and many stakeholders need to be consulted. The authorities are progressing steadily as reflected in the LDP. A revised code is being discussed at the highest technical level of Government while the Council of Ministers adopted the new Domains and Land Policy.

12. **A concrete outcome of the promulgation of the Agricultural Land Act under PRIGSO1 is that decentralized rural land commissions can now be created.** PRIGSO2 supports this, which requires the adoption of its application decrees and the actual creation and training of the rural land commissions. With 703 districts, creating rural land commissions in every district is a daunting task and for PRIGSO2 300 districts were prioritized in regions which land disputes are most pressing (Kayes, Koulikoro, Segou and Sikasso). Members of these commissions were appointed, sensitized and trained by Ministerial staff. As the functioning of these land commissions is critical, a monitoring and evaluation system was rolled out that allows for easy monitoring of the functionality of these commissions using mobile phones.

13. **The results indicator associated with this prior action uses this new monitoring system to assess whether land commissions are functional.** Functional land commissions imply that (relative to the counterfactual) land conflict is reduced, either through preventive action or through conflict resolution. Members (mostly village chiefs) are expected to actively prevent conflict in their own domains and to only bring cases requiring a formal resolution before the Land Commission. Directly measuring a reduction in conflict is not feasible given the limited statistical capacity and the difficulty and cost of setting up an administrative data collection system in remote areas. Evaluating the functionality of land commissions and whether they function as critical nodes in a dynamic and decentralized conflict resolution system is manageable thanks to the new monitoring system.

*Increase competitiveness of and access to telecommunications*

**Completed prior action #3--PRIGSO1:** The Recipient, through the Ministry of Economy and Finance, has issued a ministerial decision establishing a commission in charge of awarding a 4G license to existing operators and, through the Ministry of Digital Economy and Communication, has issued a ministerial order creating the commission in charge of awarding a fourth mobile telecommunications license, using an open international bidding process.

**Prior action #2 – PRIGSO2:** The Recipient, through the Ministry of Digital Economy, Information and Telecommunications, has: (i) included obligations in terms of wholesale supply and facility sharing in the 4G licenses for the two active mobile operators; and (ii) launched the call for proposals for a fourth mobile telecommunication license through an open international bidding process offering market access conditions in line with international good practices.

**Expected results.** Decrease in the average in tariff per minute for personal domestic calls from CFAF 108 (2015) to CFAF 90 by mid-2019

**Completed prior action #4--PRIGSO1:** The Recipient, through the Office of the Prime Minister, has facilitated the extension of the mobile telephone network to isolated areas, making operational the Universal Service Fund Management Agency (AGEFAU), by: (i) adopting of the decree of appointment of its Director General; (ii) creating and provisioning of its account; and

adopting of a decree fixing the percentage rate and modalities of payment of compulsory contributions payable to the fund.

**Prior action #3 – PRIGSO2:** The Recipient, through the Board of Administrators of the AGEFAU, has adopted AGEFAU's work plan for 2018 which includes investments to extend telecom services to previously uncovered areas.

**Expected results.** Number of rural localities benefiting from extension projects of telecom services increase from 0 localities in 2015 to 16 by mid-2019

14. **ICT services bring significant benefits to poor households.** Mobile telecommunication services can make essential services accessible (emergency calls), increase resilience to shocks (transfers), reduce transaction costs and improve market access (information), offer opportunities for financial inclusion (mobile savings and e-banking) while also creating employment, including for sellers of phone credit and charging or repair services. To attain these benefits, mobile telecommunications services need to be affordable and accessible but according to a 2014 report carried out by AMRTP, for approximately 22 percent of the population, telecommunications services are not available. This affects the most vulnerable, poor and isolated households especially.

15. **The Government of Mali made important advances in improving the competitiveness of its telecommunications sector but several issues remain.** Authorities have adopted a new legal and regulatory framework in 1998 and revised it in 2011. They privatized Sotelma / Malitel and granted licenses to two additional global operators. However, one telecommunications license holder does not have an operational network yet outside Bamako, leaving a de facto duopoly between Sotelma / Malitel and Orange Mali. Mobile tariffs in Mali are the highest in absolute terms when compared to other countries in the WAEMU sub-region. Prices have not reduced sufficiently to allow for a massive expansion of broadband internet, further limiting the creation of opportunities associated with the use of ICT. Given the failure of the entrance of a third operator, the most appropriate approach to strengthen competition is the identification of an additional ("fourth") operator<sup>4</sup>. The attractiveness of Mali for another license holder will depend on market conditions (level playing field) and the speed with which the authorities introduce a new license as a prospective investor can be expected to prefer to enter the market while it still is in its take-off phase, which is the case for mobile broadband.

16. **The allocation of 4G licenses to existing operators, is an opportunity to level the playing field prior to the entry of an additional operator.** Granting 4G licenses to existing mobile operators as part of their telecommunication license, allows them to deploy high speed broadband services in their respective mobile network and compete with the fourth mobile operator who would be granted the same 4G technology to provide mobile broadband services alongside to voice. The technology upgrade from the current 3G to the 4G improves the quality of service of Internet for the final users for a limited investment. The conditions for the 4G licenses will need

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<sup>4</sup> The third operating license was granted in February 2013, but the operator failed to launch operations to date, after delaying the launch date several times. The operations have been delayed due to difficulties encountered by the operator to secure the financing needed to build the network, and because of a pending legal dispute between shareholders of the company.

to be such that they offer a level playing field for the prospective 4<sup>th</sup> operator.<sup>5</sup> Together with the fourth operator, this upgrade of technology on existing operators is expected to unleash the potential of Internet services and applications to all mobile subscribers (covered by the 4G network and subscribing to data plans), with cascading social and economic impacts.

**17. Under PRIGSO2 the process of identifying a 4<sup>th</sup> operator, started under PRIGSO1, continues with the international launch for the call for proposals. In addition, agreement was secured on the level playing field conditions from the existing mobile phone operators, as part of the 4G license attribution process.**

**18. One reason why telecom services are not available across the nation is because operators prefer to invest where doing so is (most) profitable.** To ensure people across the territory have access to ICT services, the Government created a dedicated universal access fund, financed through mandatory contributions from telecom operators. By end December 2014 the fund owned CFAF 21.3 billion (US\$ 40 million) but had not yet disbursed anything in support of improved access. Since that time, numerous changes have been brought about, including the creation of a dedicated management agency (the Agence de Gestion du Fonds d'Accès Universel – AGEFAU) in 2017. The final step is to assure the effective utilization of the fund by AGEFAU to enhance access. It is supported by prior action #3 which should lead to investments in telecom access such that at least 16, previously uncovered, rural communes are covered by a mobile phone network by mid-2019.

#### *Improve financial inclusion*

**Completed prior action #5-PRIGSO1:** The Recipient, through the Ministry of Economy and Finance, has issued ministerial orders withdrawing the licenses of those microfinance institutions that have been audited and needed to be liquidated pursuant to its micro finance sector emergency plan, dated March 2015.

**Prior action #4 – PRIGSO2:** The Recipient, through the Ministry of Economy and Finance, has strengthened financial inclusion by: (i) appointing a liquidator for two of the microfinance institutions whose licenses have been withdrawn; and (ii) completing the 2017 supervision program of the CCS/SFD in accordance with its annual calendar.

**Expected results.** The non-performing loans ratio of all microfinance institutions (PAR90) decreases from 8.8 percent in 2014 to 4.5 percent in 2019.

**19. A lack of appropriate financial products reduces financial inclusion for the poor and constrains the agriculture sector—a key driver of growth and poverty reduction.** Mali's microfinance sector has been experiencing a crisis for over six years. The sector serves close to one million clients many of whom are in rural areas. It plays an important role in providing financial services to underserved households, microenterprises and farmers. The sector is fragmented, with 100 institutions, many of which are weakly managed, while the national monitoring and supervisory mechanism in place has been performing poorly due to insufficient resources. Two of the country's biggest institutions have ceased operations and several other small ones are technically bankrupt and must be liquidated.

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<sup>5</sup> As of April 2018, Orange has been attributed a 4G license, while negotiations with Sotelma / Malitel are ongoing.

20. **To facilitate the recovery of the microfinance sector PRIGSO1 supported the withdrawal of the operating license closure of nonviable institutions.** As the withdrawal of operating licenses of non-viable institutions continues, PRIGSO2 shifts attention to the liquidation of institutions whose licenses have been withdrawn. Not only is Mali the first WAEMU member state to liquidate bankrupt MFIs, by agreeing to protect small depositors – see the letter of Development Policy), the Government creates a positive incentive to make sure supervision of the sector is up to standard. Ensuring adequate supervision is also supported by PRIGSO2: the program of supervision needs to be fully executed. A total of 41 MFIs were supervised in 2017 (3 more than initially envisaged) out of a total of 100, with those supervised being identified using risk based criteria and in close collaboration with the BCEAO.

21. **Other prior actions under PRIGSO 2 also enhance opportunities for financial inclusion.** For example, (i) the issuance of e-vouchers (prior action #7) could be linked to mobile account and the information collected about the recipient could be leveraged to provide credit in the future; (ii) the extension of the mobile infrastructure (prior action #3) offers opportunities to develop financial inclusion; and (iii) mobile money could be used to provide social safety net transfers (prior action #9).

#### *Energy*

##### **(No prior action under PRIGSO1)**

##### **Prior action #5:** The Recipient, through:

the Ministry of Energy, has initiated the reform process aimed at enhancing the efficiency of the electricity sector by endorsing the audit of EDM, including the proposed set of reform actions.

EDM, has initiated the process aimed at improving revenue collection by requiring the use of smart meters by high voltage users and large low voltage users.

**Expected results.** The number of large low voltage and high voltage users with smart meters installed increases from 0 in 2016 to 6,000 by June 2019.

22. **A dynamic electricity sector is critical for a fast-growing economy like that of Mali, but the performance of the electricity sector is inadequate.** The sector is plagued by financial imbalances which discourage private sector investment and affect the financial health, and overall functioning of the sector. Just to illustrate, in 2016, EDM ran a pre-subsidy deficit of CFAF 57 billion (US\$ 100 mln). To help cover this deficit the Government transferred CFAF 33 billion (US\$ 53 mln), leading to uncovered expenses which, unresolved, may lead to severe power shortages once suppliers can no longer be paid.

23. **To address the structural imbalances of the sector, wide ranging reforms are needed covering three areas:**

- **Governance improvements** are needed to improve the way EDM operates, its investments are planned and executed, and its assets are managed. The quality of service and operating



performance of EDM have deteriorated in recent times, with a strong increase in the frequency of service interruptions, translation of the mismatch between the capacity of production and demand for electricity, on the one hand, and the aging of its network, on the other. Losses in the transmission and distribution network have steadily increased and were around 23 percent in 2015 (up from 19 percent in 2011), or 360,000 GWh of energy produced but not sold which represents a loss of about 80 million euros for the EDM (at an average cost of production of 23 cents per kWh in 2015). In terms of management, EDM's productivity index declined by 17 percent in 2015, due in part to a more significant increase in the workforce (following the recent massive recruitment that was not matched between the needs and the profile of new recruits) in relation to the evolution of energy production. EDM's objectives are set out in the specifications annexed to the concession contract but have not been updated since the contract was signed in 2006. There is no performance contract linking the EDM to the Government, which prevents regular and periodic monitoring of improvements in EDM's performance.

- **Significant investments** are needed to change the energy mix towards less expensive and more climate friendly fuel options (more hydro and solar; less diesel) and to improve the distribution network. The limited capacity of the Ministry of Energy in terms of planning, preparation, financing and implementation of structuring projects for sector development have led to a situation where the means of production are insufficient to meet the demand, which leads EDM to resort to the leasing of diesel-fueled emergency thermal groups – the total capacity of these groups now reaches 98 MW (27 percent of installed capacity in the national territory and 11 percent of the electricity produced and injected into the interconnected network in 2016). This massive use of thermal group rentals increases the cost of operating, has negative environmental consequences and poses a number of difficulties for the industry. At the current rate of growth (uncontrolled) of demand for electricity and the ambitions to accelerate electrification (overall electrification is estimated at about 30 percent leaving a lot of new users to connect and thus significantly increase demand), the capacity deficit could be approximately 150MW by 2019. However, growth in demand could be better controlled with the application of energy efficiency measures such as the labelling of energy-intensive equipment and the support of companies inefficient in their processes. And;
- **reforms leading to financial equilibrium in the sector.** The three areas are inter-related. Tariff reform alone would be unrealistic, for instance, the quality of service improves. But to achieve this, investments are needed along with improvements in management.

24. **To address the shortcomings of the sector the Authorities agreed on a reform strategy with the World Bank in February 2017.** This strategy is outlined in the Feuille de Route pour Appuyer le Développement du Secteur de l'Énergie au Mali (Road map to support the development of the energy sector). It presents a combination of policy reforms and investments that if implemented would put the sector in financial equilibrium. Elements of the action plan require significant investments which are supported by Bank projects. This includes efforts to increase regional interconnectivity to Guinea to access hydro power and to invest in solar generation through Segou solaire. PRIGSO2 supports the implementation of selected short term actions identified in the Road Map particularly the finalization of the audit of EDM and the

associated action plan. The Authorities have taken additional measures to enable the Board of Director of EDM to better perform its corporate role: (i) EDM has amended its statutes to comply with OHADA 2014 Revised Uniform Act to allow independent directors to its Board, and (ii) EDM's Board has established technical and financial committees at board level for auditing, investment and commercial aspects. These reforms are reflected in the LDP.

25. **Improving the financial health of the sector remains a priority in the short term.** As explained above, achieving financial health requires major investments to make the generation mix less costly and more climate friendly and to reduce wasteful inefficiencies resulting from transmission losses. These investments will take time to materialize. In the short run, however, revenues can be boosted through a better management of commercial losses. The reform matrix thus includes the installation of smart meters amongst the largest electricity consumers. An analysis of the sector has found that the 1.5 percent largest users account for about forty five percent of all electricity consumption. By installing smart meters amongst them, billing efficiency will be improved, and climate objectives supported through the more efficient use of energy as consumers pay for what they use. Meanwhile, a study to assess the scope for tariff reform was launched, and efforts are ongoing to restructure EDMs short term (and costly) debt.

## **Pillar 2: Supporting pro-poor (decentralized) transfers and social protection**

### *Increase the resources of local governments*

**Completed prior action #6—PRIGSO1:** The Recipient, through the Council of Ministers, has advanced the decentralization process by adopting a draft 2017 budget providing for the transfer of budgetary resources to local governments pursuant to its competencies and resources transfer plan in favor of local governments.

**Prior action #7.** The Recipient has produced an electronic cadastral map for Bamako.

**Expected results.** (i) Percentage of budgetary resources allocated to the three poorest regions in total budgetary resources transferred to regions rises from 15% in 2014 to 25% by mid-2019.

26. **Mali has a long history of attempts at decentralization dating back to the transition to democracy.** When at the 1991 national conference the building blocks for Mali's democratic system were agreed, political decentralization was a cornerstone of the new political system. Since that time, decentralization has served the dual objective of appeasing tensions in the north of the country, and stronger development and accountability via bottom up development. All past peace agreements, as well as the Agreement signed in May and June 2015, feature decentralization as tool for peacebuilding and increased economic development of northern Mali. Despite its importance, decentralization has encountered resistance from a centralized and hierarchical bureaucracy which was quick to point out inefficiencies and the lack of accountability of some decentralized entities. As a consequence, some formal authority was decentralized but consolidation of decentralized governance has lagged, especially in the area of fiscal transfers.

27. **Decentralized spending is estimated at 16 percent of the budget for 2016.** It covers mostly salaries for teachers and health staff, as well as investment budgets for the health, education and water sectors. As the majority of teachers and health staff are appointed by the central level, decentralization is more the deconcentration of the decision to pay staff to the local level

(*engagement*), a payment that is then effectuated by the central line ministry, than an actual decentralization of staffing decisions. Similarly, investment decisions remain largely controlled by the center as they are channeled through the Agence Nationale d'Investissement des Collectivités Territoriales (ANICT).

28. **This operation supports decentralized revenue collection.** Under the 2015 Peace Agreement the Government committed to allocating 30 percent of its budget to local authorities. This reflects a step change relative to current levels of spending and its implementation will necessitate greater devolution of decision making powers and the allocation of ‘untied’ fiscal resources. PRIGSO1 supported this objective through the allocation of budgetary resources to local governments in compliance with the Government competencies and resources transfer plan adopted by the Cabinet. PRIGSO2 support a complementary action by the Government consisting in the preparation of a cadaster, initially for Bamako but with a view of a nationwide roll-out and improved security of tenure (important for investments) as well as property tax collection. In March 25, 2016, a decree was adopted to create a cadaster which should improve the business environment and city planning while broadening the tax base. Creating the cadaster entails creating a centralized system comprising a map with all plots (which have been assigned unique plot IDs, called NINACAD), associating existing title deeds to the plots and creating a one stop shop for land titling issues. The cadaster (map as well as title information) will be accessible on line, enhancing transparency and reducing the scope for conflict. PRIGSO2 supports the creation of the cadaster through the completion of the cartography for Bamako.

*Improve the provision of agricultural subsidies to poor households*

**Completed prior action #7-PRIGSO1:** The Recipient, through the Ministry of Economy and Finance, Ministry of Agriculture and Ministry of Livestock and Fisheries, has introduced an e-voucher scheme for the distribution of agricultural inputs subsidies, through the adoption of a revised procedures manual governing the modalities of distribution of such subsidies.

**Prior action #2:** The Recipient, through the Ministry of Agriculture has launched the e-voucher scheme for the distribution of agricultural input subsidies by: (i) completing the registration of farmers in 4 sub-districts (Yanfolila, Koutiala, Niono, Bla); and; (ii) notifying beneficiaries via text messages about the date at which the e-vouchers will be distributed.

**Expected results:** *The number of agricultural subsidy beneficiaries who receive their subsidies through e-vouchers (as opposed to paper vouchers) has increased from nil at baseline to over 100,000 by mid-2019.*

29. **Since the 2008 food price crisis, the Government of Mali has made food security a core objective of public policy.** One of the key measures implemented was a fertilizer subsidy scheme targeting primarily rice and maize producers in the high productivity areas of Sikasso and Segou. This policy has been successful and since 2008 the production of food grains, particularly of maize and rice, doubled driven by area expansion, yield increases and favorable prices. The scheme absorbed 2.1 percent of Government’s total expenditure in 2015 and relies on paper vouchers and public procurement of fertilizer. It is a transaction heavy approach that takes up much of the human resources of extension services. As evidence is emerging that the current subsidy scheme is less effective than was previously believed, as leakage appears to be substantial, and as there is increasing need to reduce rural household vulnerability to climate change by promoting

adapted technologies, the authorities decided to experiment with a more transparent and flexible approach to the provision of agricultural subsidies: electronic vouchers.

30. **Electronic (e)-vouchers offer a means to distribute agricultural subsidies that is more transparent, better targeted and more flexible than the traditionally used paper vouchers.**

The e-voucher approach uses a data base comprising information on household characteristics as well as phone numbers and transfers subsidy vouchers by text message to those households who meet pre-specified criteria. Households who receive a voucher can take them to pre-identified private sector suppliers to obtain their (subsidized) goods. E-vouchers are flexible as they can be given for chemical inputs but also for drought-resistance seed, and even to purchase services like animal vaccination or extension services, making them attractive as means to promote climate adaptation. An assessment of the pilot e-voucher scheme underscores the many advantages it offers, including reduced transaction costs by 20 percent, a reduced processing time (from 8 to two weeks), an ability to adapt the size of the subsidy to the wealth of the household, traceability of the beneficiaries, increased transparency and the ability to flexibly adapt the subsidy scheme in light of new policy priorities, research insights or climate change. This permits a more scientific and iterative approach to reducing household vulnerability and to supporting crop productivity improvements in a targeted, pro-poor manner.

31. **The PRIGSO series supports the switch from a paper-based fertilizer voucher system to the e-voucher system, in a measured way.** Stakes in the agricultural sector are high and switching from one approach to subsidy delivery to another involves operational risks that need to be mastered. In a first attempt in 2017 approximately 17,000 beneficiaries in 4 districts (with high phone network coverage) received e-vouchers. Unfortunately, these vouchers were sent late in the agricultural season and to only a subset of the intended beneficiaries. So a new attempt is fielded in 2018 when it is expected that vouchers will be sent to some 80 to 90,000 beneficiaries (including cotton farmers) in the same four pilot districts, Yanfolila, Koutiala, Niono and Bla. The prior action does not reflect the actual sending of the vouchers, but the sending of messages informing beneficiaries, as the timing of the agricultural season does not coincide with preparation schedule for this operation. The results indicator for mid-2019 suggests that over 100,000 beneficiaries have received their e-vouchers in a timely manner.

32. **As dialogue around the implementation of the e-voucher scheme in 2017 drew the Authorities' attention to the presence of large discrepancies between the administrative fertilizer price (used to compensate the suppliers) and the market price, with the administrative price being substantially higher, the authorities opted to change the way in which fertilizer distributors are selected.** The Authorities opted for a competitive selection of fertilizer distributors and in doing so expect to attain a more market-conform administrative price. This is reflected in the Letter of Development Policy.

33. **One potential constraint to a nationwide roll-out of the e-voucher scheme is the, at times, limited coverage of mobile network in rural areas.** To address this expanding mobile phone coverage in rural areas not covered by the phone network is also tackled by the PRIGSO series. For this, see the policy actions in the telecommunications sector (PA#3).

*Extend the coverage of social protection mechanisms*

**Completed prior action #8-PRIGSO1:** The Recipient, through the Ministry for Solidarity, Humanitarian Action and Reconstruction of the North, has adopted a unified vision of its social protection policy, through the: (a) adoption of a Presidential Decree approving the National Social Protection Policy, along with its accompanying social protection action plans 2016-18; (b) adoption of a Presidential Decree creating the National Council of Strategic Orientation of Social Protection (“National Council”), and the issuance, through MSAH, of a ministerial order creating the Unified Social Registry Steering Committee (“Steering Committee”); and (c) has commenced the operations of both the National Council and the Steering Committee

**Completed prior action #9-PRIGSO1:** The Recipient has made a provision in its 2017 budget for budgetary allocations to expand the coverage of social safety net programs, including JIGISEMEJIRI and RAMED.

**Prior action #8:** The Recipient, through the Ministry for Solidarity, Humanitarian Action has: (i) made available on-line a Unified Social Registry, including a mechanism to integrate beneficiaries of various social safety net programs; and(ii) made Jigisemejiri beneficiaries eligible to free medical care at the CSCOMS by distributing RAMED insurance cards.

**Expected results.** Increase in the number of households receiving cash transfers (direct transfers, high-labor intensive work, and income-generating activities) from 60,715 in 2015 to 150,000 by mid-2019.

34. **The majority of families in Mali live close to, or below the poverty line and are vulnerable to the vagaries of the weather and climate-induced changes in weather patterns. Social safety nets help reduce this vulnerability and increase resilience.** Predictable, multi-annual social protection support to households has been shown to increase resilience by offering a buffer in case of shocks. Moreover, the additional resources result in investments in human capital and physical assets. Cash transfers provided over multiple periods to poor households are typically used to pay off debts, to accumulate productive assets or to buy inputs. Experience shows that these objectives are more effectively achieved when safety net support is combined with investments in livelihoods -as it is done, for instance, through the e-voucher subsidy scheme (prior action #2) and reforms to improve the maintenance of rural roads under PRIGSO1.

35. **An assessment of the redistributive effects of Mali’s fiscal policies by the DPO team finds that cash-transfers (an important component of overall safety nets) are pro-poor and well targeted.** The poorest 40 percent receiving almost 85 percent of the amount transferred. Despite this good performance, safety nets remain underfunded and rely heavily on external financing even though the SCD estimates that safety nets have the potential to reduce the number of poor significantly: less than 2 percent of GDP in perfectly targeted transfers in combination with 2 percent of growth per capita over the next 15 years (of the poorest households) is sufficient to eliminate poverty by 2030. With the adoption of a national social protection strategy coordination in the sector has improved, as has funding. Better organization convinced the Ministry of Finance to set-up a separate budget line for social transfers and attracted additional funding from donors (DfID US\$ 10 mln.; Swiss Corporation US\$ 0.5 mln.; and AFD US\$ 2.4 mln). Mid-2017 the total number of beneficiaries of was estimated at 68,000, up from 60,000 2015. The objective for the PRIGSO series is to reach 150,000 beneficiaries by mid-2019. To facilitate continued coordination a Unified Social Registry has been created, supported by PRIGSO2. The

registry is accessible to all (including through internet), and allows prospective beneficiaries to register themselves and claim benefits (upon verification). This enhances transparency as well as coordination.

36. **By linking Jigisemejiri to the health insurance system of the ANAM, greater coordination in social protection is achieved, while giving the most vulnerable access to free medical care.** ANAM has created a performance based approach to paying for health services at the frontline level. The approach is scaling up rapidly from 1,008 beneficiaries in 2012 to 87,986 in 2016, a growth that is in large part attributable to the inclusion of almost 45,000 safety net beneficiaries. One of the advantages of working with the Unified Registry is that a separate registration of beneficiaries is no longer necessary. ANAM has much scope for further scaling up and for offering a true (medical) safety net for the poorest households. It is envisaged that the number of people covered by ANAM increases to over 300,000 in 2018.

#### **IV. Poverty and Social Impacts and Environment Aspects**

37. **The measures supported by the proposed series operationalize the recommendations of the SCD.** The expansion of the e-voucher scheme enhances the efficiency, transparency and traceability of agricultural subsidies, subsidies which, analysis prepared for this operation, have a demonstrated (and significant) positive effect on productivity. To ensure e-vouchers reach households in the more isolated areas –where the poorest live, this DPO series supports mobile phone network extension and its upgrading through the prior action for the AGEFAU and the award of the 4G license/ introduction of a fourth operator. Improved financial inclusion and measures in support of enhanced social protection complement these measures that are aimed at productivity enhance by on the one hand ensuring market access, and on the other improving the ability of households to invest in productive assets. The latter is supported by impact evaluations of cash transfer schemes implemented under similar agro-ecological circumstances to which team members contributed<sup>6</sup>.

38. **Measures that indirectly support the core priorities of the SCD are support to fiscal decentralization through the creation of the cadastral map and the promulgation of the land act.** Increased fiscal decentralization bears the premise of improved service delivery because by bringing decision making to the local level local priorities can be better reflected and because more purchasing power at the local level may incentivize those who make up Mali's personalized political settlement to invest more in rural areas. To ensure that the results of decentralization are carefully monitored the team has invested –in collaboration with the authorities in a CEQ analysis. This analysis considers the distributional impact of revenue collection and budgetary spending and serves will serve baseline against which future (more decentralized) budgets will be evaluated.

39. **The operationalization of the agricultural land commissions is expected to reduce tenure uncertainty, a constraint brought out by the SCD.** The agricultural land act was developed following a participatory regional process and contributes to improving tenure security

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<sup>6</sup> See Quentin Stoeffler, Bradford Mills and Patrick Premand (2016) Poor Households' Productive Investments of Cash Transfers: Quasi-experimental Evidence from Niger.

for particularly smallholder farmers and reducing land related conflict. The new Agricultural Land Act gives greater recognition to customary land rights, requires consent of family members for land transactions, promotes land administration (land holdings and transactions), promotes access of women and young people to agricultural land managed by government (irrigation schemes in particular) and supports the establishment of village land commissions. The latter is expected to strengthen the involvement of rural populations in agricultural land management. The new land act also supports the establishment of an amicable settlement procedure of agricultural land disputes prior to referral to the competent courts, a measure which is believed to enhance the ability of family farmers to access justice and reduce costs of conflict resolution. Enhancing tenure security, including of customary land and for secondary right holders like women and other family members, access to conflict mediation contributes to productivity enhancing investments and reduces the costs of protecting rights while improving community level land administration will provide more security for land transactions.

40. **Reforms in the energy sector are expected to lead to a better business environment and to free resources for use in a more progressive manner.** The energy sector benefits from considerable subsidies which are regressive. With PRIGSO2 a start is made with a reform process that will take time and lead to cost reductions. Once completed the sector is expected to be competitive and no longer dependent on subsidies. The opportunity costs of these subsidies –which benefit particularly the better off urban households, is high, and an alternative use of these public resources is likely to be more pro-poor than its present use.

41. **None of the measures supported by the proposed operation is expected to have any significant negative impact on the environment, while some are expected to have a positive impact.** The Agricultural Land Act and the revision of the Domains and Land Act should contribute to improving tenure security, particularly of smallholder farmers. Security of tenure, in turn is associated with increased investments in soil conservation and fertility. The team recognizes, however, that key challenges stem from the operationalization of these land reform measures and poor implementation of the reform could lead to negative environmental and social impacts. The overall impact this remains uncertain. To reduce this uncertainty and the risk of poor implementation, the team has invested in *Iterative Beneficiary Monitoring of the functioning of land commissions*. It assures the team of regular updates on the implementation status. Moreover, Government will need to organize an inclusive nationwide awareness campaign. Specific simple and easy access guidelines have to be prepared to ensure ownership of the reform by stakeholders. The Government will also need to strengthen the land reform monitoring and evaluation system by deepening the collaboration with Civil Society Organizations representatives on the implementation of the Agricultural Land Act.

42. **The introduction of the e-voucher scheme is expected to have beneficial environmental effects, especially in the long run.** A World Bank study on the potential for dryland agriculture found that “subsidized maize and rice producers overuse chemical nitrogen fertilizer”. Reversing such overuse by offering a more adapted mix of fertilizer will improve both environmental sustainability and fiscal sustainability. The e-voucher scheme, which is not only more transparent, but which also allows improved targeting and an optimization of the subsidy package offered, dependent on the circumstances of the recipient, allows for greater efficiency and less (financial and environmental) waste.

43. **Reforms in the energy sector are expected to have a positive environmental effect in the long run.** These positive effects come partly from greater energy efficiency of users (who are expected to pay in full for electricity they consume) as well as by EDM which will be in a better position to manage its energy production. Moreover, a financially rehabilitated sector will find it easier to move away from polluting emergency measures, such as the reliance on fossil fuel emergency generators and to invest in clean energy, including hydro and solar.

**V. Tentative financing**

|   |             |
|---|-------------|
| Source:                                     | (\$m.)      |
| BORROWER/RECIPIENT                          | 0.00        |
| International Development Association (IDA) | 40.00       |
| Borrower/Recipient                          |             |
| IBRD  |             |
| Others (specify)                            |             |
|   | Total 40.00 |

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