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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 23.3 MILLION  
(US\$36 MILLION EQUIVALENT)

AND A

PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 17.4 MILLION  
(US\$27 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MALI

FOR A

FIRST RECOVERY AND GOVERNANCE REFORM SUPPORT OPERATION

October 23, 2014

**Global Practice for Macroeconomic and Fiscal Management GMFDR  
Africa Region**

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**REPUBLIC OF MALI - GOVERNMENT FISCAL YEAR**  
January 1 – December 31

**CURRENCY EQUIVALENTS**  
(Exchange Rate Effective as of October 20, 2014)

Currency Unit	=	CFA Franc (FCFA)
US\$1.00	=	FCFA 515

**ABBREVIATIONS AND ACRONYMS**

AEDD	Environment and Sustainable Development Agency
AfDB	African Development Bank
BCEAO	Central Bank of West African States
BoP	Balance of Payments
CSCR	Growth and Poverty Reduction Strategy Paper
CSO	Civil Society Organization
DCPND	Framework Document for the National Decentralization Policy
DNACPN	National Directorate of Control of Pollution and Nuisances
DNPD	National Directorate for Development Planning
DP	Development Partner
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EDM	Electricity of Mali
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
EU	European Union
FCFA	West African CFA Franc
GAP	Government Action Plan
GDP	Gross Domestic Product
GPRSP	Growth and Poverty Reduction Strategy Paper
ICRR	Implementation Completion and Results Report
IDA	International Development Association
IMF	International Monetary Fund
ISN	Interim Strategy Note
MDG	Millennium Development Goals
MEF	Ministry of Economy and Finance
MINUSMA	Multidimensional Integrated Stabilization Mission in Mali
NEPP	National Policy for Environmental Protection
NGO	Non-Governmental Organizations
ODA	Official Development Assistance
PAG	Government Action Plan
PAGAM/GFP	Government Action Plan for the Modernization and Improvement of Public Finance Management

PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIB	Gross Domestic Product
PRED	Sustainable Recovery Plan
PRSP	Poverty Reduction Strategy Paper
RGRSO	Recovery and Governance Reform Support Operation
RRSC	Recovery and Reform Support Credit
SDR	Special Drawing Rights
SHA	Secretary of Harmonization of Aid
SNA	System of National Accounts
TA	Technical Assistance
TIC	Information and Communication Technology (ICT)
TRIE	Inter States Road Transit
UN	United Nations
WAEMU	West African Economic and Monetary Union (UEMOA)
WB	World Bank

Senior Director:	Marcelo Giugale
Country Director:	Paul Nomba Um
Director:	John Panzer
Practice Manager:	Miria Pigato
Task Team Leader:	Sébastien Dessus
Co-Task Team Leader:	Cheikh Ahmed Diop



## REPUBLIC OF MALI

### FIRST RECOVERY AND GOVERNANCE REFORM SUPPORT OPERATION (RGRSO1)

#### TABLE OF CONTENTS

<b>SUMMARY OF PROPOSED CREDIT AND GRANT AND PROGRAM .....</b>	<b>v</b>
<b>1. INTRODUCTION AND COUNTRY CONTEXT .....</b>	<b>1</b>
<b>2. MACROECONOMIC POLICY FRAMEWORK.....</b>	<b>3</b>
A. RECENT ECONOMIC DEVELOPMENTS .....	3
B. MACRO-ECONOMIC OUTLOOK AND DEBT SUSTAINABILITY .....	5
C. IMF RELATIONS .....	7
<b>3. GOVERNMENT’S PROGRAM .....</b>	<b>10</b>
<b>4. PROPOSED OPERATION .....</b>	<b>11</b>
A. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION.....	11
B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS .....	12
<i>Deepening Executive Accountability and Transparency.....</i>	<i>12</i>
<i>Improving Public Expenditure Efficiency .....</i>	<i>16</i>
C. LINK TO ISN AND OTHER BANK OPERATIONS .....	21
D. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS.....	21
<b>5. OTHER DESIGN AND APPRAISAL ISSUES .....</b>	<b>22</b>
A. POVERTY AND SOCIAL IMPACT .....	22
B. ENVIRONMENTAL ASPECTS.....	23
C. PFM, DISBURSEMENT AND AUDITING ASPECTS .....	24
D. MONITORING AND EVALUATION.....	25
<b>6. SUMMARY OF RISKS.....</b>	<b>26</b>

#### List of Tables:

Table 2.1: Selected Economic and Financial Indicators, 2011-16 .....	8
Table 2.2: Central Government Budgetary Operations, 2011-16.....	9
Table 4.1: RGRSO1 Prior Actions, RGRSO2 Proposed Triggers and Analytical Underpinnings .....	20

#### List of Annexes:

Annex 1: Policy and Results Matrix.....	27
Annex 2: Letter of Development Policy.....	29
Annex 3: Country Map.....	48

The First Recovery and Governance Reform Support Operation was prepared by a team co-led by Sébastien Dessus (AFCW3) and Cheikh Diop (GMFDR), and comprising Judite Fernandes (GMFDR), Maimouna Mbow Fam, Jean-Charles Kra, Allan Rotman, Mahamadou Bambo Sissoko (GGODR), Ruxandra Costache (LEGAM), Souleymane Traore (AFCW3), Fabrice Bertholet and Manuel Berlengerio (GEEDR). Overall guidance was provided by Miria Pigato (Practice Manager, GMFDR) and Paul Noumba Um (Country Director, AFCW3). Helene Grandvoinnet (Lead Social Development Specialist, GGODR) and Nicola Pontara (Program Leader, AFCE4) peer reviewed the operation at concept and decision stages.



**SUMMARY OF PROPOSED CREDIT AND GRANT AND PROGRAM**  
**REPUBLIC OF MALI**  
**FIRST RECOVERY AND GOVERNANCE REFORM SUPPORT OPERATION**  
**(RGRS01)**

<b>Borrower:</b>	Republic of Mali.
<b>Implementing Agency:</b>	Ministry of Economy and Finance.
<b>Financing Data:</b>	IDA credit, standard terms, SDR 23.3 million (US\$36 million equivalent); and IDA grant, standard terms, SDR 17.4 million (US\$27 million equivalent).
<b>Operation Type:</b>	First in a programmatic series of two development policy operations; single-tranche disbursement.
<b>Pillars of the Operation And Program Development Objectives:</b>	Pillars and Program Development Objectives are strictly aligned. The first Program Development Objective (PDO1) is to deepen executive accountability and transparency; the second Program Development Objective (PDO2) is to improve public expenditure efficiency.
<b>Results Indicators:</b>	In order to measure results on PDO1, the following outcome indicators will be used: a) Proportion of directors of projects, programs, public agencies and state-owned enterprises recruited through a competitive process by external posting of vacancies; b) PEFA PI-18: effectiveness of payroll controls; c) number of regional governments' accounts to be judged every year by the Audit Section of the Supreme Court; d) proportion of demands of information addressed to MEF regarding public finance which were satisfactorily addressed; e) proportion of assets declarations submitted in time to the Supreme Court; f) number of EITI reports validated, published on time and according to most recent EITI standards; g) proportion of mining conventions audited for compliance with respect to the mining code. In order to measure results on PDO2, the following outcome indicators will be used: a) subsidies to EDM; b) proportion of public funds released to local governments; c) average public procurement delays; d) share of public investment projects in budget law selected by the Investment Committee; and e) absolute value of relative deviation in budget execution of ODA. See Annex I for details on baseline and targets.
<b>Overall risk rating</b>	Substantial.
<b>Operation ID</b>	P145275





**IDA PROGRAM DOCUMENT FOR A  
PROPOSED FIRST RECOVERY AND GOVERNANCE REFORM SUPPORT OPERATION  
TO THE REPUBLIC OF MALI**

**1. INTRODUCTION AND COUNTRY CONTEXT**

1.1. **This program document proposes a First Recovery and Governance Reform Support Operation (RGRSO1) for SDR 40.7 million (US\$63 million equivalent) to the Republic of Mali.** This first Development Policy Operation (DPO) of a programmatic series of two supports the authorities' efforts to (i) deepen executive accountability and transparency, and to (ii) improve public expenditure efficiency. The proposed series shares the objectives of the World Bank (WB) Group's Interim Strategy Note (ISN) for FY14-15 discussed on June 18, 2014, and is fully aligned with the World Bank's Strategy for Africa and its foundation on governance. It prolongs efforts initiated with the Recovery and Reform Support Credit (RRSC) implemented in 2013.

1.2. **Since 2013, the political and security situation significantly improved.** 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 August 2013, a new President was elected through fair and transparent elections, which were followed by legislative elections in December 2013. 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. Peace talks and negotiations on the decentralization framework for Northern regions were launched in July 2014 between the Government and separatist groups. Populations and the administration have since 2013 been slowly returning to the North.<sup>1</sup>

1.3. **The political crisis of 2012 had a significant 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. All in all, World Bank staff estimates that the proportion of poor<sup>2</sup> in total population increased from 44% to 45% between 2011 and 2013, pushing an additional 700 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%.<sup>3</sup> 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 given the rapid population growth.

1.4. **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**

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<sup>1</sup> By September 2014, 380,000 people internally or externally displaced in 2012-13 had returned to their hometowns.

<sup>2</sup> A household is considered poor if its annual per capita consumption was below the national poverty line of FCFA 165,431 (approx. US\$346) in 2010. Poverty computations include refugees.

<sup>3</sup> World Bank (2013), Republic of Mali: Poverty and Gender Notes, May, Washington D.C.

**transparency.** 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.<sup>4</sup> 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 critical 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.

**1.5. 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.** The ample financial pledges (US\$4.2 billion – 40% of Gross Domestic Product, GDP) made by donors during the May 2013 international conference “Together for a New Mali” provide the opportunity to rapidly revitalize the economy, and a third of total pledges had already been disbursed by end-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 manage unpredictable aid inflows from a fiscal and monetary perspective; and to already 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.

**1.6. The proposed operation supports the authorities in their efforts to address these challenges.** This includes on the one hand efforts to improve transparency, strengthen fiduciary and establishment controls, reduce opportunities for corruption and inefficient subsidies, and on the other hand to improve public investment management, accelerate public procurement and build local government budget management capacity.

**1.7. Risks to the proposed operation's objectives are substantial.** A deterioration of the security situation in the North, climatic shocks or commodity price fluctuations could divert Government's attention and resources from focusing on the reform agenda; and strong opposition to reforms may come from institutions, groups and individuals who may perceive the risk of losing from them. At the same time, not addressing frontally Mali's governance agenda could entail even larger risks of missing the opportunity provided by the large foreign financial and military assistance to sustainably recover economically and politically, thus seeing Mali fall into a fragility trap, costly to redress and with large negative implications for the region's stability and prosperity.

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<sup>4</sup> 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.

## 2. MACROECONOMIC POLICY FRAMEWORK

### A. RECENT ECONOMIC DEVELOPMENTS

2.1. **The political crisis of 2012 has had a severe economic impact.** There were two important sources of economic contraction in 2012. The first one is the strong reduction of Official Development Assistance (ODA), following the military coup of March 2012. Indeed, disbursement against projects and programs were cut by FCFA 323 billion in 2012 compared with 2011 (6.4% of GDP in 2011). In the absence of alternative financing opportunities, authorities cut public investment expenditures by FCFA 273 billion compared with 2011, with a view to protect current expenditure (health, education) and accommodate higher security spending, in a context of a deteriorated domestic revenue collection performance. In turn, demand for domestic construction services and public works was strongly affected. The second source of economic contraction is the deterioration of the security situation, which mainly impacted tourism (both in Southern and Northern parts of the country) and the livelihood of Northern populations. Cumulatively, some 330,000 people fled to the South of Mali and another 170,000 people fled to neighboring countries between January 2012 and June 2013, or approximately 36% of the total population of the North of Mali.<sup>5</sup> Some infrastructure and capital was destroyed, vandalized or looted (e.g. public buildings, utilities, commercial banks, and livestock). Most civil servants were redeployed to the South, severely undermining basic service delivery.

2.2. **Fortunately, the economic activity also benefited from positive exogenous factors, not related to the political crisis.** These include in particular favorable terms of trade (+15%, as gold prices increased sharply), which corresponded to a net transfer equivalent to 3% of GDP in 2011. Gold production continued to grow steadily (+9%), as it is located in the South and was not affected by domestic developments. Climatic conditions were also very favorable to agricultural production (mostly located in the South), which was estimated to grow by 14% in 2012, following a poor 2011 harvest. All in all, Mali's GDP is estimated to have stagnated in 2012, through the combination of positive and negative developments discussed above. The structural weaknesses of Mali's national accounts,<sup>6</sup> and the difficulty to assess the economic situation in the North nonetheless put this estimate within a large interval of confidence.

2.3. **From 2013, the economy benefited from the rapid resumption of foreign assistance; it suffered on the other hand from erratic rains.** Estimates point to real GDP growth at around 2% in 2013. With recorded progress towards return to political normalcy and increased security, official development assistance resumed rapidly, in the form of budget support (FCFA 160 billion in 2013, or 2.9% of GDP, against 4 billion in 2012), investment projects and humanitarian assistance (FCFA 241 billion in 2013, or 4.4% of GDP, against 57 billion in 2012). To these amounts can be added the demand for local goods and services from foreign military operations, which the World Bank staff conservatively estimates at FCFA 35 billion (0.6% of GDP). On the other hand, rainfalls were much less regular in 2013 than 2012, strongly affecting cereal production (except rice) which dropped by 26%, and terms of trade deteriorated (-18 percent with declining gold prices). Thus, while the primary sector receded (-7%), secondary and tertiary sectors grew at the estimated annual rates of 5% and 9% respectively in 2013. From a demand perspective, investment and public consumption were the main drivers of growth, while exports receded.

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<sup>5</sup> Source: United Nations Office for the Coordination of Humanitarian Affairs.

<sup>6</sup> Mali's national accounts are computed using the SNA 68 and are based on a set of representative prices from 1988.

**2.4. From peaking at 8% year-on-year at the height of the political crisis in April 2012, consumer price inflation decelerated to become negligible by end 2013.** This evolution was mainly driven by the low domestic food supply in the first months of 2012 (the consequence of the poor harvest in 2011) and its rebound from the second part of 2012, combined with the overall compression in aggregate demand for domestic goods and services throughout 2012. In 2013, continued high agricultural supply from stocks accumulated by end 2012, combined with ample food aid, a decline in import prices, prudent banking credit to the economy, and the still low rate of utilization of productive capacities prevented a significant rebound in consumer price inflation.

**2.5. Throughout the crisis, the Balance of Payments (BoP) remained stable, as stretched by offsetting forces.** In 2012, the capital and financial account surplus contracted with the suspension of aid, while the current account deficit decreased, despite lower tourism receipts, with the surge in gold and cotton export receipts and the relatively lower increase in imports. All in all, the balance of payments deficit in 2012 amounted to FCFA 50 billion (0.9% of GDP), and was financed by drawing down foreign currency reserves at the BCEAO (Central Bank of West African States), the Central Bank of the West African Economic and Monetary Union (WAEMU) to which Mali belongs. In 2013, the capital account surplus widened with aid resumption, while the current account deficit increased with lower gold export receipts and higher imports, for a BoP deficit of FCFA 86 billion (1.6% of GDP) financed through reserves withdrawal. By end 2013, Mali's imputed reserves at the BCEAO amounted to US\$1.3 billion, or 5.0 months of imports of goods. But pooled foreign currency reserves from which Mali can draw upon are ten times larger.

**2.6. Mali's exchange rate and monetary policies are set within the WAEMU framework.** In the WAEMU the monetary and exchange rates policies are independently run by the BCEAO, which is mandated to ensure price stability. Over its fifty years of existence, the BCEAO has established a strong track record in terms of macro-economic management, keeping inflation under control in the monetary union and protecting countries' balance of payments from major disruptions. In its most recent annual review,<sup>7</sup> the International Monetary Fund (IMF) staff acknowledges the adequacy of the current monetary stance. Yet, the IMF staff also recognizes the limited role monetary policies can play to address asymmetric shocks, as observed for Mali in 2012 with the suspension of aid and the deterioration of the security situation. Given the low degree of economic integration in WAEMU, asymmetric shocks can only be addressed through fiscal policies, and the high frequency of such shocks<sup>8</sup> will continue to pose significant risks to budget execution in the near future - to public investments in particular.<sup>9</sup>

**2.7. The financial sector suffered from the crisis, but continues to be highly liquid.** Throughout the crisis, the financial sector suffered from an increase in non-performing loans (which grew from 18.0% of gross loans in December 2011 to 23.0% in March 2013 before declining to 19.3% in December 2013), as well as from the looting of its agencies in Northern Mali (FCFA 6 billion). The banks' capital adequacy ratios (to risk-weighted assets) dropped to

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<sup>7</sup> International Monetary Fund (2014), WAEMU, Staff Report on Common Policies for Member Countries, Country Report #14/84, March, Washington D.C.

<sup>8</sup> Be it the outcome of commodity prices variation, abrupt climatic changes, or political crises, it appears that shocks are highly asymmetric in WAEMU -- that is, not occurring at the same time in the different member countries.

<sup>9</sup> See Dessus, Sanchez and Varoudakis (2013), "Fiscal Rules and the Pro-Cyclicality of Public Investment in the West African Economic and Monetary Union", Policy Research Working Paper 6562, the World Bank, who suggest that public investment plays, in WAEMU more than anywhere else, the role of shock absorber, in the absence of alternative policy instruments.

11.4% in December 2012 before rebounding to 12.9% in December 2013, banks being particularly exposed to trade and tourism sectors. Nonetheless, banks' balance sheets expanded by 7.4% over the same period; the ratio of liquid assets to total assets remained high in 2012 and 2013, at 35%; and growth in credits to the economy rebounded in 2013 (+12% in real terms), after being nil in 2012.

**2.8. Strong fiscal discipline was maintained throughout the crisis.** In 2012, faced with an unexpected drop in tax revenue and aid (compared with the Budget Law 2012), the Government chose to drastically cut public investment expenditures, so as to protect current expenditures (salaries for social sectors in particular) and debt service (with a view to facilitate the rapid resumption of aid as soon as political conditions would permit), while limiting its financing on the domestic market to roll-over needs. Civil servants' salaries were paid in full (including the salaries of those displaced from the North), and subsidies to agriculture and electricity were maintained, to protect the preparations of the agricultural campaigns 2012-13 and 2013-14, as well as the supply of electricity. From a functional classification perspective, the security sector (armed forces and domestic security) saw its budget growing from FCFA 106 to 146 billion between 2011 and 2012, in response to the deteriorated security situation. FCFA 169 billion was budgeted in 2013 for security, and FCFA 175 billion in 2014.

**2.9. In 2013, the budget benefited from the resumption of aid, as well as from improved revenue collection as economic activity rebounded in secondary and tertiary sectors.** The Government used this fiscal space to clear some domestic arrears (FCFA 30 billion), to restart investment projects which had been interrupted in 2012 to start rehabilitating damaged infrastructure, and to address crisis-related emergencies, including the organization of presidential elections throughout the entire territory. The Government again kept its domestic financing needs to minimum levels, with a view to facilitate the resumption of banking credit to the private sector. Meanwhile, the Government continued to honor its debt service obligations, did not accumulate new domestic arrears, and managed to exceed the level of pro-poor expenditures budgeted and supported by the IMF Rapid Credit Facility and the Recovery and Reform Support Credit in 2013.<sup>10</sup>

**2.10. Throughout the crisis, deficits were maintained at low levels.** Government deficits (commitment basis) reached 1.3% and 2.8% of GDP respectively in 2012 and 2013, well below the 3% threshold considered necessary to maintain public and external debt sustainability. Nonetheless, anticipating the possible accumulation of public expenditure arrears in 2012, authorities commissioned an external audit of all arrears accumulated since 1995. The audit released in 2014 revealed that FCFA 167 billion worth of domestic arrears had been accumulated between 1995 and 2012, two-third of which were between 2010 and 2012. The Government intends to clear FCFA 65 billion worth of arrears in 2014, and FCFA 23 billion in 2015. Another FCFA 72 billion still need to be validated, pending receipt of adequate means of verification.

## **B. MACRO-ECONOMIC OUTLOOK AND DEBT SUSTAINABILITY**

**2.11. Mali's macroeconomic outlook is based on a number of assumptions.** It assumes first and foremost that the security situation will stabilize, with the successful organization of presidential, legislative, and municipal elections held in 2013 and 2014, the continued presence of

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<sup>10</sup> From 28.6% of total public expenditure in 2011, priority pro-poor expenditures increased to 31.4% and 32.9% in 2012 and 2013.

UN-mandated foreign military and peace-keeping forces in Mali, as well as with progress in security services reforms. This stability would facilitate the progressive return of the administration,<sup>11</sup> refugees and displaced to Northern regions, and a stabilization of Mali's military expenditures in total Government expenditures. It would also allow donors to deliver on their commitments for Official Development and Military Assistance, in line with Government expectations.<sup>12</sup> The situation would nonetheless, not allow for a significant resumption of foreign tourism inflows before 2017. The macro-economic framework also assumes a continued decline in gold production (after peaking in 2014) as well as average rainfalls throughout 2014-16. It foresees modest improvements in terms of trade over the period 2014-16 stemming mostly from declining import prices. From a policy perspective, it is assumed, along the lines retained in the IMF Extended Credit Facility (ECF) 2014-16, that fiscal policy will aim at improving domestic revenue collection, with a view to progressively increase the share of public investment financed with domestic resources (in anticipation of a decline in ODA from 2015<sup>13</sup>), while keeping domestic financing needs at low levels. This assumes continued moderation in recurrent expenditure, in particular for electricity and agricultural subsidies. Monetary and exchange rate policies will continue to be set at the regional WAEMU level (through BCEAO interventions), with a view to maintain consumer price inflation below 3%.<sup>14</sup>

**2.12. Under these assumptions, GDP growth could peak in 2014 and 2015 (at 5.8-5.5%), before returning progressively to long term trends afterwards.**<sup>15</sup> In this event, the poverty rate would drop to 39% of the population by 2016, that is, 7.0 million poor (against 6.8 million in 2011). Owing to the projected large increase of aid projects financed through loans (from 1.8% in 2013 to 3.4% of GDP in 2014), the regularization of off-budget expenditures (see paragraph 4.7) and arrears clearance, the overall fiscal balance (cash basis) could reach 5.6% of GDP in 2014, before returning to about 3% in the subsequent years.

**2.13. Though positive, the macro-economic outlook remains subject to a number of downside risks.** In years to come, Mali will continue to be highly exposed to exogenous climatic and commodity price shocks, which could reduce its investment capacity (in human capital and infrastructure for capacity, national and regional connectivity, and resilience) perpetuating a vicious circle of slow per capita growth and high vulnerability. It will also remain exposed to security threats, originating from within Mali and from neighboring countries, which could prevent the full resumption of ODA and distract Government's resources and attention from its governance reform agenda. Nonetheless, if these events would negatively affect Mali's

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<sup>11</sup> The Government took specific measures in this respect, including in particular one-time allowances of FCFA 250,000 (US\$500) per civil servant to return to the North, as well as the extension and increase of the hardship allowance to all civil servants posted in Northern regions (for a total of FCFA 4 billion).

<sup>12</sup> From FCFA 391 billion in 2013, total assistance from donors would increase to FCFA 582 billion in 2014 before stabilizing around FCFA 500 billion afterwards. From FCFA 327 billion in 2013, Donors non-military assistance processed through the Government budget would increase to FCFA 568 billion in 2014 before stabilizing around FCFA 475 billion in 2015-16.

<sup>13</sup> The macroeconomic framework retained in the IMF ECF does not ex-ante foresee non concessional borrowing from 2014-16. However, the authorities would be allowed to reconsider this commitment should it lack the resource to finance high-return investment projects. In parallel, authorities will continue to strengthen their public investment management capacity (see Section IV).

<sup>14</sup> In March 2014, IMF considered WAEMU's monetary stance as appropriate, underlining though the limited role monetary policies play in the determination of inflation (many influenced by exchange rate fluctuations, terms of trade, shocks affecting agricultural production) given the shallowness of the financial system.

<sup>15</sup> GDP growth projections range within a confidence interval of +/- 2 percentage points, reflecting the recorded standard deviation of GDP growth in the last ten years.

institutional, social and economic development prospects, it is quite unlikely that they would be accompanied with a macro-economic crisis, in the form of a fiscal, financial or balance of payments crisis. Indeed, Mali's fiscal situation and management remained sound during the crisis and should continue to do so given the WAEMU environment, Public Financial Management (PFM) reforms undertaken in recent years and continued economic and financial surveillance from the IMF. The financial sector continues to be highly liquid and Mali benefits from the pooling of WAEMU foreign currency reserves to cover its BoP needs in bad times, including debt service obligations, see below.

**2.14. The implementation of the Government macro-economic program should minimize risks of external debt distress.** A Joint Bank-Fund Debt Sustainability Analysis (DSA) was conducted in late 2013.<sup>16</sup> By end 2012, Mali's external and domestic public debt stood respectively at 26% and 4% of the GDP. Mali's external debt is entirely public, and the bulk of it is with multilateral creditors, the International Development Association, and the African Development Bank in particular. Most of Mali's domestic public debt is with the Malian banking sector. Accounting for recent developments in 2012 and 2013 (low external borrowing, good export receipts) and medium term prospects (a return to a steady state 5% GDP growth, and a progressive decline in gold net export receipts with declining reserves), the DSA continues to assess Mali's external risks of debt distress as "moderate", with gold price volatility and less concessional financial resources as the two main sources of potential vulnerability. Nonetheless, Government's ongoing efforts to diversify its export structure from gold (through other minerals and commercial agriculture), and to improve its public investment management framework (so as to raise economic returns on debt-financed public investment) could reduce Mali's exposure to these risks.

**2.15. Mali's macro-economic framework is assessed as adequate for the purpose of the proposed operation.** Mali's track record of sound macroeconomic management under volatile circumstances, the consistency of the policy framework retained under the IMF ECF 2014-16 with likely domestic and foreign financing resources and objectives of macroeconomic stability, and the credible external anchor that the WAEMU offers, provide adequate conditions for the proposed operation to meet its objectives, and justify the use of the International Development Association (IDA) resources.

### C. IMF RELATIONS

**2.16. The RGRSO1 has been prepared in close coordination with the IMF.** Since the onset of the political crisis in 2012, the IMF and World Bank teams collaborated closely, with a view to respond swiftly and flexibly to the new environment. Following the agreed institutional division of labor between the Bank and the IMF (as reflected in Joint Management Action Plans for FY13 and FY14), there is a common understanding of the macroeconomic and debt sustainability situation, as well as that of macro-critical sectors (e.g. energy). The IMF and World Bank teams are also closely collaborating on issues of public financial management with a clear division of labor, as reflected in the complementarity between prior actions in the proposed operation and structural benchmarks in the ECF, the latter focusing in particular on strengthening tax collection and improving treasury management.

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<sup>16</sup> See Mali: Joint IMF and World Bank Debt Sustainability Analysis, IMF and IDA, December 18, 2013, Washington D.C. Preliminary analysis, including end-2013 debt data, confirms Mali's moderate risks of external debt distress. Adding domestic public debt does not alter this assessment.

**Table 2.1: Selected Economic and Financial Indicators, 2011-16**

	2011	2012	2013	2014	2015	2016
	(annual percentage change, unless otherwise specified)					
National income and prices						
Real GDP	2.7	0.0	1.7	5.8	5.5	5.3
Real GDP per capita	-0.3	-2.1	-1.0	2.4	2.2	1.9
Consumer price inflation (average)	3.1	5.3	-0.6	1.0	2.2	2.6
Money and credit						
Credit to government (a/)	5.1	10.0	-2.7	3.4	0.9	1.1
Credit to the economy (a/)	15.8	3.3	7.5	3.8	6.1	8.5
Broad money (M2)	15.3	15.2	7.4	13.0	11.3	12.0
	(percentage of GDP, unless otherwise specified)					
Investment and saving						
Public investment	8.9	3.2	7.4	11.7	9.7	8.6
Private investment	11.5	11.9	11.1	11.0	13.1	13.6
Public savings	1.9	2.2	3.1	2.7	2.3	2.8
Private savings	14.0	9.6	12.0	13.1	14.7	14.2
Foreign savings	4.5	3.3	3.4	6.9	5.8	5.2
Central government finance						
Revenue	15.2	15.2	15.3	16.4	17.0	17.5
Grants	3.8	0.2	3.6	5.4	3.7	3.0
Total expenditure and net lending	23.1	16.6	21.9	26.5	24.7	23.5
Overall balance (cash basis)	-3.8	-1.2	-2.9	-5.6	-4.4	-3.1
Basic fiscal balance (WAEMU def.)	-1.6	-0.8	-0.8	-0.9	0.0	0.0
Domestic debt	4.7	4.3	5.1	4.0	3.7	3.4
External sector						
Current external balance	-6.1	-2.6	-4.0	-7.3	-7.6	-6.0
Exports of goods and services	26.2	32.1	28.9	25.4	24.1	23.1
Imports of goods and services	36.1	37.9	48.5	48.3	41.6	36.1
Debt (end of period)	24.4	25.9	26.3	28.8	29.7	29.7
Memorandum items:						
Nominal GDP (FCFA billion)	5,038	5,328	5,484	5,840	6,266	6,758
Overall balance of payments (US\$ million)	4	-97	-174	11	31	64
Gross Int. Reserves (imputed, months of imports)	6.6	5.4	5.0	4.6	4.4	4.6
Terms of trade (annual percentage change)	15.8	15.2	-18.4	-1.9	-0.3	1.1

Source: IMF and World Bank Staff calculations, September 2014. a/ contribution to money supply growth.



**Table 2.2: Central Government Budgetary Operations, 2011-16**

	2011	2012	2013	2014	2015	2016
	(percentage of GDP)					
Revenue and grants	19.0	15.4	18.9	21.8	20.7	20.5
Direct taxes	4.4	4.9	4.7	5.1	5.4	5.5
VAT	6.2	5.4	5.9	6.4	6.5	6.6
Excises on petroleum products	0.1	0.5	0.4	0.4	0.4	0.5
Import duties	2.2	1.9	2.0	2.3	2.4	2.5
Other indirect taxes	2.4	2.6	2.7	2.8	3	3
Tax refund	-0.8	-1.1	-1.1	-1.2	-1.4	-1.3
Nontax revenue	0.7	1	0.7	0.6	0.7	0.7
Grants	3.8	0.2	3.6	5.4	3.7	3
Total expenditure and net lending	23.1	16.6	21.9	26.5	24.7	23.5
Current expenditure	14.3	13.5	14.6	15.0	15.1	15.0
Wages and salaries	5.3	5.5	5.3	5.7	5.6	5.6
Goods and services	4.7	3.9	4.4	4.2	4.5	4.4
Transfers and subsidies	3.6	3.5	4.3	4.5	4.4	4.4
Interest on debt	0.7	0.6	0.6	0.6	0.6	0.6
Capital expenditure	8.9	3.2	7.4	11.6	9.7	8.6
Externally financed	5.0	0.6	3.2	6.6	6.2	4.4
Domestically financed	3.9	2.6	4.2	5.0	3.5	4.2
Net lending	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Overall fiscal balance (commitment basis)	-4.2	-1.3	-2.8	-4.7	-4.1	-3.0
Change in arrears	0.3	0.3	0.1	-1.1	-0.4	-0.1
External financing (net)	2.7	0.2	1.9	3.6	3.9	2.7
Loans	3.3	0.4	2.5	4.4	4.5	3.3
Amortization	-0.9	-0.7	-0.8	-0.9	-1.0	-1.0
Debt relief	0.3	0.1	0.5	0.4	0.4	0.4
Change in arrears	0.1	0.3	-0.2	-0.2	0.0	0.0
Domestic financing (net)	1.1	1.0	1.0	1.9	0.5	0.4

Source: IMF and World Bank Staff calculations, September 2014.

### 3. GOVERNMENT'S PROGRAM

3.1. **In late 2011, Mali adopted its third Growth and Poverty Reduction Strategy Paper (CSCR-3), for the period 2012-17.**<sup>17</sup> The CSCR-3 was prepared through extensive consultations with different actors throughout the country, reflecting a strong commitment at the highest level of government.<sup>18</sup> Building on lessons from previous poverty reduction strategies (design, implementation, monitoring & evaluation) and emerging new realities (security, climatic and commodity price volatility), the CSCR-3 aims at (i) promoting shared growth,<sup>19</sup> (ii) equitable access to quality social services,<sup>20</sup> and (iii) at supporting institutional development,<sup>21</sup> under the prerequisites of peace, security and macro-economic stability.

3.2. **In 2013, the Government re-affirmed its commitment to implementing the CSCR-3, acknowledging delays in implementation and the emergence of new realities.** With reduced financial resources, unforeseen new social needs (e.g. displaced populations), and great difficulties to deliver basic services in North Mali, the implementation of the CSCR-3 hardly started in 2012. Nonetheless, the Government considers that medium term objectives and related programs set forth in the CSCR-3 remain fully relevant, as backed by a strong consultative process. Thus, accounting for projected limited available financial resources in 2013-14, the Government selected from the CSCR-3 a subset of programs initially envisaged to be implemented in 2012-13. This set of programs regrouped under the PRED 2013-14 (*Plan de Relance Durable du Mali* -- Sustainable Recovery Plan) aims at preventing the deterioration of human development indicators during the transition. As such, sectors covered under the PRED include security, education, health, social protection, employment, rural development and public financial management. In contrast, most programs retained under the CSCR-3 for infrastructure and industrial development were not retained in the PRED. Besides, crisis-related actions (e.g. elections, rehabilitation, reconciliation, security) which were not contemplated in the CSCR-3, were included in the PRED in support of the political transition.

3.3. **In October 2013, the new Government listed its orientations and priorities in an action plan for the period 2013-18.** The Government Action Plan (GAP) includes in particular under its first axis of “establishing solid and credible institutions” the strengthening of audit and external control capacities; the promotion of transparent and open recruitment processes (for civil

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<sup>17</sup> See Mali Joint IDA-IMF Staff Advisory Note on the Third Growth and Poverty Reduction Strategy Paper, World Bank and International Monetary Fund, April 2013, Washington D.C.

<sup>18</sup> Consultations involved parliamentarians, local elected officials in Bamako and regions, civil society and the private sector, academia, media, trade unions, Development Partners (DP). A set of institutional mechanisms and a clear roadmap guided the development of this new framework: a Steering Committee (including its Thematic Groups), a Joint Commission-DP Mali, a Technical Secretariat, and regional, local and municipal committees.

<sup>19</sup> Specific objectives under Pillar 1 include: (i) increase the rural sector production and support emergence of agrobusiness; (ii) promote industries, micro, small and medium enterprises, trade and services; (iii) facilitate access to credit and increase investment; (iv) develop infrastructure across the country to promote a modern economy and; (v) promote employment and income generating activities.

<sup>20</sup> Specific objectives under Pillar 2 include: (i) control the population growth and better manage migration; (ii) correct gender disparities; (iii) reduce social inequalities, notably by implementing the national social protection strategy; (iv) improve access and quality of education, vocational and technical training and national capacity for research; (v) reduce food insecurity, hunger and malnutrition; (vi) ensure access to quality health services to all; and (vii) ensure environmental sustainability.

<sup>21</sup> Specific objectives under Pillar 3 include: (i) improve judicial governance; (ii) modernize civil service; (iii) encourage regional poles for participative management; (iv) strengthen regional integration initiatives and sub-regional and international relations; and (v) improve public finance management and efficiently fight corruption and financial crimes.

servants), and the development of performance contracts between central and local governments; and under its fifth axis of “building an emerging economy” the reinforcement of tax collection capacity, public financial management reforms for accelerated disbursements and better value for money, and measures on the supply and demand sides to restore the financial viability of the national electricity company. More generally, the GAP aims at building Government’s actions on strong ethical standards, citizens’ improved access to public services, information and participation to decision making, greater equality in access to opportunities, and balanced territorial planning.

## 4. PROPOSED OPERATION

### A. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

4.1 **The proposed programmatic Recovery and Governance Reform Support Operations aim to support the authorities’ efforts to achieve the following Program Development Objectives (PDO):** to (i) deepen executive accountability and transparency; and to (ii) improve public expenditure efficiency, in line with CSRP-3 third pillar and GAP 2013-18 first and fifth axes. Government’s efforts supported by the proposed RGRSO1 and subsequent RGRSO2 would 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 major 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 and petroleum contracts; implement the recovery plan for the electricity sector aiming at reducing from 2014 public utility’s losses;
- (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 and formally integrate it in joint budget reviews and high-level quarterly meeting between Government and DPs.

4.2 **Actions a) to d) would aim at deepening executive accountability and transparency, while actions e) to h) would aim at improving public expenditure efficiency.** Actions f) and g) would also contribute to reducing opportunities for corruption and the diversion of public funds from their intended use.

4.3 **In the long run, faster growth and poverty reduction will require higher and better quality investments.** Barring 2012/13, annual GDP growth averaged 2% in per capita terms since 2001. Even if inclusive, such a growth performance was much too modest to make a serious dent

in terms of poverty reduction. As highly exposed to significant exogenous shocks, economic growth has been volatile, making investment risky, and as in 2012, the main adjustment variable to address macroeconomic downturns. Low aggregate private and public investments (at less than 15% of GDP in 2011, excluding ODA financed and gold-related investment projects, but including housing for a rapidly growing population) prevent economic diversification from a very narrow export base,<sup>22</sup> and the necessary productivity gains to reduce underemployment. Regional integration, skills development and economic diversification are identified by authorities as major policy areas to promote GDP growth and exports.<sup>23</sup> As for economic diversification, infrastructure development – regional connectivity for trade creation, irrigation and input subsidies to improve agricultural productivity and resilience, and grid connection to encourage the development of small non-agricultural enterprises - are considered critical, pointing to the need for greater and better public and private investments in these areas. The fight against corruption (for greater resource mobilization and promotion of the public good), the reduction of inefficient subsidies and better public investment management (at central and local levels) are expected to contribute to these long term objectives.

**4.4 The proposed series is drawing lessons from the Implementation Completion and Results Reports (ICRRs) for the first (1-2) and second (3-5) poverty reduction support credit series.** Both ICRRs underlined the need to account for country ownership and limited capacity in the selection of prior actions, in particular for sensitive sectors such as electricity and cotton, and to ensure close supervision and technical assistance to address bottlenecks and delays in implementation. Thus, the proposed series is designed to selectively concentrate on a small number of policy areas (anti-corruption, decentralization), which authorities consider as political priorities and where capacity is demonstrated and/or supported through technical assistance and complementary investment projects. Cotton sector reform, which was high on the agenda of past DPOs but did not meet expectations, is not considered in the proposed series as authorities did not retain it in the GAP 2013-18. Electricity sector reform, on the other hand, was retained given the high priority given to it by authorities in the GAP 2013-18, as reflected by the creation of a Task force to which the World Bank was invited to participate.

**4.5 The proposed series also prolongs and builds on authorities' efforts initiated in 2013 with the support of the Recovery and Reform Support Credit.** It builds in particular on the computerization of all central government transactions; the implementation of a risk-based approach for internal controls in the Ministries of Health and Education; the adoption of the Budget Transparency Code; the establishment of a selection committee for public investment projects; and the implementation of the automatic electricity tariff adjustment mechanism.

## **B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS**

### **Deepening Executive Accountability and Transparency**

**4.6 In recent years, most of Mali's governance indicators deteriorated.** Indicators of corruption, rule of law and voice and accountability steadily dropped between 2007 and 2012, according to the Worldwide Governance Indicators.<sup>24</sup> Other indicators,<sup>25</sup> such as political stability

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<sup>22</sup> In 2011, exports of gold were representing 65 percent of total exports receipts, goods and services.

<sup>23</sup> See Mali Joint IDA-IMF Staff Advisory Note on the Third Growth and Poverty Reduction Strategy Paper, World Bank and International Monetary Fund, April 2013, Washington D.C.

<sup>24</sup> The percentile rank of Control of Corruption dropped from 40 in 2008 to 25 in 2012; Rule of Law: from 46 to 30; Voice and Accountability: from 54 to 31.

and absence of violence/terrorism declined even faster, but most of the decline occurred in 2012 with the political crisis and could thus be considered as a consequence of the deterioration of indicators above mentioned and external factors. In the face of these trends, the Government is committed to act boldly to strengthen both transparency and controls in the use of public resources (human, financial, mineral), with a view to restore State legitimacy through greater executive accountability. This is not only for the sake of reducing corruption, but also to consolidate political stability and peace.

**4.7 Recent actions taken in 2014 to strengthen external controls and improve transparency illustrate Government's commitment to tackle corruption.** In May 2014, important off-budget expenditures were uncovered (2.0% of GDP), revealing severe public financial management lapses in the procurement of non-lethal military expenditures and the issuance of guaranties to private operators. By September 2014, a decree was adopted to limit the use of the “national interest” Article 8 clause in the Procurement Code (notably via the inclusion of a positive list of goods and services eligible to a restricted bidding process), and strengthen external ex-post fiduciary controls (by the General Controller of Public Services) on military expenditures. Transaction audits of such off-budget expenditures were conducted by the Auditor General and by the Audit Section of the Supreme Court, and the Government committed to publish both of them (RGRSO2 proposed trigger), creating an important precedent on transparency practices. Furthermore, the use of guaranties was restricted and their inscription (in the form of provisions) in the budget from 2016 was decided.

**4.8 Establishment and Fiduciary Controls.** Since 1999, World Bank Governance and Anti-Corruption activities have underscored the need for anti-corruption programs to tackle the underlying causes of the poor functioning of the state, namely, (i) discretionary state powers, (ii) impunity and (iii) lack of transparency in the conduct of public affairs, in particular in the recruitment of civil servants and army, where appointments are made on political clientelism and vested interests basis instead of merit. However, little progress was achieved in this domain, in spite of the wide awareness of the issue and the numerous proposals to tackle it, including for instance the creation of an independent public service commission. Nevertheless, through the GAP 2013-18, the new Government intends to promote open and transparent recruitment processes for civil servants, and thus, the proposed series would support first the adoption of the draft Law on the fundamental principles for creating, organizing, managing and controlling public services (RGRSO1 prior action), and second, the undertaking of a census of the civil service (RGRSO2 proposed trigger). The draft law retains the principles of matching job description and competences, transparency in the recruitment processes of all high-level civil servants,<sup>26</sup> as well as that of external posting of vacancies for program and project managers, public agencies and State-Owned Enterprises executive directors. While these principles remain general, an implementation decree prepared along with the project law specifies in greater details recruitment processes for high-civil servants, including the establishment of recruitment panels, shortlisting, and panel reports to be communicated to the Council of Ministers. A new civil service census started in 2014 would update the census conducted in 2003, and help reduce the significant fiduciary risks related to the effectiveness of payroll controls (Public Expenditure and Financial Accountability, PEFA, 2011),<sup>27</sup> and complement the recent integration of payroll and personnel

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<sup>25</sup> In contrast, indicators of Government effectiveness and regulatory capacity only modestly declined.

<sup>26</sup> High-level civil servants are appointed in their positions through decrees.

<sup>27</sup> In its assessment of the effectiveness of payroll controls, the PEFA (2011) noted the good degree of integration and reconciliation between personnel records and payroll data, as well as relatively good timeliness of changes to

data bases. While the last census did not uncover large numbers of “ghost workers”, it is possible that the situation deteriorated since, in line with deteriorating corruption trends; and the GAP 2013-18 made it clear that fraud in this area would be severely punished, under a zero tolerance principle. The census would cover civil servants from central and local governments, autonomous agencies, and the security sector, as well as contract employees. Recruitment was also streamlined through the adoption of transparent processes for contests since 2010 for the National Administration School and since 2012 for other corps.

**4.9 In line with PEFA (2011) findings, the RGRSO1 supports Government’s measures to strengthen external audits.** Since 2007, important progress was recorded in areas of budget credibility, comprehensiveness and transparency, policy-based budgeting and predictability in budget execution. Such progress strongly contributed to the efficient management of the budget crisis in 2012. However, external audits remain weak and arrangements for scrutiny of public finance (at central and local levels) and follow-up by the executive are not operational. Continued efforts are required to improve the availability of central government accounts,<sup>28</sup> and to clear up the institutional issues surrounding the creation of an Independent Supreme Audit Institution (“Cour des Comptes”) and build its capacities. In order to move swiftly, the Government intends to adopt an organic law, rather than promoting a constitutional amendment which would itself require a referendum.<sup>29</sup> This new organic law will bring together in a single text all the provisions applicable to the Supreme Court regarding its organization, operation, and procedures. In particular, the provisions will enhance the capacity, competency and autonomy of the Audit Section as the supreme audit institution. The main innovations will translate into increased staffing, a specific budget allocation to enhance the financial autonomy of the section, creation of regional audit entities, and the enlargement of competencies to cover the evaluation of public policies. Thus, the proposed series would support first the adoption of the draft organic Law on the organization, functioning and procedures the Supreme Court strengthening the autonomy and capacity of the Audit Section of the Supreme Court (RGRSO1 prior action), and second the Supreme Court’s Audit Section carrying out of judgments of the five largest local governments’ accounts (RGRSO2 proposed trigger). Focus on judgments of local governments’ accounts responds to a legal obligation not fulfilled until now in the absence of sufficient capacity at the Section des Comptes, as well as to the perception of high fiduciary risks at the local level.

**4.10 Transparency.** The 2012 Open Budget Index rated Mali 57<sup>th</sup> out of 98 countries on public availability of budget information. With a view to improve budget transparency and strengthen executive accountability, and in conformity with WAEMU PFM regulations (“Directives”) to be

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personnel records and the payroll and effectiveness of controls of changes to personnel and payroll controls. But the absence of payroll audits since 2004 audits to identify control weaknesses and/or ghost workers led to an overall rating of C+. The conduction of a civil service census in 2014 could remedy this issue and improve the overall rating to B+ (see Annex 2), unless deterioration since 2011 is recorded in other areas of payroll controls.

<sup>28</sup> In recent years, the Government has been improving the timeliness of budget execution reports and Budget Review Acts (“Lois de Réglement”) to the Assembly and the legal opinions on it from the Audit Section of the Supreme Court. Also, with a view to enhance effectiveness and efficiency of external audit reviews, the Government proposed a framework for the treatment of audit backlogs of the period 1960-1991 which was adopted by the National Assembly in January 2013. The accelerated audit of the management accounts (“comptes de gestion”) for the period 1992-2008 was also completed in December 2013.

<sup>29</sup> The Government submitted the creation of the Independent Supreme Audit Institution as part of a package of constitutional amendments to the National Assembly, which approved them in July 2011. As implying an amendment to the Constitution, a referendum would then be required to create the Court legally.

transposed in national legislations,<sup>30</sup> the Parliament adopted in 2013 the Budget Transparency Code. The Code notably clarifies the institutional responsibilities, format and frequency for the publication of information related to public finance (central and local levels), audits, public contracts (including for natural resources management) and procurement, public private partnerships, as well as rights of access to such information and related obligations for the administration. The Code also stipulates legal obligations for officials (all civil servants and elected officials) to frequently declare their assets (including that of their families), and to denounce any fraud in the management of public resources they could be made aware of by their official functions. Within the framework of the Code, a bill against illicit enrichment was adopted in 2013 by the Government and submitted to the National Assembly. Notably, the bill introduces the possibility to directly deduct fines from payroll for false or incomplete asset declaration, preventively seize assets of offenders during investigation, and deprive them from their political rights. It also mandates the Audit Section of the Supreme Court to enforce assets' declarations. Thus, the proposed series would support first the adoption of the draft implementation decree of the Transparency Code (RGRSO1 prior action), and second the adoption of the draft implementation decree of the Law against Illicit Enrichment (RGRSO2 proposed trigger).

**4.11 Since 2011, Authorities have also been publishing the “Citizen’s Budget”, with a view to familiarize citizens with national Budgets and strengthen their capacity to monitor and exert control on them.** The Citizen’s Budget discusses in a user friendly manner the macroeconomic assumptions retained, the main sources of revenues, spending choices, and major policies supported by the budget. The budget laws are also translated in local idioms and posted on the Ministry of Economy and Finance (MEF) website. Moving forward, progress in the computerization of the expenditure chain and the possible use of the BOOST software could pave the way for a frequent and user friendly dissemination of budget execution reports. Also, as part of its intention to develop a culture of results based management – thus executive accountability to citizens (likely via non-governmental organizations, given low literacy rates and access to internet) through the monitoring and evaluation of pre-identified and measurable objectives, the Government intends to create a website reporting on the reforms pursued under the GAP 2013-18.

**4.12 With a view to promote the development of the extractive industry while reducing opportunities for corruption, the government intends to take stock of ongoing mining and petroleum contracts, within the Extractive Industry Transparency Initiative (EITI) framework, for which Mali was declared compliant in 2011.** Mali’s extractive sector is dominated by gold, but potential for development of other mineral resources including bauxite, iron ore, diamond, limestone, manganese, nickel, petroleum, phosphates, tin, uranium and petroleum is promising and exploration has started for some. This puts even more pressure on the Authorities to transparently report on developments in these sectors. Thus, the proposed series would support first the adoption of the Budget Law for 2014 including in the budget, *inter alia*, a budget line for financing EITI activities (RGRSO1 prior action), and second the publication of the inventory of all existing mining and petroleum contracts (RGRSO2 proposed trigger). These actions are fully consistent with the implementation of the Transparency Code. The regular production of EITI reports, using new standards, is expected to provide data on amounts and use of sub-national transfers implied by mining contracts, as well as social expenditures borne by mining companies. The inventory and publication of all mining and petroleum contracts is

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<sup>30</sup> Other WAEMU regulations to be transposed into national legislation cover budget preparation and execution laws, government accounting, budget classifications, central government chart of accounts (CoA), and central government operations.

expected to encourage greater compliance with fiscal and environmental regulations of the mining code.

**4.13 Anticipated high-order results include improvements in various governance and transparency indicators over the medium term.** These include notably the various Worldwide Governance Indicators, the Open Budget Index, and the Mohamed Ibrahim Index on Accountability. These should be influenced by the larger GAP, which also includes the creation of a central unit against corruption, the strengthening of the capacity of the economic and financial poles, the implementation of asset registries in all public administrations, the support to Civil Society Organizations (CSO) providing judicial support to citizens, the creation of new commercial and labor courts, the strengthening of institutions in charge of controlling magistracy. Annex 1 lists expected results which could be directly attributed to the set of actions supported by the proposed series. In this regard, the proposed operation intends to provide support to CSOs to directly monitor and evaluate the implementation of the transparency code, notably with regard to citizens' access to information on public finance.

### **Improving Public Expenditure Efficiency**

**4.14 The RGRSO1 supports Government's measures to improve public expenditure efficiency through:** (i) improved resource allocation; (ii) larger transfers to local governments and accelerated investment budget execution; (iii) improved public investment selection, implementation and evaluation; and (iv) better integration of domestic and foreign financed government budgets.

**4.15 Improved resource allocation.** At 14.7% of GDP, Mali's tax revenue to GDP ratio remains lower than the WAEMU convergence criteria of 17% and below the actual performance of all its members but Guinea-Bissau in 2013. Furthermore, such a ratio could even become lower as GDP levels are being revised upwards through rebasing and the adoption of a more recent system of national accounts. Yet, while scope exists to broaden the tax base through the formalization of the economy, this will necessarily take time and the authorities acknowledge that reducing inefficient expenditure can deliver faster results. This includes in particular measures to reduce fiscal fraud<sup>31</sup> and review the large set of tax exemptions. In 2013, the Budget Law reported that foregone direct and import tax revenue originating from these exemptions ("tax expenditures") had respectively amounted to FCFA 231 and 229 billion in 2011 and 2012. Under-declaration of petroleum products at customs to maintain pump prices at desired levels also induced a FCFA 40 billion loss in tax income in 2013, which the Government decided to re-claim progressively through the implementation from 2015 of an automatic price adjustment mechanism.

**4.16 Improved resource allocation also concerns a better use of subsidies.** In 2013, subsidies to the state-owned electricity utility (EDM, Electricité du Mali) and for agricultural inputs<sup>32</sup> amounted respectively to FCFA 40 and 35 billion (or 1.3% of GDP). To this amount was

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<sup>31</sup> An inter-directorate investigation committee was established in 2012, and was mandated to cross-check the consistency of information contained in the different fiscal datasets (customs, direct taxes, domains, public procurement). This investigation suggested that in 80% of the cases, sales declaration were inferior to imports declaration; and that sales in 90% of the cases, sales declaration were inferior to what Government paid to the same enterprises in return for procured services. Actions to reduce frauds in this domain are supported by the IMF ECF.

<sup>32</sup> In the case of agriculture, analysis suggests that, unlike electricity, input subsidies tend to generate positive externalities, whereby farmers' private returns from higher yields exceed subsidies costs. This was notably the case



added FCFA 17.5 billion through the writing off of tax debts accumulated by EDM. In the case of electricity, (operational) subsidies compensate for large losses (a negative net result before subsidies of FCFA 38.6 billion in 2013) in the absence of sufficient tariff adjustment since 2003.<sup>33</sup> With economic recovery, the utility's losses are projected to increase to FCFA 45 billion in the absence of tariff adjustment and efficiency gains, given higher demand for electricity (+15% projected in 2014), which is likely to be met by more expensive sources of energy, the more so given the severe technical problems faced by hydroelectric plants since 2013. The fiscal resources received by EDM are large<sup>34</sup> (equivalent to the total public health budget in 2013), not targeted to the poor<sup>35</sup> and complicate budget management in the face of unpredictable subsidy needs. Moreover, EDM's precarious operational and financial situation prevents proper maintenance and discourages EDM to invest in additional capacity.<sup>36</sup> Acknowledging the current unsustainability of the electricity sector, the new authorities put in place a Task Force jointly chaired by the Minister of Energy and the Minister of Budget with the aim to identify and implement key actions to redress the sector. Other members of the Task Force include the national regulator, EDM, and the World Bank and the French Development Agency as observers and technical partners. The Task Force developed a recovery plan (with World Bank technical support) to eliminate by 2018 the need for subsidies, while being able to accommodate rapidly growing demand. The recovery plan foresees important investments (including rehabilitation) in hydro capacity, conversion to heavy fuel and gas, metering (US\$120 million in total over the period 2014-17), as well as increased tariffs. Along with conversion to heavy fuel, higher imports from Cote d'Ivoire, and the obtaining of fiscal exoneration for emergency power generation rental taking place in Senegal in the context of cooperation between members of the Economic Community of West African States, increased tariffs for medium voltage consumers should allow stabilizing losses in 2014, in spite of increased demand. On the other hand, considering the fragile political situation, authorities decided not to increase tariffs for residential consumers (low-voltage) in 2014, before results can be recorded on the governance of the sector, through reduced commercial losses and efficiency gains notably. Thus, the proposed operation would support the implementation of the recovery plan, that is the stabilization of EDMs' losses before subsidies in 2014 (RGRSO2 proposed trigger). By April 2014, the contract increasing imports from Cote d'Ivoire had been signed, with the potential of already offsetting 15 MW of more expensive diesel generation.

4.17 **Accelerated disbursements.** The Government believes that larger transfers to local governments and greater discretion by local governments in the use of such transfers are instrumental to improve service delivery and ensure national cohesion. Malian experience though, since the establishment of the legal framework for decentralization in the 90s, suggests that

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for rice, maize, mil and sorghum since the introduction of input subsidies in 2007 (Source: Ministry of Agriculture (2013) Analyse des effets et impacts de la subvention des intrants agricoles au Mali, June, Bamako).

<sup>33</sup> In 2013, the average sales price of electricity was 95 FCFA/kWh and its cost was 136 FCFA/kWh. Between 2003 and 2013, there were 4 tariff adjustments: 2 downward adjustments of 10% and 8% in 2003 and 2004, and 2 upward adjustments of 4% and 7% in 2009 and 2013. Cumulatively this corresponds to a drop in the average nominal price of electricity of 8% between 2003 and 2013; meanwhile, consumer prices increased by 46%.

<sup>34</sup> Between 2009 and 2013, FCFA 105 billion worth of operational subsidies were granted to the Utility to compensate for the absence of tariff adjustment, excluding investment costs borne directly by the Government.

<sup>35</sup> Only 5% of the poor have access to electricity, and it can be conservatively estimated that at least 90% of electricity subsidies go to non-poor households.

<sup>36</sup> Current rates of access to electricity in Mali are estimated at 30% nationally, corresponding to an access rate of 55% in urban areas and 18% in rural areas. EDM-SA has today a client base of about 300,000 connections, against 120,000 ten years earlier.

transfers from central to local governments are hampered by the poor capacity of local governments to manage them efficiently and transparently, generating frustration from local populations against Bamako, as well as against local governments accused of incompetence and corruption. While 21% of public expenditure is expected to be directly executed by local governments, only 10% was actually executed by local governments in 2013 – the remainder being still executed by the Central Government. In order to address the problem, the Government intends to strengthen fiduciary controls on local governments, while improving their public financial management capacity. It also intends to develop an incentive mechanism, whereby transfers would increase with demonstrated ability from local governments to manage them efficiently and transparently. Thus, the proposed series would support the adoption of the draft implementation decree establishing performance contracts between the State and Regional Governments (RGRSO1 prior actions), and the signature of such contracts between the State and two Regional Governments (RGRSO2 proposed trigger). Such contracts are meant to engage signatories in a mutually accountable relationship based on a clear division of responsibilities in the design, financing, development, and monitoring and evaluation of multi-year investment projects within the overall legal framework for decentralization. This endeavor would be complemented with government actions to support more demand for good governance interventions at the national, transversal, and local levels. These interventions would consist of establishing a framework for effective participation of key stakeholders (including women and youth) in the monitoring and evaluation of the allocation and use of public resources, establishment and implementation of a mechanism for the collection and treatment of financial data to inform community surveillance committees, and provision of training on the use of the said mechanism. In 2013, Mali joined the Global Partnership for Social Accountability.

**4.18 Long delays in procurement processes are another major impediment in accelerated disbursements.** Not reducing such delays would not only slow down economic recovery, but it would also maintain high suspicion levels of corruption and force contractors to add risks premiums in anticipation of bribes and unpredictable payment dates. In fact, Mali compares poorly with most WAEMU peers, both in terms of investment budget execution rates and time required to complete the procurement process.<sup>37</sup> Two reasons stand out to explain such a poor performance: (i) poor coordination between line ministries, planning and finance upstream, when investment projects are being defined and budgeted, which leads to poor quality feasibility studies, budget forecasts and bidding documents (see below the discussion on public investment management); and (ii) an excess of duplicative ex ante control steps, made worse by low procurement thresholds that are not risk based. Based on the WAEMU procurement directives and the delegation of authority of decision making on procurement in each member state, the ex-ante approval process should take around 60 days instead of more than 300 currently in Mali. Through greater delegation of authority in line ministries, it is expected that duplications and delays could be reduced, building on a risk-based approach for ex-post controls.<sup>38</sup> Thus the proposed operation would support the implementation of measures to reduce delays in public procurement (RGRSO1 prior action). Such measures would include: (i) increased thresholds for conclusion and approval of contracts through the adoption of a governmental decree; (ii) the elimination of double procurement clearance mechanisms from donors and the Government for

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<sup>37</sup> World Bank (2013), « Accroître l'efficacité des investissements publics: Etat des lieux et perspectives des réformes de la passation de marché et des finances publiques en zone UEMOA », FCFA Zone Ministerial Meetings, October, Paris.

<sup>38</sup> In 2013, both Ministries of Health and Education developed risk based approaches to strengthen their internal audit controls, with World Bank support.

donor-financed projects, the reduction in legal administrative delays for public procurement from 106 days to 80, the reduction in the number of administrative documents to be submitted to be eligible for the contract, and the reduction from 7 to 4 in the number of visas required for contracts approbation through the adoption of a ministerial order; and (iii) the possibility to launch public procurement plans from the submission of the Budget Law to the National Assembly and the establishment of an inter-ministerial monitoring and evaluation mechanism for public procurement. These new provisions would in turn be formalized through the adoption of a revised procurement code (RGRSO2 proposed trigger). The revised code would also clarify a number of clauses subject to various interpretations, integrate most recent WAEMU directives, and revise the treatment of simplified contracts which are currently the source of important fiduciary risks.

**4.19 Public Investment Management.** A review of Mali's public investment management conducted in 2012 for the MEF identified several areas to improve public investment effectiveness and efficiency: strategic project selection, project appraisal, budgeting, procurement, execution, accounting and ex-post evaluation.<sup>39</sup> A follow-up action plan pointed to the need first to formally establish a selection committee for public investment projects, which the Government did in 2013.<sup>40</sup> The committee is headed by the Directorate for Development Planning (DNPD) and comprises representatives of the directions of Budget, Public Debt, Treasury, Public Procurement, Poverty Reduction Strategy, Local Governments and Foreign Cooperation, National Statistical Institute and the Environment and Sustainable Development Agency. The committee is mandated to select projects based on a number of pre-identified criteria (availability of feasibility studies, rates of return, social and environmental safeguards, implications for current expenditure, financing availability, etc.). Seen as a first essential step in the improvement of the public investment management framework, the establishment of the committee shall be followed by the (i) creation of a fund to finance feasibility studies and ex-post evaluations, and (ii) the constitution of a bank of projects to be budgeted when financing becomes available. The former step is deemed critical to improve the quality of public investment projects on a sustainable basis while contributing to reduce procurement delays. The proposed operation would thus support the adoption of the Budget Law 2014 including in the budget, *inter alia*, a budget line for financing public investment projects feasibility studies (RGRSO1 prior action).

**4.20 In May 2013, donors pledged extraordinary levels of official development assistance to Mali.** A total amount of US\$4.2 billion (40% of GDP) was pledged for 2013-14, combining new financing with renewed commitments, and merging aid and military assistance. While most pledges have been clarified and accounted for,<sup>41</sup> the lack of harmonized systems to monitor aid constitutes a great challenge for Mali in terms of budget preparation, and macroeconomic management. Moving forward, the Government intends to encourage all Development Partners to adopt national public accounting norms when pledging, committing and disbursing aid, to facilitate the integration of domestic and foreign financed budgets. Thus, the proposed series would support the annual publication (in full consistency with the Transparency Code) by the

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<sup>39</sup> Ministry of Economy, Finance and Budget, 2012, «Etude diagnostique du système de sélection, de programmation, de budgétisation, de suivi de la mise en œuvre et d'évaluation a posteriori des projets et programmes d'investissement public et élaboration d' un plan d'action pour le renforcement des capacités », March, Bamako. The production of this report was supported by the IMF program under the Extended Credit Facility initiated in 2011.

<sup>40</sup>In 2013, the committee reviewed 184 projects and retained 42 in the public investment plan 2014-16, out of which 25 were included in the Budget Law 2014.

<sup>41</sup> Pledges were confirmed at the review meeting of the PRED in September 2014.

Secretary of Harmonization of Aid (SHA) of the Medium Term External Resource Framework and its formal integration in joint budget reviews and high-level quarterly meetings between Government and DPs, (RGRSO2 proposed trigger), with a view to strengthen aid predictability and integration with the national budget preparation cycle. The ongoing development of an interface between the datasets of the DNPd (in charge of the public investment plan), the Direction of Public Debt (in charge of credits to Government), and the Ministry of Foreign Affairs (in charge of grants) should also contribute to the better integration of domestic and aid budgets in the medium term.

**4.21 High-order results anticipated include higher disbursements on domestically-financed public investment.** The fiscal framework reported in Table 2 projects in this regard a 1.8 percentage point increase in public investment over GDP over the period between 2013 and 2016, domestically-financed investment substituting over time for foreign-financed investments. Annex 1 lists expected results which could be directly attributed to the set of actions supported by the proposed series.

**Table 4.1: RGRSO1 Prior Actions, RGRSO2 Proposed Triggers and Analytical Underpinnings**

Completed Prior Actions RGRSO1	Proposed Triggers RGRSO2	Analytical Underpinnings
<b>Deepening Executive Accountability and Transparency</b>		
The Recipient, through the Council of Ministers, adopts the draft Law on the fundamental principles for creating, organizing, managing and controlling public services.	Conduct a census of the civil service.	Mali: Policy Note on Governance Diagnostics (2012).
The Recipient, through the Council of Ministers, adopts the draft Law on the organization, functioning and procedure of the Supreme Court strengthening the autonomy and capacity of the Audit Section of the Supreme Court.	The Audit Section of the Supreme Court carries out the judgment of the five largest local governments' accounts.	Mali: Policy Note on Governance Diagnostics (2012), World Bank; TA for governance and fiscal decentralization related reports (since 2011).
The Recipient, through the Council of Ministers, adopts the draft implementation decree of the Transparency Code.	Adopt the draft implementation decree of the Law on Illicit Enrichment.  Publish the transaction audits of off-budget expenditures incurred in 2014.	Mali: Policy Note on Governance Diagnostics, (2012), World Bank; PEFA 2011.
The Recipient enacts the Budget Law for 2014 including in the budget, <i>inter alia</i> , a budget line for financing extractive industry transparency initiative activities.	Publish the inventory of all existing mining and petroleum contracts.	IETI reports.
<b>Improving Public Expenditure Efficiency</b>		
	In line with the electricity sector recovery plan, the recipient's utility stabilizes losses (net result) before subsidies in 2014.	Mali: Task Force report on Electricity Sector Recovery 2014-2020, March 2014.
The Recipient, through the Council of Ministers, adopts the draft implementation decree establishing performance contracts between the State and Regional Governments.	Two performance contracts are signed between the State and Regional Governments.	Proceedings of the "Etats Generaux de la Decentralisation" (2013); TA for governance and fiscal decentralization related reports (since 2011).

Completed Prior Actions RGRSO1	Proposed Triggers RGRSO2	Analytical Underpinnings
The Recipient implements measures to reduce delays in public procurement.	Adopt the revised procurement code.	WAEMU Budget execution report (2013); IMF TA report (2014).
The Recipient enacts the Budget Law 2014 including in the budget, <i>inter alia</i> , a budget line for financing public investment projects feasibility studies.		IMF TA report (2011).
	Publish annually Medium Term External Resource Framework before April 30 and integrate it in joint budget reviews and high-level quarterly meeting between Government and DPs.	SHA report (2013).

### C. LINK TO ISN AND OTHER BANK OPERATIONS

4.22 **Accounting for political, security and economic uncertainties, the Interim Strategy Note (ISN) FY14-15 aims primarily at accompanying the ongoing transition.** The ISN acknowledges the volatile institutional, political and security outlook for Mali in the years to come, weak implementation capacity, uncertain rehabilitation costs and institutional reforms in conflict-affected areas, and, in this context, wishes to (i) lay the foundations for longer term accountability and stability, (ii) protect human capital and build resilience, and (iii) prepare the conditions for economic recovery. As fully part of the Strategy, the proposed series is expected to support reforms aimed at strengthening executive accountability and at facilitating and consolidating the economic recovery.

4.23 **The proposed operation is part of a larger program of support to Mali that notably focuses on governance, decentralization, energy, and economic recovery.** It complements and benefits from a number of Bank Technical Assistance (TA) and project activities. The Governance and Fiscal Decentralization TA (P112821) and the Urban Local Government Support Project (P116602) support Government efforts to build PFM capacity in local and de-concentrated institutions and encourage demand for good governance interventions. In energy, the proposed operation benefited from the ongoing dialogue and sector knowledge developed under the Energy Sector Support Project (P108440) to review the effectiveness and efficiency of public subsidies. The Reconstruction and Economic Recovery Project (P144442) supports the recovery through improved basic infrastructure and socio-economic opportunities of communities impacted by the crisis in Mali. Along with these operations, the RGRSO1 would contribute to reach the following ISN results: (i) greater predictability of public transfers received by local governments; (ii) improved quality of internal and external audit controls; and (iii) increased electricity connections.

### D. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

4.24 **Consultations.** The proposed operation was developed within the consultative framework existing in Mali, namely the PRSP framework developed over the years to design and monitor PRSP progress and budget development. This has included consultations with government and CSOs undertaken during the preparation of the ISN FY14-15, and around the design and monitoring of the PRED 13-14. All the bills supported by the proposed operation have also followed the traditional consultation process involving public institutions, unions and civil society organizations active in the relevant sectors. More generally, the selection of prior actions in the

proposed operation builds on the political platform of the President elected in August 2013 with a large majority.

4.25 **Collaboration with Development Partners (DPs)**. The World Bank is an important member of the harmonized aid architecture in Mali. It is currently a member of the troika, the group of three DPs appointed on a 3-year rolling basis to conduct policy dialogue with authorities on behalf of the larger development community (comprising 36 members in 2013). As for budget support, the Government and a group of donors signed a Memorandum of Understanding in March 2006 and renewed it on July 1, 2010 to provide Mali with a harmonized framework. This group of donors includes the African Development Bank (AfDB), Canada, Denmark, the European Union (EU), France, Germany, the Netherlands, Sweden, and the World Bank, and became instrumental from 2006 to promote joint approaches regarding policy matrices, disbursement calendars and annual reviews. With the crisis in 2012, the group became less active as budget support was suspended by all DPs. Since, only the EU, France and AfDB have resumed budget support operations.<sup>42</sup> In this context, the World Bank agreed directly with authorities on the nature of the operation, while consulting with interested partners at the different stages of its preparation. It is hoped that the end of the political transition will allow the full reactivation from 2014 of the harmonized budget support structure.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### A. POVERTY AND SOCIAL IMPACT

5.1 **Measures supported by the proposed operation are expected to have a significant positive and direct effect on poverty reduction.** 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 the poor are particularly exposed. Actions to promote 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. 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.

5.2 **The Poverty and Social Impact Assessment of electricity tariff increases conducted in 2013 suggests an insignificant impact on poverty.** The electricity recovery plan foresees modest tariff increases for consumers from 2015 (low-voltage), as well as more significant increases in tariff for medium-voltage consumers (industries) from 2014, which should only marginally affect consumer prices. In any case, the poverty and social impact analysis suggests that electricity tariff increases, even if concentrated on consumers, have an insignificant impact on poverty.<sup>43</sup> Less than 5% of poor households had access to electricity in Mali in 2010. And the poor having access

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<sup>42</sup> Since 2013, the various budget support operations concentrated, in a consistent and coherent manner on the following policy areas: political transition (EU), macroeconomic stabilization and economic recovery (AfDB, EU, France, WB), PFM (AfDB, EU, WB), pro-poor expenditure allocation and food security (AfDB, EU, France, WB), decentralization and return of the administration in the North (AfDB, EU, WB), anti-corruption (EU, WB).

<sup>43</sup> Source: International Development Association (2013), Recovery and Reform Support Credit, Report #67451-ML, May 20, Washington D.C.

to electricity (2% of the population) were devoting only 2-3% of their consumption to electricity, against 4-6% for non-poor households (17% of the population) connected to the grid. Micro simulations run using household data from 2010 suggest that the 6.5% 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.

**5.3 More generally, the Government is also developing the institutional framework for managing and coordinating social safety nets.** Improving social protection has become a priority of the Government of Mali, and, in 2011, an action plan for the extension of the social protection strategy was prepared and adopted. In 2013, the Government established a steering committee and a technical unit at the MEF in charge of coordination and management for the safety net system, including the World Bank sponsored safety net project approved in 2013.

## **B. ENVIRONMENTAL ASPECTS**

**5.4 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)<sup>44</sup> will not be affected, as discussed above. Also, even with tariff increases, electricity will still remain much cheaper than kerosene.

**5.5 More generally, 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 CSCR-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.<sup>45</sup> 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

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<sup>44</sup> See World Bank (2003), Households Fuel and Energy Use in Developing Countries, May, Washington D.C.

<sup>45</sup> Decree No. 08-346/P-RM of June 26, 2008.

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.

**5.6 However, environmental institutions are lacking expertise and funding.** The Ministry of Environment and Sanitation and its line institutions have little leverage on the enforcement of environmental management/assessment regulations and procedures. On the one hand, there are few formal fora for inviting public input though the EIA regulation provides an adequate space to this end. On the other hand, without sound environmental standards and norms, the judicial system has no capacity to fairly handle complaints related to environmental matters. Finally, the country had recently engaged in the setting up of a financial mechanism which will be used as a strategic tool to channel international instruments (carbon funds) to support the implementation of sustainable land and water management and renewable energy projects.

### **C. PFM, DISBURSEMENT AND AUDITING ASPECTS**

**5.7 Public financial management is solid enough to warrant the continuation of Development Policy Operations.** The Government had adopted the updated integrated public finance management action plan (Second Government Action Plan for the Improvement and Modernization of Public Finance Management, PAGAM / GFP II). The action plan addresses the main issues highlighted in the 2011 PEFA, which indicated that: (1) budget credibility is satisfactory, except for arrears management; (2) budget comprehensiveness and transparency are rated as adequate but further progress requires inclusion in the budget of information such as data of autonomous government agencies, on the programs financed by donors and on fiscal information between central and local entities; (3) budgeting is based on sectoral policies and multi-year policies; (4) the quality of the instruments, rules, and procedures is generally sufficient. The procurement system has been modernized in three dimensions namely the legal and institutional framework and, the control system of bidding documents. However, capacity building is required for the implementation and monitoring of budget execution, especially of planned actions in the area of data processing, analysis, and control systems. The compliance with internal control rules and the effectiveness of internal audit need to be improved; and (5) accounting and reporting, as well as external scrutiny and audits, are reported to be weak. The proposed operation supports the implementation of PAGAM / GFP II, focusing on financial reporting, internal and external controls and parliamentary oversight. The OP7.30 Assessment of 2012 confirmed that, even if PFM reform plans had been postponed with the political crisis, the fiduciary environment had remained acceptable for the Bank to process its operations. Finance laws, including for the year 2014, have been regularly published with all detailed tables, on the website of the Ministry of Economy and Finance.<sup>46</sup>

**5.8 The Central Bank of West African States (BCEAO) is a common central bank of the countries of the WAEMU.** The latest assessment of the BCEAO was completed on December 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAEMU, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, transparency has increased with more timely publication of the audited financial statements, and the BCEAO is committed to international financial reporting

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<sup>46</sup> [http://www.finances.gouv.ml/Loi\\_de\\_finances\\_2014/index.html](http://www.finances.gouv.ml/Loi_de_finances_2014/index.html)



standards implementation by end-2014. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits.

5.9 **Overall, the fiduciary risk of the operation is rated “substantial”.** This is based on the results of the latest IMF Safeguards Assessment of the BCEAO, the country issues and the demonstrated commitment of the Government to implementing other wide ranging reforms in the area of PFM.

#### **D. MONITORING AND EVALUATION**

5.10 **Disbursement and Accounting.** The Borrower is the Republic of Mali, represented by the Ministry of Economy, Finance and Budget. The credit and grant will be released in one tranche of SDR 40.7 million (US\$63 million equivalent) upon effectiveness and provided the Association is satisfied (i) with the Program being carried out by the Recipient, and (ii) with the adequacy of the Recipient’s macroeconomic policy framework. The proposed operation will follow IDA’s disbursement procedures for development policy operations. Upon approval of the operation and effectiveness of the Financing Agreement, the proceeds of the credit and grant will be disbursed by IDA into a dedicated account of the Government for budget support at the central bank (“BCEAO”) and which forms part of the country’s foreign exchange reserves. The proceeds of the credit and grant will not be used to finance expenditures excluded under the Financing Agreement. The Borrower shall ensure that upon the deposit of the credit and grant into said account, an equivalent amount is credited in the Borrower’s budget management system, in a manner acceptable to the Bank. Based on previous experience, the execution of such transaction from the Central Bank to the Treasury (Ministry of Economy and Finance) does not require more than four days. The Borrower will report to the Bank on the amounts deposited in the foreign currency account and credited in local currency to the budget management system. Assuming that the withdrawal request is in Foreign Exchange, the equivalent amount in FCFA reported in the budgetary system will be based on the market rate at the date of the transfer. The Borrower will promptly notify the Bank by fax or email that such transfer has taken place, and that proceeds have been credited in a manner satisfactory to the Bank.

5.11 **Auditing.** The dedicated account into which the Bank proceeds are disbursed will be subject to external audit by external auditors acceptable to IDA. If, after being deposited in this account, the proceeds of the credit and grant are used for ineligible purposes as defined in the Financing Agreement, IDA will require the recipient to either: (a) apply the corresponding amount to eligible purposes, or (b) refund the amount directly to IDA.

5.12 **The closing date for the operation is June 30, 2015.**

5.13 **The Ministry of Economy, Finance and Budget will be responsible for overall coordination of supervision and monitoring of the reform program supported by the proposed series.** The MEF will liaise with focal points in the Ministries, departments and agencies involved in the proposed series. The participating ministries, departments and agencies will furnish relevant information and documentation on implementation and monitoring of their respective programs to MEF, which will oversee progress in achieving program objectives.

## 6. SUMMARY OF RISKS

### 6.1 The proposed series comprises substantial potential risks, namely:

- **Security.** A deterioration of the security situation in the North or in neighboring countries could distract government's attention and divert resources from its governance reform agenda and recovery. The proposed series does not directly entail measures to mitigate such risks or their impact, even if the focus put on resource mobilization is intended to give authorities the possibility to generate buffers needed to absorb security shocks.
- **Political feasibility of reforms.** Interest groups could oppose electricity tariff increases, in Bamako notably, with implication on the financial capacity of the electricity company to ensure regular supply and/or the stability of the Government's fiscal framework, thus delaying economic recovery. Nonetheless, tariffs were increased in February 2013 without strong opposition, as the Government proactively took the lead to communicate that tariff increases were not affecting the poor and were intended to give more capacity to invest in connections. The proposed operation will support these continued communication efforts through the dissemination of the conclusion of the Poverty and Social Impact Analysis of electricity tariff increases. Groups could also oppose measures aimed at reducing opportunities for corruption. The proposed operation does not directly entail measures to mitigate such risks or their impact, but through the promotion of transparency initiatives.
- **Commodity prices shocks.** An unexpected increase in petroleum prices would affect electricity generation costs and the objective of improving public expenditure efficiency. The adoption of the recovery plan supported by the proposed operation would reduce the development impact of such risk, and is complemented with World Bank initiatives to reduce generation costs through the importation of natural gas from Mauritania and the development of solar energy. An unexpected fall in gold prices would weaken the overall fiscal framework, with possible implication for the Government's ability to finance basic service delivery. The proposed operation mitigates the development impact of such risk through greater resource mobilization from alternative origins. An unexpected fall in cotton prices would potentially affect farmers' income, and growth through forward linkages. Such a risk is partially covered by the stabilization mechanism of the cotton industry. More generally, continued macroeconomic monitoring and dialogue with the authorities (at national and regional levels, through WAEMU notably), in coordination with the IMF, will help manage the impact of exogenous shocks on budget execution.
- **Climatic shocks.** A negative climatic shock would aggravate food insecurity and raise food inflation. Such a risk is partially covered by several other Government, World Bank and DPs activities to expand social safety nets and strengthen food security.
- **Fiduciary risks.** Risks that public financial resources are not allocated to their intended purposes or deliver poor value for money remain substantial, with a potentially significant negative development impact through poor public expenditure effectiveness and efficiency. The proposed series mitigates these risks by supporting a series of measures to strengthen controls on budget execution and budget transparency.
- **Implementation risks.** Risks that policy actions supported by the proposed operation are not implemented due to poor capacity are moderate. The strong country office presence and close dialogue with authorities mitigate such risk, as well as the technical assistance provided in the sectors of public financial management, governance, decentralization and energy by the World Bank and other DPs.

### ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions RGRSO1	Proposed Triggers RGRSO2	Expected Results
<b>Deepening Executive Accountability and Transparency</b>		
The Recipient, through the Council of Ministers, adopts the draft Law on the fundamental principles for creating, organizing, managing and controlling public services.	Conduct a census of the civil service.	Proportion of directors of projects, programs, public agencies and state-owned enterprises recruited through a competitive process by external posting of vacancies. Baseline 2013:0%; Target 2015: 100%. Source: Ministry of Civil Service. PEFA PI-18: effectiveness of payroll controls: Baseline 2010: C+; Target 2014: B+. Source: PEFA secretariat.
The Recipient, through the Council of Ministers, adopts the draft Law on the organization, functioning and procedure of the Supreme Court strengthening the autonomy and capacity of the Audit Section of the Supreme Court.	The Audit Section of the Supreme Court carries out the judgment of the five largest local governments' accounts.	Number of regional governments' accounts to be judged every year by the Audit Section of the Supreme Court: Baseline (2013): 0; Targets: 2014: 4; 2015: 6. Source: Supreme Court.
The Recipient, through the Council of Ministers, adopts the draft implementation decree of the Transparency Code.	Adopt the draft implementation decree of the Law on Illicit Enrichment.  Publish the transaction audits of off-budget expenditures incurred in 2014.	Proportion of demands of information addressed to MEF regarding public finance which were satisfactorily addressed. Baseline 2013: 0%; Target 2015: 75%. Sources: Budget Monitoring Group; and Ministry of Economy and Finance.  Proportion of assets declarations submitted in time to the Supreme Court. Baseline 2013: 0%; Target 2015: 75%. Source: Supreme Court.
The Recipient enacts the Budget Law for 2014 including in the budget, <i>inter alia</i> , a budget line for financing extractive industry transparency initiative activities.	Publish the inventory of all existing mining and petroleum contracts.	Number of EITI reports validated, published in time and according to most recent EITI standards: Baseline (2013):1; Target 2014:1. Source: EITI secretariat. Proportion of mining conventions audited for compliance with respect to the mining code. Baseline (2013):0%; Target 2015:25%. Source: Ministry of Mines.

Prior Actions RGRSO1	Proposed Triggers RGRSO2	Expected Results
<b>Improving Public Expenditure Efficiency</b>		
	In line with the electricity sector recovery plan, the recipient's utility stabilizes losses (net result) before subsidies in 2014.	Government subsidies to EDM (FCFA Billions). Baseline (2013): 57.5; Targets: 2014 <50.0; 2015 <20.0; Source: Ministry of Economy and Finance.
The Recipient, through the Council of Ministers, adopts the draft implementation decree establishing performance contracts between the State and Regional Governments.	Two performance contracts are signed between the State and Regional Governments.	Proportion of public funds released to local governments (in % of public expenditure); Baseline (2013):10%; Target 2015:15%. Source: Ministry of Economy and Finance.
The Recipient implements measures to reduce delays in public procurement.	Adopt the revised procurement code.	Average public procurement delays (working days). Baseline (2013): 94. Targets: 2014: 90, 2015: 80. Source: Ministry of Economy and Finance.
The Recipient enacts the Budget Law 2014 including in the budget, <i>inter alia</i> , a budget line for financing public investment projects feasibility studies.		Share of public investment projects in budget law selected by the Investment Committee: Baseline: Budget Law 2013: 0%; Target: Budget Law 2016: 100%. Source: Ministry of Economy and Finance.
	Publish annually Medium Term External Resource Framework before April 30 and integrate it in joint budget reviews and high-level quarterly meeting between Government and DPs.	Absolute value of relative deviation in ODA budget execution. Baseline 2013:12%; Targets: 2014: 9%; 2015: 7%. Source: Ministry of Economy and Finance.

ANNEX 2: LETTER OF DEVELOPMENT POLICY

MINISTERE DE L'ECONOMIE ET DES FINANCES

REPUBLIQUE DU MALI  
Un Peuple - Un But - Une Foi

SECRETARIAT GENERAL

Bamako, le 15 OCT 2014



N° Rs 03279 /MEF-SG

*Le Ministre de l'Economie et des Finances*

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Monsieur Jim Yong KIM, Président  
de la Banque Mondiale,  
1818 H Street, NW  
Washington, DC 20433 ÉTATS-UNIS  
Tél : 1-202-473-1000 | Fax : 1-202-477-6391

Objet : Lettre de Politique de Développement

Monsieur le Président,

1. La présente Lettre de Politique de Développement fait le point sur l'évolution de la situation économique récente et les perspectives des deux prochaines années. Elle présente également l'état de mise en œuvre des réformes en 2013 et le programme de réformes en 2014 et 2015 pour soutenir la reprise économique et réduire la pauvreté.
2. Ce programme de réformes s'inscrit dans le cadre de la mise en œuvre du CSCRP 2012-2017 adopté en décembre 2011, du Programme de Relance Durable du Mali 2013-2014 adopté en avril 2013 et du Plan d'Actions du Gouvernement (PAG) 2013-2018.
3. En vue d'atteindre les objectifs de ce programme de réforme, le gouvernement sollicite auprès de la Banque Mondiale un financement d'appui à la reprise et aux réformes de gouvernance. Ce financement servira de soutien au renforcement du rendu des comptes de de la transparence, ainsi qu'à l'amélioration de l'efficacité des dépenses publiques.

### Contexte Politique, Social et Economique

#### *Faits marquants pour 2013*

4. Le Mali est progressivement sorti de la crise en 2013 grâce au rétablissement de la sécurité, au retour des Partenaires du Mali suite au succès des élections présidentielles et législatives.
5. En Janvier 2013, le déploiement d'une force d'intervention de plusieurs milliers de soldats français vint épauler l'armée malienne pour arrêter la progression des groupes djihadistes vers le

Sud et ensuite, en compagnie des soldats de la Mission Internationale de Soutien au Mali (MISMA), des soldats de la CDEAO et de l'armée tchadienne, reprendre toutes les villes du nord du pays et attaquer leur sanctuaire dans une région montagneuse au nord de la ville de Kidal à proximité des frontières avec l'Algérie et le Niger. Afin de consolider les acquis sécuritaires une Mission multidimensionnelle intégrée des Nations Unies pour la stabilisation au Mali (MINUSMA) a été installée dans le pays.

6. La Conférence pour le Développement du Mali qui s'est tenue à Bruxelles le 15 mai 2013 et les trois réunions de suivi ont été un grand succès. Elle a réuni 80 pays et 28 organisations internationales qui se sont engagés à apporter 3,285 milliards d'Euros (4,2 milliards de dollars, 2200 milliards de FCFA, soit 39 % du PIB) pour mettre en oeuvre le Plan de Relance Durable du Mali marquant ainsi la reprise de la coopération avec les Bailleurs de fonds.

7. Le succès des élections présidentielles et législatives a marqué la fin du mandat du pouvoir de Transition installée au lendemain de la crise de mars 2012 et a permis la mise en place d'un nouveau pouvoir démocratiquement élu.

8. Sur la base du CSCRP et tenant compte des nouveaux défis résultant de la crise, le Président de la République a bâti sa vision du changement et son projet de société sur les cinq ans de son mandat. Le Programme d'Actions du Gouvernement (PAG) constitue le cadre d'opérationnalisation de cette vision. Il endosse le PRED par une prise en compte de ses douze domaines prioritaires.

9. Elaboré selon un processus impliquant l'ensemble des ministères, le PAG s'articule autour de six axes: la mise en place d'institutions fortes et crédibles; la restauration de la sécurité des personnes et des biens sur l'ensemble du territoire national; la mise en oeuvre d'une politique active de réconciliation nationale; la reconstruction de l'école malienne; la construction d'une économie émergente; et la mise en oeuvre d'une politique active de développement social. Le PAG a également débouché sur des programmes opérationnels comme le Programme Accéléré de Développement des Régions du Nord (PDA/RN) en vue de faciliter le retour de l'administration, les réfugiés, les déplacés et reconstituer le tissu économique pour une reprise de l'activité économique dans les régions du Nord.

## **Développements macroéconomiques et réformes récentes**

### ***Au niveau macroéconomique***

10. Sous l'effet de précipitations défavorables et d'une récolte moins bonne que celle record de 2012, le taux de croissance réel du produit intérieur brut (PIB) n'a été que de 1,7% au lieu de 5,1% comme anticipé. Il convient de noter que les secteurs de l'industrie manufacturière et des services ont rebondi de 6 et 9% respectivement, grâce à l'amélioration de la situation de la sécurité, au succès des élections présidentielles et législatives de même qu'à la reprise du soutien des donateurs. En revanche, le secteur primaire s'est contracté de 7%. L'inflation moyenne est sortie légèrement négative (-0,6%) en 2013.

11. Le déficit du compte courant (dons inclus) de la balance des paiements s'est creusé pour atteindre 5,2 % du PIB en 2013 à la suite de la baisse des cours de l'or et de l'augmentation des

importations concomitantes avec la reprise économique. Ce déficit a été presque entièrement financé par des entrées nettes de capitaux, principalement sous la forme d'aide extérieure et d'investissements directs étrangers. En conséquence, le solde global de la balance des paiements a enregistré un déficit de 86 milliards de FCFA (172 millions de \$), financé par l'utilisation des réserves de changes de la Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

12. S'agissant de la masse monétaire, elle a augmenté de 6 pour cent en 2013, sous l'impulsion du crédit à l'économie qui a progressé de 12 pour cent. Les banques commerciales ont profité de la politique monétaire accommodante de la BCEAO pour augmenter leurs recours aux avances de la BCEAO afin de financer l'économie malienne et souscrire aux titres émis par les Etats de l'Union économique et monétaire de l'Afrique de l'Ouest (UEMOA).

13. Au plan budgétaire, en 2013 la mobilisation des recettes fiscales a été inférieure de 5% au montant programmé. La contreperformance des recettes fiscales s'explique en partie par la baisse des prix de l'or et par certains dysfonctionnements au sein de l'administration fiscale. Le gap de recouvrement des recettes a été compensé par une sous-exécution des dépenses, et grâce à cette politique prudente, les objectifs de soldes budgétaires pour 2013 ont été atteints.

### *Au niveau des réformes*

#### *Renforcer la gestion des finances publiques*

14. Le Gouvernement a poursuivi les efforts d'amélioration de la gestion des finances publiques, en remédiant en particulier aux faiblesses mises en lumière par l'évaluation PEFA en 2011 à travers la poursuite de la mise en œuvre du Plan d'Action Gouvernemental pour l'Amélioration et la Modernisation de la Gestion des Finances Publiques (PAGAM-GFP). Les réformes de la gestion des dépenses publiques ont logiquement redémarré en 2013 après un ralentissement en 2012. Les réformes prévues pour 2013 ont été mises en œuvre à hauteur de 2/3 des actions prévues. Pour preuve de cette performance, le Gouvernement a adopté une approche du contrôle interne basée sur le risque, pour les Ministères de l'Education et de la Santé. Cette approche a été étendue aux autres Ministères par la suite. En outre, le Gouvernement a soumis à l'Assemblée Nationale la loi de règlement 2011 avec le certificat de conformité délivré par la Section des Comptes de la Cour Suprême, et la loi de règlement 2011, ceci afin de renforcer la transparence dans l'exécution budgétaire et son contrôle externe. Ce projet de loi a été voté par l'Assemblée Nationale et promulgué par la loi No. 2014-014 du 26 mai 2014 portant Règlement Définitif du Budget d'Etat 2011.

15. Les actions exécutées dans le cadre du Plan d'Action Gouvernemental pour l'Amélioration et la Modernisation de la Gestion des Finances Publiques (PAGAM-GFP) au titre de 2013 incluent la transposition des Directives No. 01/2009/CM/UEMOA du 27 mars 2009 portant Code de Transparence dans la Gestion des Finances Publiques au sein de l'UEMOA et No. 06/2009/CM/UEMOA portant Lois de finances qui définit les règles et procédures relatives à la préparation, l'élaboration, l'adoption, l'exécution et le contrôle du budget dans la législation nationale. Les projets de textes de transposition ont été adoptés par l'Assemblée Nationale et promulgués par la Loi No. 2013-028 du 11 juillet 2013 relative aux Lois de Finances et la Loi No. 2013-031 du 23 juillet 2013 portant approbation du Code de Transparence dans la gestion des finances publiques. En 2014, les quatre autres Directives du Cadre Harmonisé de la Gestion

des Finances Publiques ont tous été transposés sous forme de Décrets pris en Conseil des Ministres. Afin de renforcer la gestion de la comptabilité de l'Etat, le Gouvernement a également déployé l'application intégrée de la comptabilité de l'Etat (AICE) au niveau des services du Trésor que sont la Paierie Générale du Trésor, la Recette Générale du District de Bamako, à l'Agence Comptable Centrale du Trésor (en cours) et à la Trésorerie Régionale de Koulikoro et incluant l'opérationnalisation des interfaces avec les applications des administrations financières (SIGTAS pour les impôts et SYDONIA pour les Douanes) afin de couvrir l'ensemble des transactions effectuées au niveau central. Grâce à l'application AICE, le suivi des délais de paiement au profit des fournisseurs privés s'est beaucoup amélioré et cela a permis de mieux gérer la trésorerie et éviter l'accumulation des arriérés intérieurs. Le Gouvernement a également établi un cadre de concertation unique pour la sélection des projets publics (Décision N°027 du 01 mars 2013) pour rendre plus efficace le choix des projets et programmes et améliorer la gouvernance de ceux-ci.

16. La rationalisation des dépenses publiques sera au centre du renforcement de la gestion des finances publiques. L'objectif poursuivi a été l'atteinte d'une plus grande efficacité dans la fourniture de services publics de base pour le bien-être de la population. Enfin, l'amélioration de la gouvernance a permis de sécuriser le système de gestion des finances publiques tout en modernisant l'administration publique et en améliorant l'environnement des affaires.

17. En outre, suite aux dysfonctionnements liés à l'achat d'un aéronef et à l'exécution d'un contrat militaire, le Gouvernement a entrepris des actions tendant à renforcer la mise en œuvre des règles budgétaires et de passation des marchés. A cet effet, le Gouvernement a adopté un arrêté fixant la liste des dépenses payées avant ordonnancement et les modalités de leur régularisation en juillet 2014 et un décret précisant les conditions d'application de l'article 8 du Décret No. 08-445/P-RM du 11 août 2008 portant procédures de passation, d'exécution et de règlement des marchés publics et des délégations de service public. Le Décret No. 2014-0764/P-RM du 9 octobre 2014 porte sur les exclusions du champ d'application des procédures pour les achats de biens et services revêtus du sceau du « secret en matière de défense » ou « des intérêts essentiels de l'Etat ». En plus, le Gouvernement s'est engagé à publier les deux rapports indépendants d'audit sur ces transactions ; communiquer sur le processus des sanctions relatives à ces deux opérations ; corriger la surfacturation des contrats militaires en fonction du rapport final du Vérificateur Général ; appliquer un contrôle rigoureux sur les futurs marchés militaires ; et incorporer toutes les dépenses militaires au budget de l'Etat. Le Gouvernement s'est engagé à ne plus permettre de telles dépenses.

### ***Sauvegarder les acquis au niveau des secteurs sociaux***

18. La nécessité de rétablir les services sociaux de base, notamment dans les secteurs de la santé, de l'éducation, de la protection sociale, de l'eau, de l'assainissement et de l'administration économique et financière était devenue pressante pour la reprise des activités indispensables à l'amélioration des conditions de vie de la population malienne. Dans ce contexte, le Gouvernement a augmenté dans la Loi de Finances 2013 la part des dépenses prioritaires pro-pauvres dans les dépenses totales, en comparaison avec la Loi de Finances 2012. Le maintien du niveau des dépenses sociales et de développement humain en 2013 a favorisé le retour à la normale du fonctionnement des services sociaux de base, ainsi que le maintien des acquis obtenus au cours des récentes années en matière de développement humain et de réduction de la



pauvreté. En outre, la constitution de crédit budgétaire pour les investissements a permis la réhabilitation et l'équipement des centres de santé de base et les écoles ainsi que la réhabilitation des locaux abritant les services de l'administration financière publique (impôt, marchés publics, budget et contrôle financier). Aussi, le redéploiement des agents des directions financières ainsi que les agents des services sociaux de base dans les régions libérées a été effectué grâce aux mesures incitatives budgétaires notamment les frais de transport et les indemnités d'équipement au profit des agents de l'Etat.

19. Afin d'améliorer l'efficacité de la protection sociale, le Gouvernement a mis en place le projet d'urgence de filets sociaux au Mali, dénommé « **Jigisemejiri** » avec l'appui de la Banque Mondiale. Ce projet, vise à la mise en place d'un programme ciblé de transferts monétaires pour les pauvres chroniques pour environ 62 000 ménages. Ainsi, les fondations pour le développement d'un système national de filets sociaux au Mali seront réalisées à travers ce projet.

### *Améliorer l'environnement des politiques pour les infrastructures et l'investissement privé*

20. Le Gouvernement a poursuivi parmi ses actions prioritaires, le renforcement des infrastructures et l'amélioration du climat des affaires. Le Gouvernement s'est attelé aussi à la levée des contraintes dans le secteur agricole et le secteur de l'énergie.

21. Le programme de réformes du Gouvernement a inclus des actions pour améliorer la contribution du secteur agricole à la croissance pro-pauvre. A cet effet, les efforts ont été orientés vers davantage de productivité et de diversification. Le Gouvernement a consolidé les résultats significatifs obtenus pour les cultures céréalières, notamment le riz.

22. Le Gouvernement a œuvré pour accroître la productivité agricole et réduire la vulnérabilité aux chocs climatiques en mettant à profit son potentiel d'irrigation. Des avancées ont été enregistrées suite aux réformes institutionnelles et aux investissements consentis dans les terres irrigables, en particulier pour l'accroissement de la production rizicole. Les efforts se sont poursuivis pour renforcer la gouvernance dans ce secteur crucial. Les objectifs comprennent la création d'un cadre pour le développement d'une vision commune du développement de l'irrigation au Mali et un mécanisme pour la participation constructive des parties prenantes dans la planification et la surveillance des activités de l'irrigation à l'Office du Niger. Ainsi, le Gouvernement a adopté le schéma financier d'irrigation en zone Office du Niger, après consultations avec les parties concernées, Partenaires inclus.

23. Face au besoin récurrent et croissant des transferts budgétaires à l'Energie du Mali (EDM.SA) en raison du déséquilibre structurel entre les prix de vente de l'électricité et les coûts de production<sup>\*</sup>, le Gouvernement a adopté et appliqué le mécanisme d'ajustement tarifaire de l'électricité. Ainsi, le gouvernement a procédé à une augmentation moyenne des tarifs de l'électricité de 7% qui est entrée en vigueur au 1er février 2013. Pour autant, la subvention de l'Etat à la Société EDM a augmenté passant de 26 milliards de FCFA en 2012 à 57 milliards de

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<sup>\*</sup> En 2012, le prix de vente moyen de l'électricité était de 91 FCFA/kWh et le prix de revient de 127 FCFA/kWh. En 2013, le prix de vente moyen de l'électricité est de 96 FCFA/kWh après l'ajustement du 1<sup>er</sup> mars 2013 et le prix de revient attendu de 119 FCFA/kWh.

FCFA. L'objectif du Gouvernement reste la réduction progressive de cette subvention pour créer de l'espace budgétaire en vue de financer les programmes de développement en faveur des populations à faible revenu, tout en continuant à encourager le développement du secteur électrique au travers d'investissements d'extension du réseau et de développement de sources énergétiques moins coûteuses.

24. Dans le secteur privé, afin d'atteindre une performance plus élevée des exportations et de promouvoir l'environnement des affaires, les procédures d'exportation ont été simplifiées. En outre, des normes et réglementations pour les exportations, particulièrement en ce qui concerne les exportations de produits agricoles ont été établies. Dans le domaine du climat d'investissement, le Gouvernement a, au cours des dernières années, fait des réformes dans les domaines de: (i) la création du guichet unique, (ii) l'enregistrement de la propriété avec l'adoption d'un nouveau Code des Impôts qui contient une disposition réduisant la taxe de transfert de la propriété de 15% à 7%. Aussi, l'abaissement du taux d'imposition sur le Bénéfice Industriel et Commercial (BIC) de 35% à 30% a été retenu dans la loi de finances 2012 en conformité avec les directives de l'UEMOA. En plus de cela, un nouveau code des investissements a été adopté en 2012. Le gouvernement a adopté la base réglementaire pour l'opérationnalisation du Transit Routier Inter Etat (TRIE) unique sur le corridor Dakar-Bamako et élaboré un cadre juridique et institutionnel des TIC au Mali (à travers 5 projets de lois) pour améliorer le commerce transfrontalier.

## **Perspectives en 2014-2015**

### ***Au plan macroéconomique***

25. Grâce au rebond des secteurs de la construction et des services ainsi qu'au retour des Partenaires il est attendu une accélération de la croissance du PIB en termes réels à 5,8% en 2014 et d'au moins 5,5% en 2015. L'inflation pourrait se situer à 1% en 2014 grâce aux importations de produits alimentaires et de l'installation de la Mission Multidimensionnelle Intégrée des Nations Unies pour la Stabilisation au Mali (MINUSMA).

26. Le déficit des opérations courantes (dons compris) devrait se creuser pour atteindre près de 8,8% du PIB en 2014 mais devrait être entièrement financé par les investissements directs étrangers dans le secteur de l'or et des télécommunications et l'aide extérieure sous forme de prêt.

27. Le solde global de la balance des paiements devrait être proche de l'équilibre au cours de la période 2014-16. Au-delà, la mise en œuvre de politiques monétaire et budgétaire prudentes devrait permettre de maintenir l'inflation en ligne avec le critère de convergence communautaire de 3% par an, pour autant que la pluviométrie soit favorable.

28. Dans le domaine budgétaire, le gouvernement entend soumettre un nouveau projet de Loi de Finances Rectificative (LFR) à l'Assemblée Nationale pour régulariser les dépenses liées à l'achat d'un aéronef et le contrat militaire pour un montant de 30 milliards de FCFA à financer par un recours au marché financier régional. Avec cet ajout, la nouvelle LFR sera bâtie autour d'un déficit du solde de base à 52 milliards de FCFA (0,9% du PIB) et le déficit global (dons

inclus) à 325 milliards de FCFA (5,6% du PIB) à comparer à 5,2% dans la Loi de Finances rectificative approuvée en aout.

## **Programme de Réformes**

### *Améliorer la Gestion publique, assurer la transparence et promouvoir la redevabilité*

29. L'administration malienne fait face à un défi de modernisation et de stabilité pour promouvoir des méthodes innovantes dans le fonctionnement de tous les services et de toutes les institutions du secteur public. Pour participer activement et gagner dans la compétitivité des savoirs et des services, le gouvernement a créé des opportunités nouvelles notamment la formation à travers l'Ecole Nationale d'Administration et entend mettre en place la mise en concurrence des emplois administratifs supérieurs. A cet effet, **le gouvernement a adopté le projet de loi portant principes fondamentaux de la création, de l'organisation, de la gestion et du contrôle des services publics. Ce texte adopté par l'Assemblée Nationale a été promulgué par la Loi No. 2014-049 du 19 septembre 2014** permettra d'introduire le principe de l'adéquation entre le profil et le poste pour la nomination aux emplois supérieurs et le principe d'égalité, d'équité et de transparence. En outre, il introduira l'appel à candidature pour la nomination aux postes de directeurs d'établissements publics, de projets et programmes organisés sous forme de services rattachés en vue d'accroître l'efficacité des effectifs de l'administration publique tout en améliorant le niveau des compétences.

30. Afin d'offrir un service public capable de répondre au mieux aux besoins des citoyens, les administrations maliennes ont mené ces dix dernières années de profondes réformes de leur système de gestion des ressources humaines (GRH) à travers la création des Directions des Ressources humaines au niveau central et des Bureaux des ressources humaines au niveau régional et le recensement des effectifs de l'Administration en 2014. Pour maîtriser les effectifs réels de l'administration publique, le Gouvernement s'est engagé à conduire un nouveau recensement physique des effectifs de la fonction publique. Ce recensement permettra de rationaliser et accroître la transparence dans la gestion des ressources humaines de la fonction publique.

31. Le dispositif de reddition et de jugement des comptes des comptables publiques participe à la transparence et la redevabilité. La Section des Comptes de la Cour Suprême est l'acteur principal de ce dispositif. Malgré de nombreuses initiatives entreprises par le Gouvernement tendant au renforcement des capacités de la section des comptes pour faire face à ses obligations juridictionnelles, les réformes en profondeur tardent à voir le jour. En attendant l'érection de la Section des Comptes de la Cour Suprême en une Cour des Comptes comme le prévoit les directives de l'UEMOA, **le Gouvernement s'est engagé à adopter le projet de loi organique visant le renforcement des capacités de la Section des Comptes** à remplir ses missions juridictionnelles de manière très visible au sein de la Cour Suprême. Disposant des capacités renforcées par cette réforme et des budgets les plus importants, la Section des Comptes auprès de la Cour Suprême procédera au jugement des comptes de cinq collectivités territoriales en vue d'améliorer la transparence budgétaire.

32. Le droit d'accès à l'information est essentiel pour le développement. Ce droit est un élément fondamental de la bonne gouvernance qui donne à chacun les moyens de participer activement à la réalisation des objectifs du développement. Ainsi, le Gouvernement a encouragé la publication de plusieurs documents budgétaires notamment la liste des contribuables, les documents du budget annuel, la situation d'exécution du budget, le plan de passation des marchés d'appel d'offre, bien que la diffusion de ces informations ne soit pas réglementée. Ainsi, le Gouvernement a adopté le Code de Transparence dans la Gestion des Finances Publiques. Pour mettre en application ce code, **le Gouvernement a adopté le Décret No. 2014-0607/P-RM du 13 août 2014 visant à déterminer les modalités d'accès et de publication des informations et documents administratifs relatifs à la gestion des finances publiques conformément aux principes et obligations standards.** Ce décret visera notamment les modalités concernant la publication des documents évoqués à cet effet dans le Code: nature, fréquence, support, et responsabilité en vue de promouvoir l'accès et la publication des informations sur la gouvernance et la gestion des fonds publics.

33. La délinquance économique et financière constitue une menace pour la stabilité et la sécurité. Elle sape les institutions et les valeurs démocratiques, les valeurs éthiques et la justice, compromet et précarise toutes les perspectives de développement. Afin de renforcer le dispositif de lutte contre la délinquance économique et financière, le Gouvernement a adopté en 2013 le projet de loi portant prévention et répression contre l'enrichissement illicite. Ce projet de loi a été adopté par l'Assemblée Nationale et promulgué par la Loi No. 2014-015 du 27 mai 2014. Ainsi pour mettre en application cette loi, le Gouvernement s'est engagé à adopter le décret fixant les modalités de mise en œuvre de la loi sur l'enrichissement illicite en vue d'engager une lutte implacable contre la corruption.

34. Pour assurer la transparence des paiements issus de l'exploitation des extractions des ressources naturelles, le Mali a adopté les normes de l'Initiative pour la Transparence des industries Extractives (ITIE) pour devenir pays conforme de l'ITIE 2011. Afin de promouvoir cette pratique, **le Gouvernement a introduit une ligne budgétaire dans la loi de finances 2014 pour le financement des activités de l'initiative de transparence des industries extractives.** En outre, le Gouvernement compte publier l'inventaire de tous les contrats miniers et pétroliers existants en vue de favoriser la transparence et faciliter l'accès à l'information du public.

#### *Améliorer l'efficacité de la dépense publique pour favoriser la relance économique*

35. Face au besoin récurrent et croissant des transferts budgétaires à l'Energie du Mali (EDM.SA) en raison du déséquilibre structurel entre les prix de vente de l'électricité et les coûts de production, le Gouvernement a adopté et appliqué le mécanisme d'ajustement tarifaire de l'électricité en 2013 tout en procédant à une augmentation moyenne des tarifs de l'électricité de 7%. Malgré cet ajustement tarifaire, la viabilité financière reste toujours préoccupante. Ainsi, le Gouvernement s'est engagé à adopter et mettre en œuvre le plan d'action visant à restaurer durablement la viabilité financière de la compagnie Electricité du Mali tout en stabilisant les pertes opérationnelles d'EDM.SA à partir de 2014. A cet effet, le Gouvernement compte sur l'assistance des services de la Banque mondiale, en matière de transferts ciblés sur les couches les plus vulnérables de la population qui pourraient être intensifiés en cas de hausse des prix des produits énergétiques ou alimentaires

36. L'objectif primordial de la décentralisation est le développement équilibré du territoire national. D'autres objectifs importants de la décentralisation sont (i) d'améliorer la prestation des biens et services publics, (ii) de promouvoir une meilleure gouvernance, et (iii) de satisfaire la demande d'autonomie locale. L'insuffisance quantitative des transferts au budget de l'Etat fait obstacle au développement local. Malgré l'existence d'une fiscalité locale, les collectivités mobilisent peu cette ressource et par conséquent cela limite leur capacité à faire face au financement des compétences transférées par l'Etat. Ainsi, le Contrat Plan Etat-Collectivités Régions (CPER) a été identifié comme un instrument majeur pour assurer la promotion du Développement Economique Régional. Il constitue une orientation majeure de la consolidation de la réforme de décentralisation prévue par le Document Cadre de Politique Nationale de Décentralisation (DCPND), déclinée dans le Programme National d'Appui aux Collectivités Territoriales (PNACT) phase III et confirmée dans les recommandations des Etats Généraux de la décentralisation tenue en Octobre 2013. Pour mettre en place cet instrument, **le Gouvernement a adopté le décret No. 2014-0644/P-RM du 21 août 2014 établissant les contrats plan entre l'Etat et les régions en vue de promouvoir le développement régional dans le pays.** Pour mettre en place le contrat plan, le Gouvernement s'engage à signer au moins deux contrats plans avec les régions en vue d'augmenter les ressources transférées aux Collectivités.

37. La délivrance des services publics passe par une administration faisant une bonne planification pour déterminer les besoins à satisfaire par une bonne préparation des commandes publiques. Les usagers des services publics trouvent souvent les délais de passation longs. Fort de ce constat, le Gouvernement s'est engagé à mettre en œuvre des actions visant à réduire les délais de passation des marchés publics. Ces actions qui concernent notamment **la relecture du décret relatif au seuil de conclusion et d'approbation des marchés et de l'arrêté d'application du code des marchés publics ont été réalisées.** Elles avaient pour but de responsabiliser davantage les autorités contractantes par (i) le relèvement des seuils de conclusion et d'approbation des marchés, (ii) la réduction des délais imputés à chaque acteur de la commande publique, (iii) la réduction du nombre de signataire des contrats, (iv) l'élimination des doublons dans la revue à priori des dossiers de marchés, (v) l'allègement conséquent du nombre des pièces administratives éliminatoires et (vi) la relecture de certains articles pour mieux préciser leur contenu et encadrer la préparation des plans de passation des marchés. Toutes ces actions contribueront sans nul doute à réduire les délais de passation d'au moins 28 jours améliorant ainsi le cadre macroéconomique, le service rendu aux usagers et la performance des projets et programmes.


38. Les projets d'investissement publics souffrent de mauvaise préparation en matière d'évaluation des coûts et de planification des activités. Pour remédier à cela **le Gouvernement a introduit une ligne budgétaire dans la loi de finances 2014 pour le financement des études de faisabilité de projets d'investissement public,** en vue de renforcer la qualité des études de faisabilité des projets et programmes.

39. Afin de renforcer le cadre règlementaire de suivi de l'aide officielle au développement, le Gouvernement s'est engagé à publier annuellement le Cadre des Ressources Externes à Moyen Terme (CREMT) et présenter ses résultats lors de la Revue budgétaire conjointe (RBC) ainsi que lors des réunions de haut niveau entre le gouvernement et les Partenaires en vue de renforcer la prévisibilité de l'aide.

## Suivi et Evaluation

40. Le Ministère de l'Economie et des Finances (MEF) sera responsable, pour la coordination d'ensemble, de la supervision et du suivi du programme de réformes à mener dans le cadre du CSCRP. A ce titre, il sera en liaison avec les points focaux dans les Ministères, les Directions et Agences impliquées dans le programme. Les Ministères, Directions et Agences participants fourniront les informations et la documentation pertinente sur la mise en œuvre et le suivi de leurs programmes respectifs au MEF, qui supervisera les progrès dans la réalisation des objectifs du programme. Les principales sources sont: (i) le recensement de la population qui a eu lieu en avril 2009, (ii) les enquêtes ménages réalisées par l'Institut National de la Statistique, (iii) les statistiques de l'administration collectées annuellement par les Cellules de planification et de statistiques des Ministères sectoriels, (iv) les statistiques économiques produites par l'Institut National de la Statistique, et (v) les données budgétaires en provenance du MEF. Tous ces éléments contribueront au suivi-évaluation des réformes en cours, dont celles soutenues par l'appui budgétaire à la reprise et aux réformes de gouvernance.

Veillez agréer, Monsieur le Président, l'assurance de ma considération distinguée.

  
Madame BOUARE Fily SISO



## LETTER OF DEVELOPMENT POLICY

### Unofficial Translation

1. This Letter of Development Policy assesses the trends in the recent economic situation and the outlook for the next two years. It also discusses the implementation status of the 2013 reforms as well as the 2014-2015 reform program aimed at supporting economic recovery and reducing poverty.
2. This reform program is taking place in the context of implementation of the 2012-2017 Growth and Poverty Reduction Strategy Paper (GPRSP) adopted in December 2011, Mali's 2013-2014 Sustainable Recovery Program (*Programme de Relance Durable* PRED) adopted in April 2013, and the 2013-2018 Government Action Plan (*Plan d'Actions du Gouvernement* PAG).
3. With the aim of achieving the objectives of this reform program, the Government is requesting financing from the World Bank to support the recovery and governance reforms. This financing will be used to help deepen executive accountability and transparency and to improve public expenditure efficiency.

### Political, Social, and Economic Context

#### *2013 Highlights*

4. In 2013, Mali gradually recovered from the crisis as safe conditions were reestablished in the country and Mali's partners returned following the successful presidential and legislative elections.
5. In January 2013, the deployment of an intervention force of several thousand French soldiers provided backing to the Malian army with the aim of halting the incursion of jihadist groups into the south and, assisted by the International Support Mission to Mali (MISMA), ECOWAS and Chadian army soldiers, regaining control, of all the towns in the north of the country and attacking the rebel hideout in a mountainous area north of the town of Kidal, near the borders with Algeria and Niger. To consolidate the security gains made, a United Nations Multidimensional Integrated Stabilization Mission in Mali (MINUSMA) was established in the country.
6. The Malian Development Conference held in Brussels on May 15, 2013 and the three follow-up meetings were a great success. The conference brought together 80 countries and 28 international organizations that pledged to provide EUR 3.285 billion (US\$4.2 billion and CFAF 2,200 billion or 39 % of GDP) to implement Mali's Sustainable Recovery Program, thus signaling the resumption of donor assistance.
7. The successful presidential and legislative elections marked the end of the mandate of the transition government installed immediately following the March 2012 crisis and paved the way for the inauguration of a new, democratically elected government.

8. Based on the GPRSP and bearing in mind the new challenges resulting from the crisis, the President of Mali built his vision for change and social development during his five-year term. The Government Action Plan (PAG) provides the framework for the operationalization of this vision and endorses the Sustainable Recovery Program (PRED) by taking into account its 12 priority areas.

9. The PAG, prepared through a process involving all ministries, is structured around six key axes: establishing strong and credible institutions, restoring safe conditions for individuals and property throughout the country, actively implementing a national reconciliation policy, rebuilding Malian schools, building an emerging economy, and actively implementing a social development policy. The PAG also covered such operational programs as the Accelerated Development Program for the Northern Regions (*Programme pour le développement accéléré des régions Nord PDA/RN*) in order to facilitate the return of the local government, refugees, and displaced persons and to restore the economic fabric with a view to the resumption of economic activity in the northern regions.

## **Macroeconomic Developments and Recent Reforms**

### ***Macroeconomic Developments***

10. Owing to unfavorable rainfall and a harvest that was not as good as it was in 2012, a record-breaking year, the real GDP growth rate stood at a mere 1.7% compared to the projected 5.1%. It should be noted that the manufacturing and services sectors rebounded by 6% and 9% respectively, as a result of the improvement in the security situation, the successful presidential and legislative elections, and the resumption of donor assistance. However, the primary sector contracted by 7%. Average inflation was slightly negative (-0.6%) in 2013.

11. The current account balance of payments deficit (including grants) widened to 5.2% of GDP in 2013 following the drop in gold prices and the increase in imports linked to the economic recovery. This deficit was almost completely funded by net capital inflows, primarily in the form of foreign aid and foreign direct investment. As a result, the country had an overall balance of payments deficit of CFAF 86 billion (US\$172 million), which was funded with foreign exchange reserves from the Central Bank of West African States (BCEAO).

12. The money supply increased by 6% in 2013 as a result of credit to the economy, which rose by 12%. Commercial banks took advantage of the BCEAO's accommodative monetary policy to increase their use of BCEAO advances to finance the Malian economy and to apply for bonds issued by West African Economic and Monetary Union (WAEMU) member states.

13. In the fiscal area, revenue collected in 2013 was 5% less than projected. The weak performance in this area is in part explained by lower gold prices and by some administrative problems in the functioning of the tax authorities. The revenue collection shortfall was offset by the lower expenditure and, owing to this prudent policy, the fiscal balance targets for 2013 were achieved.



## ***Reforms***

### ***Strengthening Public Finance Management***

14. The Government continued efforts to improve public finance management, in particular by correcting the problems brought to light by the 2011 PEFA evaluation, by forging ahead with implementation of the Government Action Plan to Improve and Modernize Public Finance Management (*Plan d'Action Gouvernemental pour l'Amélioration et la Modernisation de la Gestion des Finances Publiques* PAGAM-GFP). The public expenditure management reforms were resumed in 2013 after a slowdown in 2012. Two-thirds of the 2013 planned reforms were implemented. As a reflection of these achievements, the Government adopted a risk-based internal auditing approach for the Ministries of Education and Health, which was later extended to the other ministries. The Government also submitted the 2011 budget execution law to the National Assembly, along with the certificate of conformity issued by the Audit Section of the Supreme Court, in order to enhance transparency in budget execution and the external auditing of this process. The draft law was adopted by the National Assembly and promulgated by the Law No. 2014-014 dated May 26 2014 closing definitely the Budget 2011.

15. The actions executed in the context of the Government Action Plan to Improve and Modernize Public Finance Management (PAGAM-GFP) in 2013 include the transposition in national legislation of the Directives No. 01/2009/CM/UEMOA from March 27 2009 on Finance Laws setting forth the rules and procedures related to the preparation, drafting, adoption, execution, and audit of the budget . Draft texts on transposition were adopted by the National Assembly and promulgated by the Law No. 2013-028 of July 11 2013 on Finances Laws and by the Law No. 2013-031 of July 23 2013 approving the Transparency Code of public finances. In 2014, the four other directives of the harmonized framework in public financial management were transposed through the adoption of decrees by the Council of Ministers. In order to strengthen public accounting management, the Government also deployed the Integrated Public Accounting Software (*Application Intégrée de la Comptabilité de l'Etat*, AICE) within the following Treasury Departments: General Payment Office, Capital District General Revenue Office, Central Accounting Agency (in progress) and Koulikoro Regional Treasurer Office, and including the operationalization of interfaces with revenue software (SIGTAS for taxes) and ASYCUDA (for customs), so as to cover all transactions conducted at the central level. Thanks to AICE, the tracking of timeframes for payment by the Government to private suppliers facilitated improved cash flow management and avoided the buildup of domestic arrears. Lastly, the Government established the selection committee for public investment projects (Decision No. 027 of March 1, 2013) aimed at ensuring efficiency in the choice of projects and programs and improving governance of the latter.

16. The rationalizing of public expenditure will be central to the strengthening of public finance management. The goal sought was greater efficiency in the delivery of basic public services so as to promote the well-being of the people. Lastly, improved governance led to a more secure public finance management system while modernizing the State administration and improving the business climate.

17. Furthermore, in light of the shortcomings related to the procurement of a plane, and to the processing of a military contract, the Government took actions aimed at strengthening the

implementation of budgetary and procurement rules. To this effect, the Government adopted in July 2014 an administrative order fixing the list of off-budget expenditures and modalities to regularize them, and a decree stipulating the conditions of use of the article 8 of the Decree No. 08-445/P-RM of August 11 2008 on public markets procurement, execution and payment and public service delegation. The Decree No. 2014-0764/P-RM of October 9, 2014 concerns domains to be excluded from procedures related to “military secret” and “essential State interests”. Moreover, the Government committed to publish the two independent audits of such transactions; to correct the overbilling of the military contract based on the final audit report of the Auditor General (*Vérificateur Général*); to apply strict control on future military markets; to integrate all military spending in the budget. The Government committed not to allow anymore such expenditures.

### ***Preserving Social Sector Gains***

18. There was a pressing need to restore basic social services, particularly in the areas of health, education, social protection, water, sanitation, economic and financial administration so that the activities essential to improving the living conditions of the Malian people could be resumed. Against this backdrop, the Government increased the share of pro-poor priority expenditure in the 2013 budget law relative to total expenditures, compared to the 2012 budget law. In 2013, the stabilization of expenditure on social and human development helped restore the normal functioning of basic social services and preserve the gains made in recent years in the areas of human development and poverty reduction. In addition, budget appropriation for investment facilitated the rehabilitation and refurbishing of basic health centers and schools as well as the rehabilitation of the buildings that house the public finance administration departments (taxes, public procurement, budget, and financial oversight). Also, budgetary incentives, in particular the coverage of State employee transportation and allowances for amenities, facilitated the redeployment of employees from the financial departments and basic social services to the regions recaptured from the rebels.

19. In order to make social protection more efficient, the Government introduced an emergency safety net project in Mali, known as **Jigisemejiri**, with World Bank assistance. This project is aimed at establishing a targeted cash transfer program for the chronically poor, covering roughly 62,000 households. The foundation for the development of a national safety net system in Mali will therefore be laid through this project.

### ***Improving the Infrastructure and Private Investment Policy Context***

20. In terms of its priority actions, the Government has continued to strengthen infrastructure and improve the business climate. The Government is also focusing on eliminating constraints in the agricultural and energy sectors.

21. The Government’s reform program includes actions aimed at strengthening the contribution of the agricultural sector to pro-poor growth. To this end, efforts have been oriented toward greater productivity and diversification. The Government has consolidated the solid performance of cereal crops, in particular rice.

22. The Government has sought to boost agricultural productivity and reduce vulnerability to climate shocks by tapping into its irrigation potential. Progress has been noted following institutional reforms and investments in irrigable land with the aim of increasing rice production, in particular. Efforts to strengthen governance in this critical sector have continued. The objectives include the creation of a framework to forge a common vision to develop irrigation in Mali and a mechanism for constructive stakeholder participation in the planning and monitoring of the irrigation activities at the *Office du Niger*. The Government has therefore adopted the financial system for irrigation in the ON zone, after consultation with the relevant parties, including partners.

23. In light of the recurring and growing need for budget transfers to the Malian electricity company (*Energie du Mali*, EDM.SA) owing to the structural imbalance between the selling price of electricity and production costs,\* the Government has adopted and applied the electricity rate adjustment mechanism. Effective February 1, 2013, the Government therefore increased electricity rates by an average of 7%. The Government subsidy to the EDM was nonetheless increased in 2012 from CFAF 26 billion to CFAF 57 billion. The Government's objective remains the gradual reduction of this subsidy so as to create the fiscal space to finance development programs for low-income population groups while continuing to promote the development of the electricity sector through investments in expanding the network and developing less expensive energy sources.

24. Export procedures have been streamlined in the private sector, with the aim of boosting exports and promoting the business climate. Furthermore, exports standards and regulations have been put in place, particularly with respect to agricultural exports. In the area of the investment climate, the Government has introduced the following reforms in recent years: (i) the creation of the one-stop shop and (ii) the registration of property with the adoption of a new tax code that contains a provision lowering the property transfer tax from 15% to 7%. Also, the reduction of the tax rate on industrial and commercial profits from 35% to 30% was reflected in the 2012 budget law, in accordance with WAEMU Directives. Furthermore, a new investment code was adopted in 2012. The Government adopted the regulatory framework to operationalize the single Interstate Road Transit (*Transit Routier Inter Etat*, TRIE) along the Dakar-Bamako corridor and prepared an ICT legal and institutional framework for Mali (through five draft laws) with the aim of improving cross-border trade.

## **2014-2015 Outlook**

### ***Macroeconomic Outlook***

25. The uptick in activity in the construction and services sectors along with partner reengagement is expected to lead to a higher real GDP growth rate of 5.8% in 2014 and at least 5.5% in 2015. Inflation could be around 1% in 2014, owing to the twin effects of imported food

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\* In 2012, the average sales price of electricity was CFAF 91/kWh and the cost price, CFAF 127/kWh. In 2013, the average sales price of electricity was CFAF 96/kWh after the March 1, 2013 adjustment and the projected cost price, CFAF 119/kWh.

products and the establishment of the United Nations Multidimensional Integrated Stabilization Mission in Mali (MINUSMA).

26. The current account deficit (including grants) is expected to increase to close to 8.8% of GDP in 2014 but should be fully funded by foreign direct investment in the gold sector and telecommunications as well as foreign lending assistance.

27. The overall balance of payments is expected to be close to equilibrium during the 2014–16 period. Furthermore, the implementation of prudent monetary and fiscal policies should allow for inflation to be kept in line with the WAEMU community convergence criterion of 3% per year, provided that rainfall is favorable.

28. In the fiscal area, the Government plans to submit a new draft revised budget law to the National Assembly to regularize expenditures related to the plane and the military contract for an amount of FCFA 30 billion, to be financed through the regional market. With this addition, the Budget will be built around a basic primary deficit of FCFA 52 billion (0.9% of GDP), and an overall deficit (included grants) of FCFA 325 billion (5.6% of GDP), to be compared with 5.2% in the revised budget Law adopted in August.

## **Reform Program**

### ***Improving Public Management, Ensuring Transparency, and Promoting Accountability***

29. The Malian Government faces a challenge in the areas of modernization and stability in order to promote innovation in the functioning of all public sector services and institutions. With a view to participating actively and achieving competitiveness gains in the areas of knowledge and services, the Government created new opportunities, in particular through training at the *Ecole Nationale d'Administration* (ENA) and intends to introduce competition for senior government positions. To this end, **the Government adopted the draft law on the basic principles for the creation, organization, management, and control of public services**. This text, adopted by the National Assembly and promulgated by the Law No. 2014-049 of September 19 2014, will pave the way to start matching profiles and positions in the appointment of senior officials and to introduce the principle of equality, equity, and transparency. Furthermore, it will conduct a search for candidates for the positions of directors of public institutions, projects, and programs, to be placed in units subject to oversight authority, in order to enhance the efficiency of government employees while improving competency levels.

30. In order to create a public service that is better able to respond to the needs of citizens, in the past ten years the Malian authorities have overhauled their human resource management system by creating central human resource directorates and regional human resource offices and conducting a survey to determine the number of government employees (2014). To gain a better grasp of the actual number of government employees, the Government is committed to conduct another census of government employees. This survey will facilitate streamlining and enhanced transparency in the management of government human resources.

31. The accountability and evaluation of public accounting mechanism plays a role in transparency and accountability. The Audit Division of the Supreme Court is the key component of this mechanism. Despite numerous initiatives by the Government to build the capacity of the

Audit Division to meet its legal obligations, in-depth reforms have been slow in coming. Pending the conversion of the Audit Division of the Supreme Court into an Audit Office as stipulated in WAEMU Directives, **the Government is committed to adopt the draft organic law aimed at strengthening capacity within the Audit Section**, so that it can carry out its mission in a highly visible manner within the Supreme Court. With greater capacity resulting from this reform effort and bigger budgets, the Audit Division of the Supreme Court will carry judgment of the accounts of five local governments with the aim of improving budget transparency.

32. The right to information is essential for development. This right is a key element of good governance that provides each individual with the resources to participate actively in achieving development goals. Thus, the Government has encouraged the publication of several budget documents, among them the list of taxpayers, annual budget documents, the status of budget execution, and the procurement plan, although the dissemination of this information is not subject to regulation. For example, the Government adopted the Public Finance Management Transparency Code. To apply this code, **the Government adopted the Decree No. 2014-0607/P-RM of August 13, 2014 aimed at determining the procedures for access to, and the publication of, administrative information and documents related to public finance management in accordance with the principles and standard obligations**. This decree will target in particular the procedures governing the publication of documents mentioned for this purpose in the code: type, frequency, medium, and responsibility in order to promote access to and the publication of information on the governance and management of public funds.

33. Economic and financial crimes continue to pose a threat to stability and security. They undermine institutions and democratic values, sound ethics and justice, and compromise and jeopardize all prospects for development. In order to strengthen the mechanisms to combat economic and financial crimes, in 2013 the Government adopted the draft law on the prevention and suppression of illicit enrichment. The text was adopted by the National Assembly and promulgated by the Law No. 2014-015 of May 27 2014. To apply this law, the Government is committed to adopt the implementation decree establishing the procedures for enforcement of the law on illicit enrichment, with a view to waging a relentless war on corruption.

34. In order to ensure transparency with respect to payments derived from natural resource extraction, Mali adopted the Extractive Industries Transparency Initiative (EITI) standards and became EITI-compliant in 2011. To encourage this, **the Government has introduced a line item in the 2014 budget law for the financing of EITI-related activities**. Moreover, the Government plans to publish the list of all current mining and petroleum contracts in order to promote efficiency and facilitate access to public information.

### ***Strengthening Public Expenditure Efficiency to Promote Economic Recovery***

35. In light of the recurring and growing need for budget transfers to the Malian electricity company (EDM.SA) linked to the structural imbalance between the selling price and production costs of electricity, the Government adopted and applied the electricity rate adjustment mechanism in 2013 while increasing electricity rates by an average of 7%. Despite this rate increase, the company's financial viability remains a source of concern. Consequently, the Government has pledged to adopt and implement the action plan aimed at the sustainable restoration of EDM's financial viability while stabilizing the operational losses of the EDM.SA,

beginning in 2014. To this end, the Government is counting on assistance from the World Bank with targeted transfers to the most vulnerable population groups whose situation could be exacerbated by the potential rise in energy or food prices.

36. The fundamental goal of decentralization is the balanced development of Mali. Other important decentralization goals are to (i) improve the delivery of public goods and services, (ii) promote improved governance, and (iii) respond to the need for local autonomy. State budget transfer shortfalls are hampering local development. Despite local taxation in effect, collection levels by local governments are low, a factor that is limiting their capacity to meet the financing responsibilities transferred by the State. Consequently, the State-Regional Government Planning Agreement (Contrat Plan Etat-Collectivités Régions CPER) has been identified as a key instrument to promote regional economic development. It is a critical element in bolstering the decentralization reform set forth in the Framework Document for the National Decentralization Policy [*Document Cadre de Politique Nationale de Décentralisation DCPND*] outlined in Phase III of the National Program to Support Local and Regional Governments [*Programme Nationale d'Appui aux Collectivités Territoriales PNACT*] and endorsed in the recommendations of the General Assembly meeting on Decentralization held in 2013. To implement this mechanism, **the Government adopted the decree No. 2014-0644/P-RM of August 21 2014 establishing Performance Contracts between the State and regions to promote regional development in Mali.** To institute such contract, the Government is committed to signing at least two contracts with the regions in order to boost the resources transferred to local and regional governments.

37. Public service delivery requires sound planning by the Government to determine the needs to be met through proper public procurement planning. Public service users often face long procurement wait periods. In light of this, the Government has pledged to implement measures aimed at reducing public procurement wait times. These measures, which target, in particular, **a review of the decree related to the thresholds for conclusion and approbation of markets and the implementing decisions related to the public procurement code have been implemented.** They were aiming at assigning greater responsibility to the contracting authorities by (i) increasing the thresholds for concluding and approving contracts, (ii) reducing wait times for each public procurement actor, (iii) reducing the number of signatures required for contracts, (iv) eliminating duplication in the upstream review of contract documents, (v) significantly reducing the number of qualifying documents, and (vi) reviewing a number of articles with the aim of clarifying their content and providing for the supervision of procurement plans. All these measures will, no doubt, help reduce procurement wait times by a minimum of 28 days, thus improving the macroeconomic framework, the service provided to users, and project and program performance.

38. The preparatory process for public investment projects in the areas of cost evaluation and activity planning is inadequate. To address this, **the Government introduced a line item in the 2014 budget law on the financing of feasibility studies on public investment projects,** in order to strengthen the quality of feasibility studies on projects and programs.

39. In order to strengthen the regulatory framework for monitoring official development assistance, the Government has made a commitment to publish annually the Medium Term External Resource Framework (*Cadre des Ressources Externes à Moyen Terme CREMT*) and to

present its findings at the joint budget review meeting and at high-level meetings between the Government and partners, with the aim of improving aid predictability.

### **Monitoring and Evaluation**

40. The Ministry of Economy and Finance (MEF) will be responsible for the overall coordination, supervision, and monitoring of the reform program to be conducted under the GPRSP. To this end, it will collaborate with the focal points in the ministries, offices, and agencies involved in the program. The latter will provide the information and relevant documentation on the implementation and monitoring of their respective programs to the MEF, which will track the progress made with program objectives. The main sources are (i) the population census conducted in April 2009, (ii) the household surveys conducted by the National Statistical Institute, (iii) the government statistics compiled annually by the planning and statistics units of the line ministries, (iv) the financial statistics prepared by the National Statistical Institute, and (v) the budget data from the MEF. All this information will help the monitoring/evaluation process of the reforms underway, including those reforms supported by budgetary assistance for the recovery process and governance reforms.

# ANNEX 3: COUNTRY MAP

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