



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 30-Jul-2019 | Report No: PIDC26635



BASIC INFORMATION

A. Basic Project Data

Country Mali	Project ID P167547	Project Name Mali Development Policy Financing for Sustainable Energy and Improved Service Delivery for Increased Stability (P167547)	Parent Project ID (if any)
Region AFRICA	Estimated Board Date Oct 24, 2019	Practice Area (Lead) Energy & Extractives	Financing Instrument Development Policy Financing
Borrower(s) Government of Mali - Ministry of Finance	Implementing Agency Government of Mali - Ministry of Finance		

Proposed Development Objective(s)

Fostering sustainable energy provision and supporting pro-poor decentralized service provision

Financing (in US\$, Millions)

SUMMARY

Total Financing	700.00
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DETAILS

Total World Bank Group Financing	400.00
World Bank Lending	200.00
World Bank Guarantees	200.00
Total Non-World Bank Group Financing	500.00
Private Capital and Commercial Financing	500.00
of which Private Capital	500.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

- 1. Reforms are being undertaken in a context of fragility, low level of decentralized service provision, and high poverty.** The Malian state remains fragile and confronted with extremist violence on part of its territory. Low level of decentralized service provision and high poverty further undermine stability. The inadequacy of service provision is summarized by the Human Capital Index which, with a score of 0.32, puts Mali amongst the world's five worst performers. Expected years of schooling is 5.1 for girls and 6 for boys but, as quality is low, the adjusted rate of learning is 2.5 years for girls and 3.0 for boys. In other areas too, service provision is deficient. Overall access to electricity of 39 percent is below the sub-Saharan Africa average and is largely confined to urban centers (86 percent urban and 19 percent rural), and of poor quality even for those who have access (EDM averages 41 major power outages per year and Mali ranked 159 out of 190 countries on getting electricity in the 2019 Doing Business Report). While poverty has been on a declining trend since 2013, it remains stalled above 40 percent in 2018.
- 2. Reforms are also being undertaken in the context of a public subsidy crisis in the energy sector.** In order to grow the economy, public funds are needed to support key government initiatives. However, such spending is crowded out by significant discretionary spending directed towards electricity sector subsidies. The high subsidy level arises from the structural deficit in the sector arising from EDM's costs being too high relative to revenues. The subsidy requirement for FY 2017 was evaluated at US\$97 million, of which US\$59 million was received from the Government which left a total operational shortfall of US\$38 million uncovered. This shortfall has been financed with commercial debt, further eroding the company's finances. The situation has reached a point where EDM can no longer pay for debt service unless it contracts additional debt.
- 3. There is also a need for subsidies to be used more efficiently in other sectors – particularly agriculture.** The agriculture sector is the backbone of the economy, and agricultural growth in Mali has relied on extensification strategies, which involve land expansion. With the existing resources available to farmers, more efficient use of land has the potential to increase the returns to labor and land - and thus household income. This increase in yield from farmed land - intensification - includes using seed and fertilizer to derive more outcomes from the resources available to farmers. Targeted subsidies would support such endeavors, as would improved land tenure rights. The improved targeting of subsidies are critical to supporting more efficient use of subsidies and would thus be part of the effort to better use scarce public funds.
- 4. There is significant need to enhance fiscal decentralization to deliver more effective services at the local level. This is seen as important for addressing some of the concerns around stability.** There is a need for improved local decision making and greater delivery of funding at the local level for services such as schools and health clinics.
- 5. The program focuses on (i) rapidly turning around the situation with the finances of the electricity sector – so it is less of a drain on public finances; (ii) increasing the effectiveness and efficiency of subsidies in agriculture, including subsidies to promote land intensification as part of a program that includes improving land tenure and (iii) reinforcing decentralization in a manner that reinforces stability by improving targeted service delivery in health and education.** Reforms to improve the financial sustainability of EDM will create fiscal space for other priorities from 2021 onwards. The fertilizer subsidy program will be reformed. Under the new e-voucher scheme, targeting will improve and leakage reduce. Accompanying measures include reforms to improve the quality of fertilizer. There will be measures to strengthen rural land commissions, critical for intensification of land management and addressing land related conflict. Reforms to improve service provision will enhance state legitimacy. Mali prioritized decentralization since its transition to democracy in 1991



but the transfer of resources to local governments – the litmus test for any fiscal decentralization process, remains insufficient. This operation supports measures to ensure budget appropriations are released and transferred to front-line service providers (schools and health clinics) in to improve service delivery at local level.

6. **Despite the challenges, the current macroeconomic policy framework provides an adequate basis for the proposed operation, conditional on the implementation of strong fiscal consolidation measures.** Growth is projected to average 5 percent over the medium term, based on certain assumptions for stability going forward. Following a sharp fiscal revenue decline of 4.2 percentage points of GDP in 2018, the authorities are expected to remain committed, through fiscal consolidation to reach West African Economic and Monetary Union (WAEMU) fiscal target of 3 percent of GDP by 2020—one year later than expected. The macroeconomic policy framework is anchored in the IMF Extended Credit Facility (ECF) currently under preparation and Mali’s membership of the WAEMU. The macroeconomic risks to the operation are considered “high”.

Relationship to CPF

7. **The proposed DPF is aligned with the SCD which argues that it is critical to restore security and improve service delivery.** To achieve this in a context of low capacity, the SCD suggests a selective and pragmatic ‘islands of effectiveness’ approach -- where developmentally-oriented stakeholders co-operate opportunistically to achieve specific objectives for which they have an incentive to see results. These proposed reform areas are consistent with the three pillars of Mali’s Country Partnership Framework for FY16-19 (decentralization; human resource development and economic recovery). In accordance with the CPF, the policy reforms sought are complementary to operational activities that seek to support energy sector reform, improve productivity and resilience in rural areas, strengthen the decentralization process and improve service delivery in health and education.

C. Proposed Development Objective(s)

Fostering sustainable energy provision and supporting pro-poor decentralized service provision

Key Results

8. **The achievement of the proposed development objective will be measured against a series of results indicators.** The main results expected from the energy reforms under Pillar 1 consist of: an increase in the recovery rate of the public consumption bill to a high rate by June 2021, and improved cost recovery rate by EDM. This would also lead to a significantly reduced revenue gap. The agriculture reforms under Pillar 2 are expected to increase the number of districts that rely exclusively on e-vouchers for agricultural subsidy distribution. In addition, laboratory results testing fertilizer quality will be, for the first time, systematically published and accessible on a website. The land reforms will improve the functioning of land commissions. For the local service provision reforms under Pillar 3, the percentage of school committees receiving their management fund at the beginning of the school year is expected to be half by 2021. For the health measures, the proportion of village health workers funded by ASACOs who provide nutritional care is expected to increase from 0 in 2019 to almost half in 2021.



D. Concept Description

The program supported by the DPF series is organized around three pillars:

- **Pillar 1: Reducing electricity sector demands on the central budget.** The objective is to rapidly turn around the situation with the finances of the electricity sector – so it is less of a drain on public finances. Reforms to improve the financial sustainability of EDM will create fiscal space for other priorities from 2021 onwards. The DPF series specifically supports efforts to pay outstanding arrears to EDM and adopt mechanisms to assure the timely payment of electricity bills by public and semi-public entities; and ensure that the government will pay the debt of EDM’s strategic vendors and recapitalize the company. In addition, there are measures to increase revenues and reduce costs – including the adoption of a Recovery Plan that includes operational and financial measures to put the sector on a sustainable path. The loan portfolio of EDM will be optimized and there will be significant increase in lower cost power imports.
- **Pillar 2: Improved agriculture and land tenure.** The objective is to improve the targeting and effectiveness of agricultural subsidies and to improve security of tenure to enable more intensive investment in land by farmers. The DPF series supports measures to switch to an efficient electronic voucher system in distributing inputs to farmers. This is expected to directly affect farmer’s labor productivity and ultimately their income.
- **Pillar 3: Service delivery for increased stability.** The program facilitates the availability of decentralized financing for service provision. It supports measures to ensure budget appropriations are released and transferred to front-line service providers (schools and health clinics) in order to improve service delivery at the local level. Expected results are an increased autonomy of schools and health facilities as evidenced by the formation of School Management Committees responsible for recurrent spending, and the employment of Community Health Workers by local clinics.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

9. **The proposed DPF series is expected to help alleviate poverty in the medium and long-run.** The electricity sector reforms will release budget for more pro-poor spending as reducing general sector subsidies will allow reallocation of public spending towards uses that proportionally benefits the poor more. The expansion of the e-voucher scheme will enhance the targeting, efficiency, transparency and traceability of agricultural subsidies. Subsidies will be allocated according to pre-defined rules, thus improving (pro-poor) targeting and limiting the reliance on discretionary allocations by officials (and hence leakage). In addition to better targeting of the poor, the improvement in the quality of inputs use will also have a positive effect on farm productivity and consequently on poverty. Measures to make land commissions functional imply that (relative to the counterfactual) land conflict will be reduced, either through preventive action or through conflict resolution. Therefore, when farmers have more secure rights, they invest more and are more likely to reap additional profit (from increase in productivity and reduction in vulnerability) that will reduce poverty. Actions to promote fiscal decentralization are expected to improve service delivery at the local level, (education and health in particular) in deprived areas which will have a positive effect on poverty reduction.

Environmental Impacts



10. **The reforms and policy actions supported by the proposed operation are not likely to have significant negative effects on the country's environment.** The reforms build 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". None of the measures supported by the proposed operation are expected to have any significant negative impact on the environment. Reforms to change the energy mix in the electricity sector are expected to reduce the burning of heavy fuel oil and diesel. Reforms in the electricity sector are expected to have positive environmental effects in the short and long run. The e-voucher scheme is expected to have beneficial environmental effects. 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 an adapted mix of fertilizer will improve both environmental sustainability and fiscal sustainability. The reforms around land management are expected to have a positive impact and improve resilience to the consequences of climate change.

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APPROVAL

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Approved By

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