PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB7443

Operation Name	First Recovery and Governance Reform Support Credit (RGRSC1)
Region	Africa
Country	Mali
Sector	Central government administration (100%)
Operation ID	P145275
Lending Instrument	Development Policy Lending. IDA Credit to the amount of US$40 million equivalent; standard IDA terms: 40-year maturity with a 10-year grace period; single tranche
Borrower(s)	Republic of Mali
Implementing Agency	The Ministry of Economy, Finances and Budget
Date PID Prepared	November 10, 2013
Estimated Date of Appraisal	February 3, 2014
Estimated Date of Board Approval	April 29, 2014

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 UN-mandated coalition of foreign troops to restore sovereignty over the entire Malian territory. In August 2013, a new President was elected through fair and transparent elections, and legislative and municipal elections are respectively scheduled for late 2013 and early 2014. While the North of Mali is still subject to sporadic terrorist attacks, the security situation has nonetheless been stabilizing with the establishment of a UN peace-keeping force since July 2013 (MINUSMA). The administration and populations are now slowly returning.

The political crisis of 2012 had a significant economic and social impact. The impact was mostly felt through the massive displacement of populations (350,000 internally displaced; 170,000 refugees in neighboring countries by June 2013) in successive waves to flee conflicts, reprisals and the imposition of harsh fundamentalist social rules in Northern Mali; the suspension of aid leading to an immediate freeze of most public investment projects; the destruction of physical assets and trade links in the North; and the complete disappearance of foreign tourists inflows. Fortunately, Mali also benefited in 2012 from very favorable climatic conditions and terms of trade somewhat offsetting the negative impacts of political and security developments. All in all, World Bank staff estimates that per capita real GDP decreased by 1 to 1.5% in 2012; and that the proportion of poor in total population increased from 44% to 45% between 2011 and 2012, pushing an additional 450 thousand people in poverty. This recent aggravation contrasts with poverty reduction gains recorded in the last decade, when the poverty rate was reduced from

56% to 44%. Nonetheless, analysis suggests that, albeit very pro-poor, per capita economic growth had so far been much too slow for Mali to be on the track of eradicating poverty by 2030 or even reducing the absolute number of poor.

The re-foundation of the State of Mali will necessitate strengthening executive accountability through better controls in the use of public financial resources and greater transparency. The crisis of 2012 has generated a wide spectrum 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 contagion of external conflicts. One point of consensus though is the need to strengthen central and local governance for greater State legitimacy. Indeed, 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 strengthen State legitimacy through greater transparency and strengthened internal and external controls in budget execution and in the use of public financial resources. Recognizing its critical importance for peace and stability, the new President made the fight against corruption one of its top priorities – the other two being economic recovery, and return to normalcy and security in the Northern regions.

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 corruption practices. The ample financial pledges (US$4.2 billion) made by donors during the May 2013 international conference "Together for a New Mali" provide the opportunity to rapidly revitalize the economy, and the economy is already showing signs of economic recovery with a GDP growth projected at 5% in 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 managed at the local level where capacity is weaker. At the macroeconomic level, challenges lie in Authorities' ability to manage unpredictable aid inflows from a fiscal and monetary perspective; and to already prepare for the post aid boom to ensure fiscal sustainability. Indeed, domestic revenue collection has structurally been weak (at about 15% of GDP), and could even look worse as GDP levels are being revised upwards through rebasing and the adoption of the System of National Accounts 93.

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 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, <u>the first in a programmatic series of two.</u> 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 recruitment and promotion, extractive industries), strengthen fiduciary controls, reduce opportunities for corruption (public procurement, import tariff exemptions), reduce inefficient subsidies, strengthen public investment management and local government budget management capacity, and integrate domestic and foreign aid budgets. In line with the ISN, this stand-alone operation focuses on pragmatic and implementable actions within the existing legal and institutional framework, rather than on longer term institutional reforms.

IV. Poverty and Social Impacts and Environment Aspects

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 higher investment capacity in power are expected to foster inclusive growth over the medium term. The implementation of a targeting mechanism for agricultural subsidies would reduce their capture by a few large farmers. 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.

The Poverty and Social Impact Assessment of electricity tariff conducted in 2013 suggests an insignificant impact on poverty. Less than 5 percent of poor households had access to electricity in Mali in 2010. And poor having access to electricity (2 percent of the population) were devoting only 2-3 percent of their consumption to electricity, against 4-6 percent for non-poor households (17 percent of the population) connected to the grid. Micro simulations run using household data from 2010 suggest that the 6.5 percent average tariff increase implemented in 2013 could have induced a marginal increase of 0.05 percentage point of the poverty rate. Nonetheless, such an effect could be concentrated in Bamako, where most of the poor and near poor connected to the grid reside.

Measures supported by the proposed operation are not expected to have any significant negative impact on the environment. The increase in electricity tariffs could improve energy conservation, and is not expected to induce any significant switching to dirty energy in net terms. In Mali, electricity is used for lighting and running appliances, but not for cooking, as reported in the various household surveys. As such, electricity tariff increases could only induce switching to kerosene for lighting, but such a substitution effect is expected to be negligible given that poor households (typically the most sensitive to changes in relative prices of energy given its importance in overall budget) will not be affected, see below. Also, even with tariff increases, electricity will still remain much cheaper than kerosene. The reallocation of agricultural subsidies to food crops is not meant to increase the overall use of fertilizers and pesticides at the national level. So far, the average use per hectare was too low to have a negative environmental impact. From neutral, the reallocation of subsidies could actually generate a positive environmental impact by reducing the concentration of fertilizers in some areas. At the same time, there is a risk that the redistribution of subsidies could further encourage the greater use of marginal lands, which is a phenomenon already observed with the introduction of subsidies in 2007/8.

V. Tentative financing

Source:	($m.)
IDA	40
Others (specify)	0
Total	40

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