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APPRAISAL STAGE

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Operation Name	Mali - First Recovery and Governance Reform Support Credit (RGRSC-1)
Region	AFRICA
Country	Mali
Sector	Central government administration (100%)
Operation ID	P145275
Lending Instrument	Development Policy Lending
Borrower(s)	Republic of Mali
Implementing Agency	Ministry of Economy and Finance
Date PID Prepared	March 26, 2014
Estimated Date of Appraisal	April 7, 2014
Estimated Date of Board Approval	May 29, 2014
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

The political crisis of 2012 has had a severe economic and social impact. There were two important sources of economic contraction in 2012. The first one is the strong reduction of 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 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. 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.

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. From 2013, the economy benefited from the rapid resumption of foreign assistance; it suffered on the other hand from erratic rains. Preliminary estimates point real GDP growth around 2% in 2013. All in all, World Bank staff estimates that the proportion of poor1 in total population increased from 44% to 45% between 2011 and 2013, pushing an additional 700 thousand people in poverty.

II. Operation Objectives

The proposed operation supports the authorities' efforts to (i) deepen executive accountability and (ii) consolidate the economic recovery as the political transition ends and the security situation improves. Expected results comprise improvements in various governance and transparency indexes over the medium term (Worldwide Governance Indicators, the Open Budget Index, and the Mohamed Ibrahim Index on Accountability), as well as higher domestic revenue collection and higher disbursements on public investment

III. Rationale for Bank Involvement

The calendar year 2012 witnessed the occupation of the Northern regions of Mali by armed separatist groups and a military coup in March overthrowing the elected Government. Constitutional order was thereafter progressively restored with the formation and international recognition of a Transitional Government of National Unity. In January 2013, the Malian army benefited from the support of a UN-mandated coalition of foreign troops to restore sovereignty over the entire Malian territory. In August 2013, a new President was elected through fair and transparent elections, and legislative and municipal elections are respectively scheduled for late 2013 and early 2014. While the North of Mali is still subject to sporadic terrorist attacks, the security situation has nonetheless been stabilizing with the establishment of a UN peace-keeping force since July 2013 (MINUSMA). The administration and populations are now slowly returning.

The re-foundation of the State of Mali will necessitate strengthening executive accountability through better controls in the use of public financial resources and greater transparency. The crisis of 2012 has generated a wide spectrum of opinions on the quality of institutions in Mali and their ability to equitably serve and protect citizens (in low population density areas in particular, such as Northern Mali), and on the role of external factors in Mali's destabilization – such as the contagion of external conflicts. One point of consensus though is the need to strengthen central and local governance for greater State legitimacy. Indeed, indicators of political stability, rule of law and control of corruption significantly deteriorated in recent years. Trends in political stability and rule of law have likely been influenced by developments in the North, where the authority and legitimacy of the state have traditionally been weak, and further eroded in recent years as the region increasingly became home to trafficking and criminal networks. But they cannot be explained only by developments in the North. The deterioration in the control of corruption points indeed to the need to strengthen State legitimacy through greater transparency and strengthened internal and external controls in budget execution and in the use of public financial resources. Recognizing its critical importance for peace and stability, the new

[1] 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.

President made the fight against corruption one of its top priorities – the other two being economic recovery, and return to normalcy and security in the Northern regions.

Thus, the Government faces in the short term the twin challenges of repositioning the Malian economy on a rapid and sustainable growth trajectory while boldly tackling governance challenges. The ample financial pledges (US$4.2 billion – 40% of 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 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.

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.

IV. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0
International Development Association (IDA)		63
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	63

V. Institutional and Implementation Arrangements

The Ministry of Economy, Finances 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.

VI. Risks and Risk Mitigation

The proposed operation 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 resource away from its reform agenda The proposed operation 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. 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. The Government proactively took the lead to communicate that tariff increases were pro-poor as intended to give more capacity to invest in connections. The proposed operation will support these continued communication efforts through the dissemination of the Poverty and Social Impact Analysis of electricity tariff increases. Groups could also oppose measures aimed at reducing opportunities for corruption (exemptions, procurement, and decentralization). The proposed operation does not directly entail measures to mitigate such risks or their impact, but through the promotion of various transparency initiatives.

Commodity prices shocks. An unexpected increase in petroleum prices would affect electricity generation capacity (with a generation mix highly dependent on imported oil products). The adoption of the financial 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 Government 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 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 spending effectiveness and efficiency. The proposed operation mitigates these risks by supporting a series of measures to strengthen controls on budget execution and budget transparency. The fiduciary review of the security sector conducted in 2013 is also expected to improve public financial management of security spending as it expands and reforms itself.

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 and decentralization, energy, and agriculture by the World Bank and other donors.

VII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Measures supported by the proposed operation are expected to have a significant positive and direct effect on poverty reduction, though various degrees. Greater resource mobilization is expected to provide fiscal space to authorities for pro-poor programs, while providing some buffers to improve macro-economic resilience against shocks to which poor are particularly exposed. Actions to promote effective fiscal decentralization are expected to improve service delivery at the local level, in deprived areas in particular. The selection of public investment projects with high social returns, and higher investment capacity in power are expected to foster inclusive growth over the medium term. More indirectly, greater executive accountability and budget transparency are expected to reduce fiduciary risks and ensure the allocation of public financial resources where voted by the National Assembly. This is likely to reduce corruption and political capture, which are both generally detrimental to the poorest and most vulnerable segments of the society.

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

Measures supported by the proposed operation are not expected to have any significant negative impact on the environment. The increase in electricity tariffs could improve energy conservation, and is not expected to induce any significant switching to dirty energy in net terms. In Mali, electricity is used for lighting and running appliances, but not for cooking, as reported in the various household surveys. As such, electricity tariff increases could only induce switching to kerosene for lighting, but such a substitution effect is expected to be negligible given that poor households (typically the most sensitive to changes in relative prices of energy given its importance in overall budget) will not be affected, see below. Also, even with tariff increases, electricity will still remain much cheaper than kerosene.

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