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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A

PROPOSED ECONOMIC POLICY AND PUBLIC FINANCE MANAGEMENT CREDIT (EPPFMC)

IN THE AMOUNT OF SDR 17.3 MILLION
(US$25 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MALI

DECEMBER 19, 2005

Poverty Reduction and Economic Management 4
Country Management Unit 15
Africa Region

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MALI - GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of October 3, 2005)

Currency Unit	CFA Franc (CFAF)
US$1.00	CFAF 543

Weights and Measures
Metric System

ABBREVIATION AND ACRONYMS

AAP	Assessment and Implementation of Action Plans to Strengthen Capacity of HIPC countries to Track Poverty Reducing Public Expenditures
BCEAO	Central Bank of (Francophone) West African States
BHM	Malian Housing Bank (*Banque de l'Habitat du Mali*)
BIM	Mali Investment Bank (*Banque Internationale pour le Mali*)
CAS	Country Assistance Strategy
CAS/SFD	Microfinance Promotion and Supervision Department
CFAA	Country Financial Accountability Assessment
CFAF	Franc of the African Francophone Monetary Community
CMDT	Mali Textile Development Company
CNCS	National Coordination and Monitoring Committee for the CPAR *(Comité National de Coordination et de Suivi du CPAR)*
CPAR	Country Procurement Assessment Report
CRM	Mali Retirement Fund (*Caisse de Retraite du Mali*)
DGMP	General Procurement Directorate
DNSI	National Statistics Department (*Direction Nationale de la Statistique et de l'Informatique*)
DPC	Development Policy Credit
DSA	Debt Sustainability Analysis
EPPFMC	Economic Policy and Public Finance Management Credit
EU	European Union
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Heavily Indebted Poor Countries
ICR	Implementation Completion Report
IDA	International Development Association
IDF	Institutional Development Fund
IFC	International Finance Corporation
IMF	International Monetary Fund
INPS	Social Security Agency (*Institut National pour la Prévoyance Sociale*)
JSAN	Joint Staff Assessment Note
LDP	Letter of Development Policy
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEF	Ministry of Economy and Finance
MET	Ministry of Equipment and Transport
MIT	Ministry of Industry and Trade
MOIPSMED	Ministry for Investment Promotion and Small and Medium Enterprise Development
MTBF	Medium Term Budget Framework
MTEF	Medium-Term Expenditure Framework

OED	Operations Evaluation Department
OHADA	Harmonized Investment Code for WAEMU countries (*Organisation pour l'Harmonisation en Afrique du Droit des Affaires*)
ON	Niger Office *(Office du Niger)*
PACR	Rural Community Development Project
PAG	Governmental Action plan for Modernizing and Strengthening Public Finance Management
PASAOP	Agriculture Services and Producer Organization Project
PCDA	Agricultural Competitiveness and Diversification Project
PDSF	Financial Sector Development Project
PER	Public Expenditure Review
PFM	Public Finance Management
PNIR	National Rural Infrastructure Project
PRGF	Poverty Reduction and Growth Facility
PRODEC	Ten-year Educational Program
PRODESS	Ten year Health and Social Development Program
PRSF	Mali Poverty Reduction Strategy Framework
PRSP	Poverty Reduction Strategy Paper
ROSC	Report on the Observance of Standards and Codes
QAG	Quality Assurance Group
QEA	Quality at Entry Assessment
SAC	Structural Adjustment Credit
SDR	Special Drawing Rights
UNDP	United Nations Development Program
WAEMU	West African Economic and Monetary Union

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REPUBLIC OF MALI
ECONOMIC POLICY AND PUBLIC FINANCE MANAGEMENT CREDIT (EPPFMC)

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REPUBLIC OF MALI
ECONOMIC POLICY AND PUBLIC FINANCE MANAGEMENT POLICY (EPPFMC)

CREDIT AND PROGRAM SUMMARY

Borrower	Government Of Mali
Implementing Agency	Ministry of Economy and Finance coordinates implementation, which also involves several line ministries and agencies.
Amount	**SDR 17.3 million (US$25 million equivalent).**
Terms	Standard IDA terms (40-year maturity & 10-year grace period).
Tranching	The credit will be disbursed in a single tranche upon effectiveness, expected in first quarter of 2006.
Description	The EPPFMC contributes to implementation of the first, second and fourth pillars of Mali's Poverty Reduction Strategy Framework (PRSF), namely: accelerated and re-distributive growth in a context of macroeconomic stability and openness, driven by the private sector; institutional development (including public finance management), governance and participation; and basic infrastructure and productive economic activities. Specifically, the EPPFMC aims to: (i) promote growth and poverty reduction through (a) strengthening macroeconomic and fiscal management and (b) implementing key actions underpinning Mali's long-term growth and competitiveness; and, (ii) improve efficiency, accountability and transparency in public finance management through strengthening (a) public expenditure management at central and decentralized levels and (b) the public procurement system. *Macroeconomic management* would be strengthened through prudent expenditure management; and greater linkage between the macroeconomic framework, the budget and the implementation of the PRSF. This will be done by strengthening the medium term budget framework and medium term sector expenditure framework processes; continued implementation of cotton producer price mechanism to reduce risk of budgetary transfers; commenced implementation of cotton sector reforms while ensuring close monitoring of cotton sector financial position; and strengthened institutional framework in the Ministry of Finance (MEF) for monitoring/coordination of the PRSF and the growth agenda. The *growth support agenda* would be strengthened through continued implementation of financial sector development actions to strengthen the health of the sector and enhance access to finance particularly longer term funds; implementation of key transport sector actions to improve quality and lower cost of transportation services; and implementation of trade facilitation measures to reduce processing/transactions costs of trade.

Public expenditure management (PEM), drawing from the Government's Consolidated Action Plan for the Modernization and Improvement of *Public finance management*, would be strengthened through continuing the automation of information flows between key MEF de-concentrated departments (notably, treasury, budget and financial control) to increase information quality and transparency, improving the quality of published material on the financial and expenditure situation of the Government to increase transparency; and continued improvements in PEM processes, particularly internal and external budget control mechanisms. *Public procurement* would be strengthened through adoption of a coherent action plan and commencing its implementation, comprising updating of the legislative/regulatory framework, strengthening the linkages between public procurement and public finance management processes, and strengthening the private sector's access to public procurement opportunities.

Benefits

The proposed operation would support the Government in the pursuit of its policy objectives laid out in the PRSF within an appropriate macroeconomic framework, by providing sound financing for execution of the Government's 2005 budget. It would also provide the incentives to implement key economic, social and institutional reform to strengthen overall performance of the economy and contribute to poverty alleviation. Implementation of the EPPFMC program contributes to strengthen public finance management, thereby enhancing efficiency and effectiveness of public sector spending. This includes strengthening governance and performance of the procurement system. In agriculture, the operation would contribute to stabilizing the performance of the cotton sector and farmer incomes; and to laying the foundations for private sector led expansion of the *Office du Niger* (ON) irrigation zone. The operation would also contribute to enhancing the export prospects of handicraft products (typically produced by small informal sector firms) through removal of the export assessment tax, thereby improving the incomes of the poor. It would also improve the investment climate by lowering the administrative and financial cost of starting a business, and strengthening property rights over land.

Over the medium term, the operation would contribute to reducing transportation costs by ensuring regular road maintenance and lowering the cost burden (in money and time) on the private sector of customs administration, and to increase agriculture growth and food security due to expansion of the ON area. It would lower the costs of financial services (and therefore enhance access to credit) through cleaning up non-performing loans from bank balance sheets. It would also improve access to longer term resources vitally needed to stimulate private sector led growth, through the strengthening the prospects of institutions with long term assets whether financial (pension funds, housing bank, insurance companies) or physical (leasing companies).

Risks	The operation faces the external, institutional, and political risks. *External risks* stem mainly from the well-known vulnerability of the Malian economy to vagaries of weather and commodity price fluctuations (cotton, oil) as well as regional crises (e.g., Cote d'Ivoire, cricket infestation). Mitigating these risks over the horizon of the proposed project remains difficult. However, the project would be broadly consistent with policies and initiatives to reduce the Malian economy's structural vulnerabilities over the medium term by the inclusion of key measures for financial sector development, transport diversification and trade facilitation measures (including customs reform). Additionally, the country dialogue would allow for some budget flexibility to address crisis-related expenses within the context of a prudently managed budget supporting priority growth and poverty reduction programs. Increasing progress toward predictable and timely donor support and coordination promoted under the project will also be key. *Institutional risk* comprises the threat of weak capacity and governance to program implementation and outcomes. This risk of slower-than-desired program implementation stemming from capacity constraints will be reduced through continued technical support by the World Bank and other donors to strengthen capacity, particularly in coordination of the financial sector and growth/macroeconomic programs. Project design also includes strengthening growth-critical areas such as prudent fiscal policy, financial sector development and transport and trade facilitation. Furthermore, by building on the good record of policy reform in public finance management, the Credit itself will contribute to the institutional strengthening of various agencies involved in public finance management including at sub-national levels. *Political risk* remains that the Government's current commitment to the continued reforms, including privatization and liberalization program (banking, cotton, telecommunication sectors) could wane. Potential re-opening of discussion on agreed measures could cause a loss of momentum in reform implementation. This risk is constantly monitored by the country team in order to detect problem areas early on and adjust the Bank response as needed. Finally, and perhaps most importantly, given the low international cotton prices, there is a critical political risk that insufficient recovery of world cotton prices would dictate a sharp downward adjustment in local producer prices, an adjustment that could prove politically extremely difficult. While this risk is not possible to control, the operation draws from estimates of the potential poverty and financial impact of various cotton prices in order to inform the policy choices and trade offs between the need for local prices to reflect world market conditions and the desirability of cushioning the temporary impact on the poor.
Operation ID Number	P083799

INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT FOR
A PROPOSED
ECONOMIC POLICY AND PUBLIC FINANCE MANAGEMENT POLICY
TO THE REPUBLIC OF MALI

1. INTRODUCTION

1.1 The Economic Policy and Public Finance Management Policy (EPPFMC) to Mali, to be presented to the Executive Board on January 19, 2006, is a single tranche operation of US$25 million supporting improved management and implementation of the country's Poverty Reduction Strategy Framework (PRSF). The PRSF, formally adopted by the Government of Mali in May 2002, identifies the framework for the Government's policies during 2002-2006. The second annual progress report (APR) covering implementation during 2003-2004 was adopted by the Government in August 2005 and transmitted to the Bank and Fund in November 2005. The APR and Joint Staff Advisory Note will be distributed to the Executive Board for information in early January 2006.

1.2 Preparation of the credit has proceeded during a difficult economic period in Mali. Government revenues are lower due to adverse terms of trade movements during 2004-05 (increasing oil price, declining cotton price), just as government expenditure requirements have risen to manage food shortage concerns resulting from the low rainfall and locust invasion in 2004. Inflation is up sharply in 2005 (5 percent this year versus -3.1 percent last year) due to the food shortages, and transport costs remain high due to the continuing reliance on more distant ports in the wake of the political crisis in neighboring Cote d'Ivoire. The current economic situation underscores the precarious economic environment in which the country's macroeconomic and budgetary management occurs.

1.3 The EPPFMC, which builds on and expands the program under the Fourth Structural Adjustment Credit (SAC IV) approved by the Board in March 2005, comprises three components: (i) strengthening macroeconomic framework and budget policy; (ii) pursuing key growth-supporting measures for financial sector development, irrigation development, transport and trade facilitation, and business climate enhancement; and (iii) strengthening public finance management systems. The credit is an integral part of the 2003 CAS base case comprising annual policy-based lending complemented by specific sector operations. A new CAS will be prepared in FY07 to outline Bank support for the second PRSF (covering the period 2007-2011), which the authorities are preparing on a schedule aligned with the 2007 budget preparation cycle.[1]

2. COUNTRY CONTEXT

2.1 Mali benefits from a stable and inclusive political environment, having successfully concluded four successive Presidential elections since 1990 and two sub-national elections since 1997. It has been a steady reformer over the past twenty years, albeit a plodding one at times. In

[1] A draft is expected to be available by July 2006 for integration into the 2007 Budget and a final version by October 2006.

response to market-oriented economic reforms and broad-based political reforms over the last 20 years that spurred private sector activity and enhanced civil society participation, Mali's real GDP growth has averaged above 5 percent a year since 1994 when the currency was devalued. Gross national income per capita (atlas method) increased from US$240 in 1994 to US$370 in 2004, a 4.0 percent average annual increase, translating into reductions in poverty (paragraph 2.16) and inequality (paragraph 2.17).

2.2 Despite the achievements over the past decade and half, Mali faces significant economic and social challenges. Over 60 percent of Mali's population lived below the poverty line in 2001, and Mali's social indicators remain among the lowest in the world—it is ranked 172 out of 175 countries in the Human Development Index compiled by the United Nations Development Program (UNDP). This partly reflects the fact that Mali is a vast landlocked country with a relatively narrow natural resource and human capital base. It is the largest country in West Africa (1.22 million square kilometers) covering twice the size of Texas. With a population of about 12 million, population density is very low (10 persons per square kilometer[2]) resulting in high cost of public service delivery, difficulty in accessing some segments of the rural population as well as nomadic communities, and high transportation costs for agricultural inputs and other goods.

2.3 Mali's economy remains fragile in view of the economy's vulnerability to climatic conditions and commodity price fluctuations (primarily of cotton, oil, gold). The economy is dependent on agriculture and gold production, and exports are highly concentrated with gold and cotton together comprising over 90 percent of export earnings. As a land-locked country, Mali faces challenges due to weak development of infrastructure and transportation services, and to economic and political conditions in neighboring countries. The business environment—notably road transportation but also investment inflow prospects—continues to suffer from the protracted stalemate in the resolution of the crisis in Côte d'Ivoire. As with other low income countries, administrative capacity is also weak. A significant social, structural and macroeconomic agenda remains for Mali to consolidate the gains of the past to sustain broad-based growth, further entrench market-oriented forces in the country, and advance the poverty reduction program.

RECENT ECONOMIC DEVELOPMENTS IN MALI

Growth and Prices

2.4 Mali's economic performance is highly subject to several exogenous shocks, and 2004 was a particularly challenging year in that respect. In 2004 Mali faced several adverse exogenous shocks: natural disasters in the form of drought and locust invasion; commodity price shocks; currency appreciation against the dollar; and persistent regional instability. Inadequate rainfall and locust infestation during the 2004-05 crop year[3] resulted in declines in cereal and cotton production by at least 16 percent[4] and 3 percent respectively, contributing to a decline in real GDP growth to 2.3 percent in 2004, following 7.2 percent growth in 2003. While the terms of trade overall improved marginally during 2004 at 1.4 percent, adverse shifts in key international prices were particularly burdensome to Mali's macroeconomic management—notably, a 30 percent fall in

[2] The next largest West African country by land area, Nigeria, covers 0.9 million square km. With a population of 129 million people, its population density is 142 persons per km^2.
[3] The crop year runs from May to April.
[4] Depending on which government methodology used, the drop in cereals production is as high as 40 percent.

international cotton prices during 2004 contributed to severely worsening the cotton sector's financial position, thereby having implications for the state budget to cover the resulting sector deficit; while a 31 percent rise in oil prices induced the Government to lower petroleum taxes to ease the price impact at the pump, led to declining fiscal revenues. Weakening of the US dollar relative to the euro in 2004 to which the local currency is pegged, aggravated the adverse impact of the cotton price decline since the latter is denominated in US dollars. Lastly, persistent instability in neighboring Cote d'Ivoire kept transport prices high as more distant ports continued to be used, and contributed to Mali's lackluster investment prospects.

2.5 In 2005 Mali continues to bear the macroeconomic repercussions of last year's exogenous shocks in addition to continued terms of trade declines during 2005. The cotton sector deficit from last year has constrained the smooth management of the cotton season this year and, due to low food stocks stemming from the 2004 drought, the Government has had to devote resources to food security objectives through increased food imports and food distribution to affected populations.[5] The timely distribution or sale of food stocks by the Government and donor agencies, appear to have limited the human costs of the drought and locusts. Reflecting the marketed food imbalance in 2005, however which raised cereal prices by over 50 percent in the 12 months through September 2005, *consumer prices* increased by 23 percent resulting in an estimated average annual inflation for 2005 of 5 percent compared with the -3 percent inflation outcome in 2004 and -1.3 percent in 2003. The rise in gold prices (5 percent on average in 2005 relative to 2004) was insufficient to counter the absence of a recovery in cotton prices (the average price over first three quarters of 2005 is 12 percent lower than the 2004 average) and the continued oil price increase (by 39 percent on average in the first three quarters of 2005; see Annex 12 for discussion of economic impact of the oil price shock in Mali). The result is continued deterioration of the terms of trade during 2005, by a projected 13 percent year-on-year, worse than the initial projections by about 3 percentage points.

2.6 At the same time, the return to more favorable climatic conditions and higher gold production in 2005 have yielded better economic outcomes on some indicators albeit less favorable than the initial projections. Economic growth is expected to return to the average post-1994 levels, with real economic growth in 2005 projected to be 5.4 percent due to strong rebound in agriculture production (both cereals and cotton) in response to the good rainfall levels. The projected growth for 2005 is lower than the initial projection of 5.8 percent, however, due to slightly lower projected gold output. Table 2.1 summarizes the main impact of the exogenous shocks on growth and prices.

Fiscal Developments

2.7 While the exogenous shocks in 2004 translated into some revenue shortfalls (such as petroleum tax), fiscal revenues overall were higher than the April program targets due largely to higher-than-expected value added tax receipts. Government revenue indicators improved in 2004 relative to 2003, reflecting improvements in revenue management and collections: total government revenue increased in terms of GDP, to 17.4 percent in 2004 from 16.4 percent in 2003; and tax revenue increased to 15.1 percent in 2004 from 13.6 percent in 2003. Nonetheless, lower non-tax revenues and lower external grants than programmed, meant lower overall resources (revenues including grants) than targeted, inducing the authorities to reduce non-poverty budget expenditures

[5] The World Food Program estimated that up to 20 percent of Mali's population (about 2.2 million people) in the north of the country, was at risk of famine.

accordingly. Delays in executing externally financed capital spending in addition to lower-than-anticipated government transfers[6], contributed to spending below budget. In terms of GDP, the Government's prudent budget management translated into slightly better budget execution than April program targets, in addition to a lower overall fiscal deficit than programmed—the fiscal deficit on a commitment basis excluding grants was 6.6 percent, and the fiscal deficit on a cash basis including grants was 2.3 percent, both lower than the respective program target by 1 percentage point of GDP (see Table 2.2).

Table 2.1: Growth and Prices

	2002	2003	2004 Preliminary	2005 1st review[1]	2005 Current Estimate	2006 Projection
GDP Growth	4.3	7.2	2.3	5.8	5.4	5.4
Inflation	5.0	-1.3	-2.8	2.5	5.0	-1.5
Nominal exchange rate (CFAF/US$)[2]	-4.9	-16.6	-9.1	..	..	..
Real Effective Exchange Rate (REER)	4.8	1.1	-3.9	..	..	..
Terms of Trade	-9.5	-1.1	1.4	-9.8	-13.4	2.7

Source: Malian authorities and IMF staff.

[1] The first review was concluded in February 2005. See IMF document EBS/0520, February 8, 2005.

[2] IMF International Financial Statistics (CFAF/US$, market rate, period average)

2.8 In 2005 the persistent oil price shock and food insecurity situation contributed in large part to continued revenue shortfalls relative to program targets. The authorities lowered the tax on petroleum product imports to avoid sharp increases in petrol prices at the pump during the first half of the year. To compensate for rising food prices, they introduced temporary exemptions on import duties for food imports, and decided to postpone implementation of some planned tax measures (e.g., the elimination of VAT exemptions for the agricultural bank and agricultural inputs). Shortfalls in non-tax revenues—notably difficulties in collecting dividend payments, property taxes and capital gains taxes—also contributed to the revenue shortfall. Measures introduced to strengthen tax and customs collections (improved onsite accounting checks, large taxpayer unit computerization, recovery of WAEMU duty losses compensation, and strengthening of import verification to combat customs fraud) are expected to enable the authorities to make up shock-related revenue shortfalls.

2.9 As a result of the revenue shortfalls, 2005 budget revenues in terms of GDP fell short of program targets by about 1 percentage point of GDP. A further shortfall in external grants by 1 percentage point of GDP is projected. Nonetheless, total revenues of 17.6 percent of GDP represented a slight increase over 2004. **Despite the revenue setbacks, execution of the 2005 budget has been good so far.** Expenditure targets were broadly in line with program targets, particularly capital expenditures, with slight shortfalls experienced in current expenditures. Total expenditure and net lending in 2005 is projected to be 26.3 percent of GDP (versus the target 27 percent), with current expenditures at 13.8 percent of GDP (versus the target 14.3). Expenditure of

[6] These comprise: a provision that didn't materialize, for potential transfers to the electricity/water utility to compensate for the government's lowering of utility fees; and an unused provision to cover staff downsizing of privatized companies.

HIPC resources is projected to fully reflect the planned amount. The overall fiscal deficit (cash basis including grants) is projected to be 4.2 percent of GDP versus the 3.5 percent target.

Table 2.2: Government Financial Operations, 2002-06

	2002	2003	2004	2005		2006
			Prel.	Program		Proj
				1st review	Rev. proj.	
			(In billions of CFAF, unless otherwise indicated)			
Revenue and grants	**456.7**	**536.5**	**558.0**	**648.3**	**613.5**	**698.2**
Total revenue	370.9	421.8	454.7	502.7	486.8	535.6
of which : Tax revenue	306.0	349.2	393.3	434.1	430.0	469.9
Non tax revenue	31.2	35.2	18.7	28.5	15.8	23.2
Grants	85.8	114.8	103.3	145.6	126.7	162.6
Total expenditure and net lending	**540.6**	**569.0**	**625.8**	**744.4**	**727.4**	**798.9**
Budgetary expenditure	511.7	535.5	592.2	670.9	662.8	762.0
Current expenditure	308.7	316.3	350.0	388.2	380.1	418.4
Capital expenditure	203.1	219.2	242.2	282.7	282.7	343.6
Net lending	-4.9	-3.9	-9.0	33.5	23.5	-5.6
of which: CMDT	0.0	0.0	0.0	38.4	28.5	0.0
Overall fiscal balance, payment order basis						
Excluding grants	-169.7	-147.2	-171.2	-241.7	-240.5	-263.7
Including grants	-83.9	-32.5	-67.9	-96.1	-113.8	-100.7
Overall fiscal balance, cash basis						
Excluding grants	-171.0	-136.4	-163.3	-241.7	-251.6	-263.3
Including grants	-85.2	-21.7	-60.0	-96.1	-125.0	-100.7
Financing	85.2	21.7	60.0	96.1	125.0	100.7
External Financing (net)	88.5	106.1	74.5	141.5	140.1	138.2
Domestic Financing (net)	-3.4	-84.4	-14.6	-45.4	-2.0	-37.5
			(In percentage of GDP)			
Revenue and grants	19.6	20.9	21.4	23.5	22.2	24.0
Total revenue	15.9	16.4	17.4	18.3	17.6	18.4
Tax revenue	13.1	13.6	15.1	15.8	15.6	16.2
Non tax revenue	1.3	1.4	0.7	1.0	0.6	0.8
Grants	3.7	4.5	4.0	5.3	4.6	5.6
Total expenditure and net lending	23.2	22.2	24.0	27.0	26.3	27.5
Current expenditure	13.2	12.3	13.4	14.3	13.8	14.4
Capital expenditure	8.7	8.5	9.3	10.3	10.2	11.8
Overall fiscal balance (cash basis, incl. grants)	-3.7	-0.8	-2.3	-3.5	-4.5	-3.5
Memo: Nominal GDP (in billions of CFAF)	2,329.9	2,568	2,607	2,753	2,761	2,905

Sources: Malian authorities and IMF staff projections

External Developments

2.10 The current account deficit (excluding official transfers) worsened slightly in 2004 to 9.5 percent of GDP due largely to lower gold exports. Gold exports declined (by 2.4 percentage points relative to the 2003 share) combining with a decline in other exports (by 0.5 percentage points) to

outweighed the increase in cotton exports (1.4 percentage points). A lower decline in imports (by 1.0 percentage points) relative to the exports decline (by 1.3 percentage points total) and unchanged service account balance, thus translated into a worsening of the current account balance by 0.8 percentage points. Including official transfers, the current account deficit was estimated to be 7.7 percent in 2004, up from 6.1 percent in 2003. Lower financial inflows (mostly by the private sector) led to an estimated deterioration in the overall external balance to minus US$186.9 million (or -3.4 percent of GDP in 2004), following a surplus in 2003 of US$221.4 million (4.5 percent of GDP). Gross international reserves are estimated to have decreased by about US$82.2 million in 2004, equivalent to about 1.5 percent of GDP. Despite the decline, reserves represented 6.4 months of imports in 2004, down from 7.1 months in 2003.

2.11 In 2005, the current account deficit (excluding official transfers) is projected to widen further to 11 percent of GDP, due largely to adverse terms of trade[7] whose impact is projected to increase the burden of imports (including oil imports) and lower cotton exports which, together, outweighed the increase in gold exports. A strong projected increase in official inflows contributes to slightly improving the overall external deficit to US$80 million (or 1.6 percent of GDP) in 2005. Mali's contribution to the gross international reserves of the Central Bank of West African States (BCEAO) is projected to increase in 2005 (by US$67.5 million) but still remain equivalent to about 6 months of imports.

Monetary Developments

2.12 As a member of the Franc Zone, Mali's monetary policy is implemented satisfactorily by the regional central bank, consistent with the peg to the Euro. Mali's monetary indicators reflect prudent monetary management on the part of the Government. The bulk of money supply growth in Mali is due to increases in credit to the economy rather than in government credit. In 2004 money supply growth is estimated to have declined by 2.4 percent, reflecting a 6.5 percent decline in net foreign assets and 4.1 percent increase in net domestic assets which, in turn, reflected an increase in net credit to the Government and to the economy as a whole. In 2005, money supply growth is expected to be higher at 6.5 percent, in view of the higher economic growth. Both net foreign assets and net domestic assets are projected to increase, by 4.6 percent and 1.9 percent respectively.

MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.13 Given the likely recurrence of climatic and commodity price shocks, Mali's economy faces a real challenge of reducing annual volatility in GDP growth and of increasing real GDP growth above the 5 percent average experienced since the 1994 devaluation. Under the revised medium-term macroeconomic framework for 2006-08 recently agreed with the IMF and the Bank, average annual growth is projected at about 5.5 percent, inflation at about 1 percent on average and current account deficits (excluding official transfers) at about 8.4 percent of GDP. During 2006-08, continued prudent macroeconomic and fiscal management comprising enhanced revenue mobilization and efficient resource allocation and expenditure management will be crucial to maintaining macroeconomic stability. As gold production is anticipated to level off after 2008, increased GDP growth would need to come from other sources, notably diversified agriculture,

[7] The terms of trade is projected to deteriorate in 2005 by 13.4 percent year-on-year, due to combined effect of rising oil prices and falling cotton prices.

agro-industry and services driven by private sector efforts. Critical to strengthening private sector led growth would be implementation of structural reforms, notably: cotton sector reforms to restore the viability of the sector and minimize the fiscal risk it poses; financial sector reforms; and infrastructure reforms particularly in transport, energy and water sectors.

2.14 **Public finances and financing requirements**. As noted above (paragraph 2.9) implementation of the 2005 budget has been satisfactory to date. The budget reflects the priorities of the PRSF overall and priorities of the key sectors as detailed in the sector MTEFs. As a result of the revenue shortfalls discussed above, and after adding donor financing, a residual financing gap of CFAF 9.7 billion (US$18.0 million equivalent and 0.35 percent of GDP) remains. The authorities are expected to close the gap through domestic financing without affecting overall development objectives. The 2006 budget is consistent with PRSF priorities, and even enhances allocations to health and education programs relative to the 2005 budget. Reflecting a projected GDP growth of 5.4 percent, and inflation of -1.5 percent as food availability returns to normal levels, revenues are projected to increase relative to 2005 to underpin the expanded public expenditure program. With the shift to budget support by the donors for key sector programs (health, education, decentralization), in part representing additional external financing to Mali and including the proposed EPPFMC financing, the 2006 program is fully financed.

2.15 **Debt Sustainability**. At enhanced HIPC completion point (March 2003) Mali's net present value (NPV) of debt-to-export ratio was reduced below the 150 percent threshold and projected to remain below the threshold throughout the 20 year projection horizon. A joint IMF-World Bank debt sustainability analysis (DSA) (attached at Annex 9) shows that external debt sustainability is broadly achieved under baseline projections in relation to the policy dependent debt burden thresholds.[8] Thus under the IDA 14 criteria Mali is a "green light" country, receiving its entire allocation in the form of credits rather than grants. Adverse external and internal shocks, however, could result in breaching the thresholds over the medium term, despite implementation of sound macroeconomic policies and prudent debt management. Accordingly, Mali is assessed as having a moderate risk of debt distress. Further multilateral debt relief under the G8 initiative (MDRI) is estimated to reduce Mali's nominal debt and debt service by half in the medium term, but would approach the indicator level in the baseline over the long term. Thus while the risk of debt distress in the MDRI scenario is low over the medium term, it returns toward the moderate risk level assessed in the baseline. Table 2.3 summarizes the debt indicators prior to and post MDRI at the end of 2006.

Table 2.3: Estimated External Debt Burden Indicators

(In percent)

	Before HIPC	Post HIPC	Latest DSA Baseline	Post MDRI	HIPC Threshold	Low Income DSA Threshold
NPV of debt to GDP	41.1	32.6	27	15		40
NPV of debt to exports	152.4	120.6	96	51	150	150
Debt service to exports	9.0	5.1	7	4	20	20

[8] Mali's CPIA score was 3.7 in 2004, placing it at the top end of the medium performance category (3.75<CPIA<3.25). For this performance category, debt distress thresholds were 40% for NPV of debt to GDP, 150% for NPV of debt to exports, and 20% for debt service to exports.

Poverty Dynamics and the MDGs

2.16 Poverty has clearly fallen in Mali irrespective of the methodology used. Two surveys were to estimate the measures of poverty in Table 2.4: the *Enquête Budget Consommation* (EBC) for 1988/1989 and the *Enquête Malienne sur l'Evaluation de la Pauvreté* (EMEP) for 2001.

- Poverty levels and trend: Table 2.4 suggests that according to the food energy intake method applied by DNSI[9], the share of the population in poverty in Mali in 2001 was 68.3 percent, a decrease of about four percentage points versus the level observed in 1989. With the cost of basic needs method[10] the share of the population in poverty in 2001 is lower, at 56.5 percent, and the decline versus 1989 is somewhat larger, at around 7 percentage points. The share of the population declaring having difficulties to meet food needs correlates with the poverty level.

- Geographic location: As expected, poverty is much higher in rural than in urban areas. There are also large differences between regions, and one surprise in this respect—the Sikasso area appears to be very poor. This is surprising given that the region benefits from better climatic conditions than other areas which permit, among many other crops, the cultivation of cotton. One hypothesis for this outcome is that the region may be attractive for migrants, thereby resulting in population inflows that reduce standards of living per capita. Also, at least in 2001, cotton prices were low and cotton farmers produced less than in previous and subsequent years, which may have resulted in higher poverty in that year. Still, the situation of Sikasso warrants further investigation, especially considering that according to the subjective poverty indicator presented in Table 2.4, households seem to be better able to meet food needs there than in other regions (but again, research has shown that child malnutrition rates in the Sikasso region are relatively high, which adds to the puzzle).

Table 2.4: Trend in poverty using per capita consumption data, 1989-2001

	DNSI method (food energy intake)		World Bank method (cost of basic needs)		Subjective poverty (insufficient food)
	1989*	2001	1989	2001	2001
National	72.8%	68.3%	63.8%	56.5%	57.5%
Urban	40.6%	32.8%	32.5%	24.6%	54.5%
Rural	79.5%	80.9%	74.9%	67.9%	58.6%
Kayes	60.1%	67.9%	64.8%	60.0%	68.5%
Koulikoro	61.7%	83.5%	77.2%	70.3%	64.8%
Sikasso	84.1%	81.8%	84.0%	77.8%	47.2%
Ségou	83.9%	65.2%	58.5%	48.6%	48.2%
Mopti	90.0%	78.5%	67.0%	60.4%	55.8%
Timbuktu	74.8%	54.4%	43.9%	33.4%	90.6%
Gao	66.9%	48.2%	41.3%	29.5%	70.0%
Nidal	37.2%	34.0%	39.9%	34.0%	76.1%
Bamako	72.8%	27.5%	28.9%	22.5%	47.6%

Source: World Bank staff.

[9] Under this methodology, households not meeting minimum daily nutritional requirement of 2450 kilo-calories a day are considered poor.

[10] This method which estimates the price of a bundle of goods that meets pre-determined basic needs, is itself based on a caloric requirement.

2.17 The reduction in poverty has been larger since the 1994 devaluation than during the 1990s as a whole. Table 2.5 provides estimates of poverty and inequality using per capita consumption data from the 1994 *Enquête Malienne de Conjoncture Economique et Sociale* (EMCES) and the 2001 EMEP. These estimates are based on the cost of basic needs method. In addition, measures of asset-based poverty are provided on the basis of the 1996 and 2001 Demographic and Health Surveys.[11] The first row in Table 2.5 suggests a decrease in poverty of close to 15 percentage points between 1994 and 2001, which is due in part to an apparent decrease in inequality. The second row shows the expected decline in poverty since 1994, solely on the basis of growth observed in the National Accounts and assuming no change in inequality. In this case, the share of the population in poverty decreases by more than 11 percentage points. Finally, the asset-based measures of poverty in the last row also suggests a decline in inequality and a reduction of poverty of about 12 percentage points, which is again large. Data on household assets tend to confirm a general improvement in standards of living.

Table 2.5: Trend in poverty/inequality after the devaluation, Mali 1994-2001

	Poverty (Headcount index)		Inequality (Gini index)	
	1994/96	2001	1994/96	2001
National, per capita consumption (1994 and 2001)	71.1	56.5	45.4	40.1
National, consumption adjusted for growth (1994 and 2001)	66.9	56.5	-	40.1
National, asset index (1996 and 2001)	69.0	57.0	24.0	22.0

Source: World Bank staff using 1994 EMCES, 1996 DHS, 2001 EMEP, and 2001 DHS.

2.18 Despite rapid progress since the devaluation, it will still be difficult to achieve the MDG target of reducing poverty by half in 2015 versus the 1990 baseline. As noted in the November 2004 report *Rapport de suivi de la mise en oeuvre des Objectifs du Millénaire pour le Développement (OMD)* prepared with support from UNDP, the rate of progress in reducing poverty since the early 1990s is insufficient to reduce poverty by half in 2015, and it is unclear whether Mali will be able in future years to reap similar benefits as those obtained since the 1994 devaluation. In rural areas, faster poverty reduction will require improving productivity, diversifying rural activities, breaking the isolation of certain production areas, and developing commercial trade. In urban areas, the focus should be on promoting earnings and creating employment, among others through good governance and higher productivity in the private sector. Poverty reduction also requires the reinforcement of social networks supporting the most vulnerable and attacking social exclusion. The magnitude of the challenge represented by poverty can be illustrated with the following statistics: in 2001, according to the DNSI method for estimating poverty, the cost of eradicating poverty (i.e. the value of a transfer ensuring that all households have a level of consumption at least equal the poverty line) has been estimated as CFAF 462.5 billion in 2001 (US$873 million), or 32 percent of the total consumption of the private households. Further information on progress toward the MDGs is in Annex 8.

[11] There, the methodology entails pooling together data from the two DHS in order to use a common weighting system to construct an asset index. Because asset ownership is much higher in urban than in rural areas, we construct separate indices for each, and use an asset-base poverty line that provides levels of poverty in urban and rural areas similar to those observed using per capita consumption in the 2001 EMEP. National poverty measures are obtained by pooling together the urban and rural DHS data and rescaling the latter by the ratio of the urban and rural asset poverty lines.

3. THE GOVERNMENT PROGRAM

3.1 The Malian Government development and poverty reduction program for 2002-06 has been presented in its full PRSF, which was endorsed by the Bank and the Fund Boards and is supported by the donor community. Mali's economic development and poverty reduction strategy rests on four pillars: (i) accelerating shared, private-sector led growth (the pre-requisite pillar); (ii) strengthening institutions, governance and participation; (iii) developing human resources and access to basic services; and (iv) strengthening basic infrastructure and productive economic activities. The proposed operation directly supports the first, second and fourth pillars of the PRSF and, by helping promote growth and strengthen expenditure execution, it supports poverty reduction and social objectives. The proposed operation's selectivity and limited scope builds on the lessons of Bank involvement in stressing advantages of flexible, graduated operations with simpler, robust design closely aligned with Mali's priorities.

PRSF IMPLEMENTATION IN 2003-2005

3.2 Mali is nearing the end of implementing its May 2002 Poverty Reduction Strategy (PRS) covering the period 2002-2006. The PRSF represents the Government's unified framework of its medium term policies and strategies and is the main document for alignment and harmonization with the donors. A progress report was prepared summarizing achievements in the first year of implementation (2002-03) and outlining policy objectives for 2004-06. The report was subject to regional consultations prior to its validation by a workshop comprising, representatives of the Government, civil society, the private sector, and the donor community. The second progress report, covering PRS implementation during 2003-2004, was recently completed and adopted by the Council of Ministers.

3.3 To date Mali has made satisfactory progress towards these PRSF objectives.

- ***First pillar: macroeconomic stability for accelerated shared growth.*** Mali has been maintaining a stable macro environment with the consumer price index declining by 1.3 and 3 percent in 2003 and 2004, respectively, reflecting a decline in food prices following an exceptional cereal production in those years. The overall fiscal deficit, on a payment order basis and excluding grants, was reduced to 5.1 percent of GDP in 2003 compared with 7.3 percent in 2002, and was largely covered by foreign financing. The projected deficit for 2004 is 8.8 percent of GDP. Mali's economic situation improved significantly in 2003 in spite of the crisis in Côte d'Ivoire: real GDP growth was 7.4 percent in 2003 compared with 4.3 percent in 2002. However, reflecting unfavorable external conditions (high price of oil, locust infestation), Mali's performance deteriorated in 2004, with a projected growth rate of only 2.3 percent.

- ***The second strategic pillar: institutional capacity building.*** The Malian authorities have undertaken major administrative and institutional reforms in this area. These reforms aim to ensure a good management of public affairs, social peace and stability without which no sustainable development action is possible. They include: (i) improvement of the performance of public administration; (ii) continuation of the decentralization/ deconcentration process; and (iii) improvement of the management of public expenditures, rehabilitation of justice, fight against corruption and financial delinquency.

- ***The third pillar: sustainable human development and access to basic social services.***

  - With regard to the *health and population component*, objectives for 2002-03 have been satisfactorily attained, notably with respect to the extension of health coverage and the organization of the referral system. However, further efforts need to be made on vaccination, prenatal, and childbirth indicators. Moreover, despite the availability of HIPC resources, the share of health in the current expenditure of the central government budget is increasing too slowly. To improve the efficiency and coverage in the health sector, the Ministry of Health is focusing on: (i) increased vaccination rates throughout the country; (ii) improving the quality of services, with the creation of a national Agency for Evaluating Hospital Services in 2002; and (iii) working more closely with the private sector to harness this potential, since the poor do make extensive use of private services. Regarding the population subcomponent, the Government adopted in April 2003 the updated National Population Policy (NPP), the overall objective of which is to contribute to the improvement of the standard and quality of people's lives.

  - Concerning the *education and literacy component*, the preparation and implementation of the ten-year Education Development Program (PRODEC) has been speeded up with the effective start-up of the Investment Program of the Education Sector jointly financed by the Central Government and donors. Moreover, the development of a MTEF for the Education Sector will increase the capacity of PRODEC to meet the PRSF and MDG targets. In particular, the objective of 64.0 percent of gross schooling rate (GSR) in the first cycle in 2002 has been achieved and slightly exceeded (64.3 percent). It is likewise for the GSR of girls: 53.7 percent achieved as against 52.0 percent targeted. In addition, significant efforts have been made in improving budget allocations to the education sector, which have permitted the accelerated implementation of PRODEC through the building of classroom and recruitment of contractual teachers, notably with resources from the enhanced HIPC Initiative. However, there is the persistence of the low quality of the Malian educational system despite the improvement of the pupil-teacher ratio, and inadequate numbers of classrooms and teachers in the Teacher Training Institute. As a result, the objective of recruiting and training 2,500 teachers was not reached.

  - With respect to *drinking water and sanitation component*, important institutional reforms and actions were conducted in 2002 and 2003, allowing better identification of the difficulties inherent to this sector including, among others, delay in the transfer of responsibilities skills, and the number of entities intervening in the sector with different strategies.

- ***The fourth pillar: development of basic infrastructure and support to productive sectors.*** This pillar aims at improving the economic environment and profitability of factors of production with the view of attracting investment, creating jobs, increasing revenues, accumulating wealth, and reducing poverty.

  - With respect to *transportation infrastructure*, institutional reforms have been undertaken in order to improve connections within the country and with the outside

world and facilitate the movement of people and goods. Regarding airport infrastructures, the Government is committed to concessioning the operations of the Bamako Airport. Operations of the Mali-Dakar railway has been successfully concessioned. Performance of the railway has already improved and will continue to do so as improvements are made to the tracks, rail stock, and quality and safety of rail services.

- Concerning *telecommunications*, Mali's 1 per 100 persons ratio of telephone penetration is particularly low compared to other countries in the region. Moreover, telecommunications services are unequally distributed over the national territory, and basic communication tariffs are high reflecting the monopolistic structure of supply. To address these issues, the authorities preparing the national telecom company for privatization to be completed in the course of 2006.

- In the *energy sector*, progress has been made in increasing the national rate of access to electricity from 9.3 percent in 2001 to 14 percent in 2004. In addition, the Malian Agency for the Development of Rural Electrification and Domestic Energy (AMADER) was created.

- To support *productive sectors*, the authorities emphasize the development of the rural sector with the adoption of the Government Program for the Development of 50,000 Irrigated Hectares between 2003 and 2007. Restructuring of the cotton sector, however, is taking a longer time than anticipated. The authorities have delayed the CMDT privatization and are in the process of reflecting on the pace and scope of cotton sector restructuring in light of prevailing world market conditions. Considerable efforts are also underway in the fields of equipment and credit to producers, the development of other agricultural products, the promotion and extension of the results of agricultural research in order to achieve food security and self-sufficiency.

4. BANK SUPPORT TO THE GOVERNMENT STRATEGY

LINK TO CAS

4.1 **The Bank's CAS (July 2003) emphasizes support for the PRSF and improved public resource management for reducing poverty.** The Bank's CAS is designed to support the implementation of the PRSF in complement to interventions of other donors. The CAS selectively focuses on the following three key themes:

- ***Promoting growth*** by combining policy support through adjustment (and subsequently, development policy) operations, with an approach of increasing agricultural productivity and diversification through rural sector operations and non-rural growth driven by the private sector. This corresponds to the 1st and 4th PRSF pillars.

- ***Developing human resources*** by working with donors to strengthen programmatic approaches in the health and education sectors. This corresponds with the 2nd PRSF pillar.

- ***Improving public finance management and governance*** by focusing on public sector financial accountability mechanisms covering public expenditure, procurement, and financial management systems. This corresponds to the 1st PRSF pillar.

4.2 **Mali is currently in the CAS base-case scenario and the key instruments of the CAS in support of these themes were the following**: (i) support via Structural Adjustment Credits (SACs); (ii) community driven development operations supporting productive sectors and fight against HIV/AIDS; and (iii) traditional investment operations targeting specific needs in transport and private sector development to enhance the competitiveness of Mali's economy. The Mali SACs III and IV, therefore, represented a central instrument of the on-going CAS to support the macroeconomic stability and public sector management. SAC IV provided broad budget support for strengthening fiscal discipline and public expenditure management, and laying foundation for stronger financial sector. Another Bank lending operation focused on the more sector-specific rural development agenda (e.g., innovation, irrigation, improvement of agricultural supply chain etc.).

4.3 During CAS implementation, the SACs became annual single tranche operations, instead of multi-tranche operations—thus, the SAC IV (originally programmed in the CAS as a $55 million operation covering a two year policy horizon) was turned into the one tranche SAC IV of $25 million that was approved by the Board in March 2005, and the one tranche EPPFMC of $25 million. The EPPFMC is part of the base case lending scenario of annual modest budget support operations. Its thematic coverage is also relatively modest, focusing on policy and institutional issues in macro, public finance and selected sector areas instead of also incorporating broad sector programs. It complements with self-standing sector investment operations covering, respectively, health, education, rural infrastructure, agricultural competitiveness, support to growth, and transport corridors. Transition to a medium term framework will be addressed in the upcoming CAS exercise and possible programmatic PRSCs in the future, and inclusion in EPPFMC of a trigger for the next operation linked to the privatization of the cotton ginning company (CMDT) by 2008.

4.4 Based on the past record, the borrower's commitment to and ownership of reforms is deemed adequate, but slow progress on cotton sector reforms with high risk implications for macroeconomic stability has kept the country from accessing larger volumes of policy-based lending assured over a multi-year period. With the satisfactory implementation of the new producer price setting mechanism resulting in reduction in budgetary risk of the sector under SAC IV and EPPFMC, as well as adoption of a cotton sector reform program and action plan, the possibility of a multi-year series of policy-based operations is potentially within sight. Mali's ownership of its reforms is reflected in the track record under the third and fourth SACs, the ongoing IMF-supported PRGF program, and implementation of the PRSF. Under SAC III, Mali in the past four years made solid improvements in public expenditure management (as this component was rated highly satisfactory by the ICR) and also satisfactorily managed the cotton crisis of 2001. Nonetheless, the structural agenda is unfinished: while implementation of the cotton producer price mechanism has reduced the risk from fluctuating international cotton prices, there is a need to deepen the reform agenda in that sector. There is also a need to implement policy reforms that support the structural reform agenda in cotton and other growth-inducing sectors.

COLLABORATION WITH THE IMF AND OTHER DONORS

4.5 The Bank closely coordinated the work of the SAC IV and the EPPFMC with the IMF team and other bilateral partners, especially in the area of macroeconomic and fiscal management and financial sector reform. This is in line with intensifying efforts to establish a unified framework for budget support in 2006. Following an IMF-supported PRGF which expired in 2003, the authorities reached an agreement on a new PRGF which was approved by the Fund Board in June 2004, comprising revenue mobilization, prioritizing expenditures, and supporting sustainable growth through faster human capital accumulation and private sector development, including via privatizations in the key sectors of cotton and telecommunications. The first PRGF review was concluded in March 2005, and the second and third reviews of the program was concluded in December 2005. The Bank and the Fund coordinate closely on the macroeconomic and structural policy dialogue: for example, under the agreement with the Bank and the IMF, priority poverty-reducing budgetary expenditures will be protected as long as the program remains on track and sufficient external assistance is secured. Other areas of collaboration with the Fund are detailed in Annex 5. As regards cotton reforms, the Bank has shared views and collaborated closely with development partners including AFD, France, EU, the Netherlands, Canada, Sweden, USAID.

4.6 Regarding **FSD**, while bank is the only player in the banking, insurance and pension sectors; however, many partners are involved in the microfinance area. With the Bank playing a key role, several donors participated in the elaboration of the action plan for microfinance 2005-2008 which was adopted in April 2005 by the Council of Ministers. They also agreed to fund some of these activities. USAID is implementing a financial sector project. The World Bank is placing the emphasis on regulatory issues. On **Irrigation**, the Bank works very closely with ON donors' coordination unit. This coordination unit is comprised of all ON donors: AFD, The World Bank, the Netherlands, the European Union, USAID, KFW. The *Contrat Plan* (CP) or performance contract for 2005-2007 intends that all donors will position their activities around objectives of the CP and those of the development guidelines of ON area. A guiding Charter for donors' interventions in ON area is under preparation. On **PSD**, consultations were held with other donors, primarily USAID, the Millenium Challenge Corporation and the European Union during preparation of the proposed operation. France, Sweden and Switzerland support private sector associations (notably the two umbrella organization of artisans), and the Africa Capacity Building Foundation provides support to the Chamber of Commerce.

Regarding **Transport and trade facilitation**:

4.7 The Bank is closely coordinating with the other donors involved in road maintenance and road transit in Mali and in the region. Preparation of the regional road transport and transit facilitation program was launched during a regional workshop organized in Accra in November 2003. All West African countries, the two regional economic institutions, representatives from the private sector and from six donors attended the workshop. Joint missions to prepare the program were carried out with the African Development Bank (ADB) in April 2004, July 2004 and May 2005. These missions concluded, in consultation with the regional institutions, that the most efficient contribution from the Bank to the program would be to complement the project approved by the ADB in November 2003 to improve road transit conditions on the Ghana-Burkina Faso-Mali corridor. The World Bank is preparing simultaneously with the African Development Bank similar operations on the Abidjan-Lagos and Cotonou-Niamey corridors.

4.8 The Bank is also closely coordinating with the European Union (EU) which is preparing its own contribution to the regional program. In this respect, EU is providing support to the Economic Community of West African States through the set-up of a dedicated unit to help prepare and implement the program. EU will focus on support to the implementation of structural reforms, capacity building and will limit the investment portion of its contribution to the construction of joint border posts. EU is also involved in the countries through its country projects. In Mali, EU provides support for the construction of weighing stations and road toll stations to control overloading of trucks and generate resources for road maintenance.

RELATIONSHIP TO OTHER BANK OPERATIONS

4.9 The EPPFMC complements other Bank operations in agriculture, financial sector, private sector, infrastructure and transportation with a focus on policies critical to the successful outcomes in the respective sectors. For **cotton**, the other Bank operations in the rural sector (PASAOP, PACR and PCDA) are flexible enough to be positioned to support broader cotton sector reforms once adopted by the Government. PASAOP is more focused on producers' capacity building and support to soil rehabilitation, improvement of farm-level productivity; PCDA focuses on enhancing value added of agricultural sub-sectors and PACR on collective support to communities. The **financial sector** development project (PDSF) accompanies the Government reform program in the banking, insurance, microfinance and social security sectors. It supports all the actions that are part of the EPPFMC. (Privatization of BIM, split of CAS/SFD, audit of non performing portfolio of commercial banks, studies on the domiciliation of insurance policies and on leasing companies, study on Government debt to INPS and actuarial studies of INPS and CRM). The sources of growth project and the agricultural competitiveness development project have also some financial sector elements; for example, the former supports the delivery of services (including partial guarantees) to facilitate SME financing.

4.10 Regarding the **private sector**, this operation complements activities under the Growth Support Project (FY05). For **irrigation**, this operation complements the rural infrastructure investment project (PNIR) which is itself complemented by the other rural operations mentioned above in terms of producers' capacity building, sub-sector valorisation and financial and technical support to communities.

4.11 As regards **transport and trade facilitation**, the operation complements the on-going Transport Corridor Improvement Project under which resources allocations to, and financing of, road maintenance is monitored. The operation also complements the Regional Road Transport and Transit Program under preparation with the regional economic institutions and the countries of West Africa, and scheduled for Board presentation in December 2006. The objective of the program is to increase competition among more efficient transport corridors in West Africa to boost internal and external regional trade, a recognized vector of economic growth and subsequently poverty reduction. In a first phase, the program will concentrate on the Ghana-Burkina Faso-Mali corridor. It will provide the resources which will finance the investments necessary to implement the structural reforms. The program will include the following key elements:

- regional level: Streamlining and harmonization of road transport and transit regulation and procedures (implementation of Inter-State Road Transit guarantee system (ISRT), harmonization of axle load and technical vehicle control regulation, removal of bilateral

agreements on road freight allocation, capacity building (support to regional facilitation committee and regional institutions);

- corridor level: Facilitation of transit (construction of joint border posts and improvement of transit procedures) and improvement of information systems (monitoring of corridor performance, electronic cargo tracking systems, electronic securitization of ISRT transit documents); and,
- country level: Improvement of road infrastructure (long term performance based management contracts, truck stations and rest areas) and associated telecommunication system, improvement of port security, benefits for corridor neighboring population (road safety, environment, HIV /AIDS), capacity building (support to national facilitation committees and administrations, consultation with stakeholders).

LESSONS LEARNED

4.12 The EPPFMC benefits from lessons learned in implementing recent policy-based lending. Thematic coverage of those operations (SACs III and IV) form a subset of those pursued under the EPPFMC. As such, lessons from those operations are particularly pertinent. The SAC III (which was approved in December 2001) supported two areas of reforms that were critical for poverty reduction in Mali: (i) restructuring of the cotton sector to enhance efficiency and support growth; and (ii) reform of public expenditure management to improve efficiency and transparency of budget management for poverty reduction. According to the ICR (which was endorsed by the OED) the Credit broadly achieved its objectives with respect to macroeconomic performance, and to a significant extent in public expenditure management. The cotton sector reform, however, was less successful, especially with regard to adhering to the timetable for privatization of the cotton company and limiting the fiscal risks to the budget.

4.13 The EPPFMC incorporates the following lessons identified in the ICR (FY04) for the SAC III:

- Development policy operations focusing on a limited structural reform agenda are more likely to succeed than ambitious or complex operations in countries with weak institutional and administrative capacity;
- Restructuring and/or privatization of state-owned enterprises (e.g. cotton) should be planned over the medium term rather than short-term periods; the focus should be on best practice in privatization; and single adjustment operations may not be the best way of achieving specific privatization objectives;
- Effective coordination with the IMF and other donors is critical; and,
- Ensuring that key implementing institutions have adequate resources (e.g., provision of TA) is important for implementation.

4.14 The SAC IV continued the SAC III reform agenda with a slight expansion on growth-oriented measures in the financial and irrigation sectors, as identified in the context of ongoing operations in the respective sectors—the Financial Sector Development Project (a TA operation)

and the National Rural Infrastructure Project (an investment operation). SAC IV achievements in those sectors—rated satisfactory in the Quality at Entry Assessment (QEA) of the Bank's Quality Assurance Group (QAG) in August 2005—demonstrated the merits of including in policy-based lending operation, policies and institutional measures complementary to and supportive of ongoing sector operations. The EPPFMC deepens this practice in the financial and irrigation sectors and adding other growth-oriented policies in transport, trade facilitation and private sectors that complement investment operations in the respective sectors.

4.15 Deepening of the growth-oriented agenda under EPPFMC addresses the QEA's concern of the need for strengthened structural, financial and macroeconomic aspects in the SAC IV. EPPFMC thus draws from various diagnostic reports including the Bank's 1997 IDF to assist Mali in assessing constraints to growth and formulate a growth strategy[12], the FY04 ESW on Transport Support to Sustainable Economic Growth, the FY04 Integrated Framework Trade Diagnostic Report ("Expanding and Diversifying Trade for Growth and Poverty Reduction"), a report assessing factors underlying success of Mali's irrigation reforms[13], and background report under the Mali Country Economic Memorandum on Growth (forthcoming FY06). The EPPFMC sector coverage in the growth agenda is strategically selective, incorporating measures on which dialogue with the authorities on the needed reforms is established. Thus at least one sector, energy, was not included under EPPFMC despite its importance for Mali's growth, because the sector dialogue was in a state of flux due to ongoing contract renegotiations between the Government and the private-sector managers of the energy utility company.[14] Under the next operation, it is envisioned to deepen the growth agenda further, and possibly expand it into additional sectors (such as energy) if the nature of the dialogue on those sectors is sufficiently developed.

ANALYTICAL UNDERPINNINGS

4.16 The EPPFMC benefits from a number of pieces of analytical and fiduciary work undertaken by the Bank and in some cases by the Government and other partners. These are summarized in Table 4.1. First and foremost, a considerable analytical effort has been conducted in assessing the effectiveness of public spending in Mali, including a CFAA, CPAR, the WB/IMF HIPC AAP report, an IMF ROSC, an EU audit of reform implementation to improve public finance management procedures, and a study on implementing the decentralization policy based on two pilot regions. These helped identify the strengths and main shortcomings in Mali's fiduciary system, and helped the authorities prepare two key action plans for reforms that integrate the various studies—one on public finance management (the Government Action Plan for Modernizing and Strengthening Public Finance Management 2006-2008), and the other the Institutional Development Program to support implementation of the decentralization policy). These action

[12] *République du Mali* (1997). *Le Mali : Proposition pour une stratégie de Croissance et Développement à l'Horizon 2010, Rapport du Synthèse. Cellule Croissance Accélérée et Développement, Ministère de l'Economie, du Plan et de l'Intégration.* November.

[13] Aw, Djibril and Geert Diemer (2005). Making a Large Irrigation Scheme Work: A case Study from Mali. World Bank, Directions in Development Series.

[14] Subsequent events during the course of EPPFMC processing has borne out the decision to exclude the energy sector. The concession contract between the international strategic partner and the government collapsed in October 2005, After about 18 months of contract renegotiations, the main strategic investor in the energy utility decided to pull out of the company leaving the government with a 66% majority stake in the company along with a minor private sector partner, and with critical supply and financing issues to be resolved in the short term in order to clarify the sector strategy going forward.

plans, now supported by all donors, are key instruments in toward increased donor harmonization in Mali. Technical assistance to Mali for development of its sector medium term frameworks for health, education, and transport, as well as informal reviews of Mali's government-wide medium term budget framework, underpin the MTEF proposals in the EPPFMC.

4.17 The underpinnings to the growth component stem from a series of studies to identify sources of growth and refine the growth strategy. In 1997 the Bank approved an IDF grant to assist Mali in diagnostic work toward formulating a long term growth strategy. That IDF resulted in a government-issued 2010 Growth and Development Proposal, which underpinned the 1998 CAS and the subsequent support to Mali. The proposal reoriented government activity and Bank support toward structural constraints (e.g., judicial/regulatory environment for business, weakly organized economic activity), constraints with infrastructure and infrastructure services (transportation, telecommunications, energy, irrigation), constraints to priority producing sectors (agriculture and rural development, industry, mining, tourism), human resource development needs (education, health), and constraints to other private sector supporting activities (financial sector development). Subsequent studies that have deepened the knowledge base and sector strategies have been conducted in the context of project preparation and/or implementation (of primary relevance to the EPPFMC are studies under the financial sector development TA project, the agricultural competitiveness and diversification project, and national rural infrastructure project). Documentation of Bank-supported irrigation reform success factors in Aw and Diemer (2005) that underpin an aspect of the EPPFMC program, highlight the critical importance of irrigation in overcoming vulnerability to climate shocks and enhancing food security in Mali. Those reforms enabled dramatic sustained increases in rice productivity (from 1-2 tons per hectare in 1980 to 5-6 tons/ha in late 1990s) during a period when productivity of other crops (including cotton) stagnated or declined.

4.18 A recent supply chain analysis of the textile/garments, leatherwork and handicraft sectors conducted under the growth support project, an Investment Climate Assessment (FY05) highlighted concrete micro-level constraints to Mali's growth, including regulatory and non-price barriers that increase the time and monetary costs of doing business. An integrated trade diagnostic study completed in 2004 also highlighted micro-level constraints in addition to cross cutting constraints stemming from the transport, trade facilitation and finance sectors. These studies, which have underpinned discussions at the President's Investor Council consultations (conducted bi-annually since September 2004), have laid the foundations for strengthened government commitment to improve the investment climate and remove other unnecessary impediments to private sector growth. A Country Economic Memorandum on growth (forthcoming FY06) builds on these findings with the purpose of aiding Mali articulate an integrated growth strategy combining micro- and macro-level dimensions in a consistent framework. Background studies under the CEM underpin aspects of the EPPFMC program (notably growth performance study and transport and trade facilitation).

Table 4.1: Summary of Relevant Lending Operations and Key Analytical Underpinnings

EPPFMC Component	Lending Operations	Analytical Work
Macroeconomic and Budgetary Framework, and the Poverty Reduction Strategy	1. SAC III (FY02) 2. SAC IV (FY05) 3. Household Energy & Universal Access (FY04) 4. Agriculture Services and Producer Organizations (FY02) 5. Rural Community Development Project (FY06) 6. Education Sector Expenditure Project (FY01) 7. Integrated Health Sector Investment (FY99) 8. Urban Development and Decentralization (FY97) 9. Emergency Locust (FY04) 10. Development Learning Ct LIL (FY04) 11. HIV/AIDS MAP SIL (FY04)	1. Poverty Assessment (FY05) 2. Cotton PSIA (FY06 3. Oil price increase impact study (FY06) 4. Support to household survey (FY01) 5. Health Country Status Report (FY04) 6. Health Services Utilization Study (FY05)
Support to Growth	1. Agricultural Competitiveness and Diversification Project (FY06) 2. Agricultural Trading and Processing Promotion Project (FY95) 3. Growth Support Project (FY05) 4. Financial Sector Development Project (FY00) 5. Private Sector Assistance Project (FY92; completed FY03) 6. Transport Corridors Improvement Project (FY04) 7. Transport Sector (FY94) 8. Agriculture Services and Producer Organizations (FY02) 9. Regional Hydropower Development Project (FY97) 10. National Rural Infrastructure Project (FY00) 11. Pilot Private Irrigation Promotion Project (FY97)	1. Growth diagnostic IDF (FY97) resulting in the GOM report "*Le Mali: Proposition pour une stratégie de Croissance et Développement à l'Horizon 2010, Rapport du Synthèse* » (November 1997). 2. Integrated Trade Diagnostic Study: Expanding and Diversifying Trade for Growth and Poverty Reduction (FY04) 3. Investment Climate Assessment (FY05) 4. Background studies on growth dynamics and on transport, financial, agriculture sectors for the Country Economic Memorandum (FY06 forthcoming) 5. Transport Support to Sustainable Economic Growth (FY04) 6. Aw, Djibril and Geert Diemer (2005). *Making a Large Irrigation Scheme Work: A case Study from Mali.* World Bank, Directions in Development Series. (this documents the success of the WB support irrigation reforms in Mali's *Office du Niger* zone). 7. Integrated Value Chain Analysis (textiles/garment, cotton, livestock) (2004 background paper for the Growth Support Project)
Public Finance Management	1. SAC IV (FY05) 2. SAC III (FY02) 3. Economic Management Project (FY00)	1. CFAA (FY03) 2. CPAR (FY04) 3. IMF ROSC: Fiscal Transparency Module (FY02) 4. HIPC Assessment and Implementation of Action Plans to Strength Capacity to Track Poverty Reducing Public Expenditures (FY04) 5. MTEF TA Health sector (FY03) 6. MTEF TA Transport sector (FY04)

5. THE PROPOSED ECONOMIC POLICY AND PUBLIC FINANCE MANAGEMENT CREDIT (EPPFMC)

OPERATION DESCRIPTION

The Context of the EPPFMC

5.1 The EPPFMC would be the first annual program of budget support for Mali's growth and poverty reduction strategy and it meets the requirements of OD8.60 of appropriateness, country ownership and commitment, and adequate financing. The EPPFMC would continue the SACs III and IV reform agenda and expand upon it in certain areas. However, moving to higher levels of support will require reducing the fiscal risk of the cotton sector through improved sector financial management, or eventual privatization of the national cotton ginning company CMDT (programmed completion date is 2008). Progress on implementing the cotton sector reforms, and the fiscal risk of CMDT, will be closely monitored to determine the appropriate time to shift to a three-year program of support. The EPPFMC, to be disbursed in a single tranche of US$25 million in the first quarter of 2006 upon credit effectiveness, comprises three components described below.

5.2 As already mentioned, the 2003 CAS (July 2003) directly supports the four PRSF pillars under various lending and non-lending instruments, and places particular emphasis on improved resource management for achieving the poverty objectives. The Government's commitment is evident in their successful completion of the reforms supported under SAC III (December 2001) and SAC IV (March 2005), and by their request for a successor operation in aid of next phase reforms under its PRSF. In this respect, the borrower's commitment to and ownership of reforms in the proposed EPPFMC is deemed adequate. The EPPFMC together with resources pledged by other donors, would ensure adequate financing of Mali's reform program. The Bank's positive experience with structural adjustment in Mali has shown that policy-based lending is an effective mechanism of support.

5.3 Expanding on the SAC III and SAC IV programs, the EPPFMC, therefore, is designed in support to Mali's first, second and fourth PRSF pillars. Specifically, the EPPFMC aims to:

(i) ***contribute to growth and poverty reduction through (a) strengthening macroeconomic and fiscal management; and (b) implementing key cross-sectoral policy reforms underpinning to long-term growth and competitiveness.*** *Macroeconomic management* would be strengthened through prudent expenditure management; greater linkage between the macroeconomic framework, the budget and the implementation of the PRSF. This will de done by strengthening the global and sector medium term expenditure framework process; continued implementation of cotton producer price mechanism to reduce risk of budgetary transfers; commenced implementation of cotton sector reforms while ensuring close monitoring of cotton sector financial position; and strengthened institutional framework in the Ministry of Finance (MEF) for monitoring/coordination of the PRSF and the growth agenda.

The *growth support agenda* would be strengthened through continued implementation of financial sector development actions to strengthen the health of the sector and enhance access to finance particularly longer term funds; implementation of key transport sector actions to

improve quality and lower cost of transportation services; and implementation of trade facilitation measures to reduce processing/transactions costs of trade.

(ii) ***improve efficiency, accountability and transparency in public finance management through strengthening (a) public expenditure management at central and decentralized levels; and (b) the public procurement system***. *Public expenditure management* (PEM) would be strengthened through continuing the automation of information flows between key MEF de-concentrated departments (notably, treasury, budget and financial control) to increase information quality and transparency, improving the quality of published material on the financial and expenditure situation of the Government to increase transparency; and continued improvements in PEM processes, particularly internal and external budget control mechanisms.

Public procurement would be strengthened through adoption of a coherent action plan and commencing its implementation, comprising updating of the legislative/regulatory framework, strengthening the linkages between public procurement and public finance management processes, and strengthening the private sector's access to public procurement opportunities.

5.4 The prior actions for the Mali EPPFMC are listed in Box 5.1. They comprise a restricted set of actions most critical to success of the program. These closely match the triggers identified in SAC IV for the EPPFMC. Linkage of the EPPFMC prior actions to the triggers identifies in the SAC IV operation are presented in Annex 2.

Box 5.1: Prior Actions for Economic Policy and Public Finance Management Policy to Mali

The government has agreed upon and implemented the following prior actions before the presentation of the credit to the Executive Board:

- Maintain a prudent budget policy consistent with the agreed macroeconomic framework;.
- Adopt an overall logical framework for operationalizing and appropriating the medium term budget framework (MTBF) and medium term sector expenditure framework (MTEF), synchronized with the processing timelines for the macroeconomic framework, budget preparation cycle, and preparation of the 2007-2011 PRSF;
- Adopt Terms of reference for preparing the 2007-2011 PRSF, that integrates a work program for coordination of the formulation and implementation of an economic growth support strategy;
- Continue implementation of the cotton producer price setting mechanism with a view to limiting the state budgetary risk of the national cotton ginning company CMDT;
- Re-constitute the Board of Directors of the Malian Housing Bank (*Banque de l'Habitat du Mali* – BHM) with the addition of three private sector specialists independent of the shareholders; and canvass existing and potential new investors to invite them to participate in the recapitalization of BHM; and,
- Establish the institutional framework for implementing the Government's action plan for modernization and improvement of public finance management; define the mechanisms for its implementation, monitoring and evaluation; and inscribe resources in the draft 2006 budget for the 2006 time slice of the action plan.

Benefits

5.5 The proposed operation would support the Government in the pursuit of its policy objectives laid out in the PRSF within a structure macroeconomic framework, by providing sound financing for execution of the Government's 2005 budget. It would also provide the incentives to

implement key economic, social and institutional reform to strengthen overall performance of the economy and contribute to poverty alleviation. Implementation of the EPPFMC program contributes to strengthen public finance management, thereby enhancing efficiency and effectiveness of public sector spending. This includes strengthening governance and performance of the procurement system. In agriculture, the operation would contribute to stabilizing the performance of the cotton sector and farmer incomes; and to laying the foundations for private sector led expansion of the *Office du Niger* (ON) irrigation zone. The operation would also contribute to enhancing the export prospects of handicraft products (typically produced by small informal sector firms) through removal of the export assessment tax, thereby improving the incomes of the poor. It would also improve the investment climate by lowering the administrative and financial cost of starting a business, and strengthening property rights over land.

5.6 Over the medium term, the operation would contribute to reducing transportation costs by ensuring regular road maintenance and lowering the cost burden (in money and time) on the private sector of customs administration, and to increase agriculture growth and food security due to expansion of the ON area. It would lower the costs of financial services (and therefore enhance access to credit) through cleaning up non-performing loans from bank balance sheets. It would also improve access to longer term resources vitally needed to stimulate private sector led growth, through strengthening the prospects of institutions with long term assets whether financial (pension funds, housing bank, insurance companies) or physical (leasing companies).

CREDIT AMOUNT AND TRANCHING

5.7 The one tranche in the amount of SDR 17.3 million (US$25 million equivalent), will be available for disbursement upon credit effectiveness. The credit will become effective upon due authorization or ratification by all necessary legislative and governmental actions and IDA's receipt of a legal opinion confirming that the Development Credit Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms.

POLICY AREAS

5.8 The policies supported by the EPPFMC are outlined in the Letter of Development Policy (Annex 1) and policy matrix (Annex 3) under the following three components: (i) Strengthening macroeconomic framework and budgetary policy; (ii) Support to growth; and (iii) Strengthening public expenditure management, transparency and verification procedures.

1. Strengthening macroeconomic framework and budgetary policy

1.A-B. Macroeconomic Management Budget Policy, and Poverty Reduction and Growth Strategy Framework

Description and Challenges

5.9 With the adoption of its first National Poverty Reduction Strategy in 1998, the Government commenced preparation of annual Program Budgets (annexed to the Budget Law) aimed at linking government programs to poverty reduction objectives and initiating a process of results-oriented

budgeting. Following adoption of second poverty reduction strategy comprising enhanced coverage of macroeconomic considerations (the Poverty Reduction Strategy Framework—PRSF) in May 2002 (see paragraph 3.1), the Government intensified its efforts to translate the strategy into action through integration of the PRSF into the Government's regular operations.

5.10 An indicator of successful integration of the PRSF is the extent to which programs funded by the annual budgets reflect PRSF priorities toward achieving growth and poverty reduction objectives. To this end the authorities aim to maintain prudent macroeconomic and budgetary policies so as to ensure macroeconomic stability and foster growth. They have developed tools over the past couple years to facilitate the translation of the poverty reduction strategy into expenditure terms: medium term expenditure frameworks (MTEF) were developed for the health and education sectors; an initial MTEF for the transportation/public works Ministry was constructed; and a medium term budgetary framework (MTBF) covering the entire government was also developed to strengthen inter-sectoral resource allocation (i.e., sector budget envelopes) by the Economy and Finance Ministry, consistent with priorities of the PRSF. The annual Program Budgets were strengthened progressively each year, and since 2003 they became medium term documents covering three year periods instead of just one.

5.11 A consequence of these developments is that the Government now disposes of several tools, instruments and processes that are inadequately linked. This situation is problematic on three levels, which hamper the Government's ability to consolidate its achievements of the past in the area of macroeconomic management and budget policy. First, a major concern is that the various instruments (PRSF, MTEF, MTBF, Program Budget, Budget Law, macroeconomic framework) are processed on somewhat separate timelines, with inadequate consideration for synchronizing those timelines despite the fact that some instruments serve as inputs into others (e.g., the macroeconomic framework feeds into the MTBF, which together are required for the sector MTEFs and budget elaboration). In addition, untimely availability and/or updating of some of the instruments (particularly the macroeconomic framework, MTBF, MTEF, PRSF implementation status report, and annual expenditure reviews) relative to the budget preparation schedule weaken their relevance to the budget preparation and budget management process. Inadequate incorporation of recommendations of implementation status reports or of expenditure reviews further aggravate this situation.

5.12 Second, sector MTEFs that should serve as the analytical/simulation tools to support sector ministry budget negotiations with the Ministry of Economy and Finance, and underpin sector program budget preparations, do not adequately live up to those expectations. In reality, the sector MTEFs are largely distinct from the Program Budget process (i.e., separate MTEF and Program Budget documents are prepared), and the program budgets show minimal if any linkage with the Budget Law to which it is annexed. Furthermore, the MTEFs (though used somewhat for budget negotiations) are not adequately appropriated by the respective sector ministries neither for budget preparation nor management/monitoring of program implementation—indeed, they currently appear to be prepared largely to satisfy donor conditionalities.

5.13 Third, gaps in the PRSF—particularly the absence of a clear economic growth strategy and action plan, despite growth being highlighted in the PRSF as a precondition for poverty reduction—by implication weaken the results-orientation of the Government's expenditure program. In absence of a concrete growth strategy, the PRSF's reliance on macroeconomic stability alone is proving insufficient (as expected) for achieving the higher growth objectives

identified in the PRSF (target of 6.7 percent average during 2002-2006 relative to the actual annual average of 5.5 percent over the period 1994-2004).

Government Action to date

5.14 The Government has consistently maintained prudent macroeconomic policies in recent years in partnership with the donor community, despite several exogenous shocks that risked destabilizing the macroeconomic framework. As part of that effort the authorities established a mechanism to minimize the risks of cotton sector deficits and their potential impact on the budget (as noted in paragraph 5.26, a tri-partite protocol was signed with farmer organizations and the CMDT to regulate the setting of the cotton producer price in line with international market developments). Taking into account the lessons drawn from implementation of the PRSF, preparation of the 2005 Budget Law explicitly ensured consistency with the macroeconomic framework while ensuring adequate resources were allocated to accelerate implementation of the PRSF, on the basis of strategic sector budget programming tools.

5.15 As regards strengthening of budget formulation, the Government fully operationalized the medium term budget framework during 2004, leading to preparation of the 2005 Budget Law on the basis of three-year sector envelopes furnished by the Ministry of Economy and Finance. Those envelopes were on a sector basis rather than Ministry basis, providing insufficient information to some ministries on the budgetary constraints they faced. The two existing sector MTEFs, while perhaps not fully appropriated by all the ministries concerned (health, education), are progressively being used each year to prepare sector budget proposals and negotiate budget allocations with the Economy and Finance Ministry, with favorable results. The Health Ministry—particularly advanced in appropriation of its MTEF—established mechanisms for systematic annual updating of their MTEF for use during each new budget cycle, and for use as the financial framework for preparing the 2nd phase of the ten-year sector development program (PRODESS). A third ministry (transport and equipment) initiated development of its MTEF with Bank support.

5.16 The outcome of the budget process during 2005 is a draft 2006 Budget Law reflecting enhanced links with the poverty reduction strategy. Conscious of the importance of synchronizing the PRSF with the budget, the Government has committed to prepare the PRSF implementation status report and the second PRSF during 2005-2006 on a schedule linked to the budget preparation cycle, with a view to completing those documents by June 2006 in line with preparation of the 2007 Budget Law.

5.17 As regards monitoring and evaluation (M&E), an M&E schedule for the PRSF was adopted, allowing the authorities to incorporate conclusions of the evaluation of PRSF implementation into the draft 2006 Budget Law. Also, the recently produced second evaluation report of PRSF implementation is in process of being adopted according to the M&E schedule. Additionally, the current system of programming and monitoring of public investments is being improved, to facilitate its incorporation in the budget management process. A new software application was developed and tested, and is in the process of being installed to manage the Triennial Investment Program and its annual component (the Special Investment Budget).

5.18 The authorities conducted an institutional audit of the PRSF implementation process in 2004 and are committed to implementing the audit's findings, comprising reorganization of the PRSF Unit, enhancing the skills mix of the Unit, and ensuring appropriate capacity building of the

institution. A Terms of reference outlining the improvements has been prepared, and is being discussed with the donor community prior to finalization and submission to the Council of Ministers for consideration and adoption.

Bank's assessment and Recommendation

5.19 As noted, the authorities make the concerted effort to implement prudent macroeconomic policies in the face of tight budgetary constraints and various unexpected exogenous shocks. The Bank recommends continuation of those efforts by the Government, including continued implementation of the cotton price setting mechanism, in close dialogue with its external partners.

5.20 Institutional strengthening for coordinating and monitoring the PRSF process appropriately reflects, as currently envisioned, the needs of the current PRSF—it is based on the institutional audit taking account of the current PRSF. However, the institutional audit did not reflect what the PRSF should be (based on the two previous joint staff assessments of the PRSF and PRSF progress report). Indeed, as the current PRSF lacks a coherent growth strategy, the recommendations of the audit did not adequately take into account the need for strengthened coordination in the PRSF Unit of preparation and monitoring of a growth strategy. In view of the imminent preparation of the 2nd PRSF in late 2005 to mid 2006, with implementation to commence January 2007, it is preferable that the new institutional structure of the PRSF Unit anticipates the content of the new PRSF to the extent possible. The Bank thus recommends that treatment of growth strategy issues in the 2nd PRSF Unit be strengthened, and that the new structure of the PRSF Unit reflect the need for appropriate skills mix to enable coordinating the preparation (and implementation monitoring) of the growth strategy.

Measures taken as part of the proposed operation

5.21 Regarding ***Macroeconomic framework and budget policy***, the specific actions in the EPPFMC are part of a medium term reform agenda emanating from the Government's Institutional Development Program (PDI) and Governmental Action plan for Modernization and the Strengthening of Public Finance Management (PAG). Of particular importance is deepening the results-based budgeting process through strengthening the links between various budget preparation instruments (MTBF, sector MTEFs, program budgets), sector strategies and the PRSF. As a first step the authorities will prepare a logical framework that rationalizes the content and preparation/updating schedules of those various instruments and strategies consistent with the budget preparation cycle. The authorities will also update the MTBF, sector MTEFs (health, education and transport), macroeconomic framework, in line with the final outcome of the budget arbitrage (the draft 2006 Budget Law) and the logical framework schedule. The following actions are included in the EPPFMC:

- Maintain a prudent budget policy consistent with the agreed macroeconomic framework;
- Update the projections for the Medium Term Budget Framework (MTBF) for 2006-2008, consistent with the macroeconomic framework;
- Produce an overview report presenting the draft 2006 Budget that discusses the consistency of the budget with the macroeconomic framework for 2006-2008, with sector priorities defined in the PRSF, and with recommendations of the 2003-2004 PRSF Implementation Progress Report;

- Adopt an overall logical framework for operationalizing and appropriating the medium term budget framework (MTBF) and sector medium term expenditure framework (MTEF), synchronized with the processing timelines for the macroeconomic framework, budget preparation cycle, and 2007-2011 PRSF preparation;
- Update the health sector medium-term expenditure framework for 2006-2008, with the 2006 tranche consistent with the Ministry's component of the draft 2006 Budget. The MTEF should be consistent with (i) the MTBF of the Economy and Finance Ministry, and (ii) the health sector strategy as envisaged in the PRODESS II;
- Update the education sector medium-term expenditure framework for 2006-2008, with the 2006 tranche consistent with the Ministry's component of the draft 2006 Budget. The MTEF should be consistent with (i) the MTBF of the Economy and Finance Ministry, and (ii) the health sector strategy as envisaged in the 2nd phase of PRODEC; and,
- Prepare the MTEF for the Equipment and Transport Ministry for 2006-2008 consistent with the MTBF.

5.22 Regarding ***Strengthened links between budget policy and the PRSF***, the EPPFMC covers the following three aspects: (i) the institutional framework for implementation M&E; (ii) linkage with the donor harmonization process; and (iii) improving the quality and credibility of the PRSF. The specific actions under the operation are as follows:

- Completion of the 2003-2004 PRSF implementation progress report;
- Adoption of a Terms of reference for preparing the 2007-2011 PRSF, that integrates the work required to coordinate the formulation and implementation of an economic growth support strategy, and includes a work program and implementation schedule of the various steps involved (e.g. surveys, participatory process, etc);
- Launching of the preparation process for the 2007-2011 PRSF on the basis of a defined implementation schedule;
- Establishment of a work program for the formulation of an economic growth strategy underpinned by the macroeconomic framework in the 2007-2011 PRSF;
- Strengthening of the capabilities of the PRSF Unit consistent with the Unit's new TOR, including: redefinition of its mission and attributions, human resource capacity, job descriptions, staff status;
- Provision of adequate resources in the draft 2006 Budget for the PRSF Unit to operationalize its reforms and coordinate preparation of the 2007-2011 PRSF; and,
- Definition of an implementation schedule for preparing the annual PRSF Implementation Progress Report, consistent with the budget cycle timeline (i.e., the logical framework mentioned above) and the common framework (under finalization by Government and donors) to monitor budget support.

Indicative triggers for the next operation

5.23 Actions for the next operation have been identified in the policy matrix. Proposed triggers for the next operation are as follows:

- Maintenance of a prudent budgetary policy and macroeconomic framework, to ensure continued macroeconomic stability;
- Prepare the Medium Term Budget Framework (MTBF) for 2007-2009 consistent with the macroeconomic framework of the 2nd PRSF, and that provides resource allocations by Ministry, sector and expenditure type; and,
- Complete a draft of the 2007-2011 PRSF to be used during the arbitrage sessions for the 2007 Budget.

1.C. Cotton Sector Reforms

Description and Challenges

5.24 Cotton cultivation and ginning for exports is an important sector for Mali's economy whose performance—vulnerable to climatic, terms of trade and exchange rate shocks in addition to management quality of the national ginning company and sector policy decisions—has direct repercussions on the government budget in view of the Government's 60 percent shareholding of the national cotton ginning company CMDT. The sector (cultivation and ginning combined) accounts for about 7 percent of GDP and about 30 percent of export earnings, and involves about 30 percent of Mali's population. Vulnerability of the sector results in periodic financial crises, the latest one in 2004[15] which is being managed in part through budget support provided by the Bank (under SAC IV) and other donors. The estimated deficit for the 2004-05 crop season is CFAF 50.3 billion (US$ 93 million equivalent), of which CFAF 28.5 billion is provisioned for in the 2005 budget as a loan to the CMDT. The recurrence of financial crises in the sector is attributed in part to the sector's uncompetitive structure that is dominated by a single ginning company that enjoys a monopsony on cotton purchases from farmers and a monopoly on sales of cotton fiber. Despite these risks, it must be acknowledged that the current structure has facilitated the sector's rapid development from cultivation of 5000 tons of cotton in the 1960s to over 500,000 tons today.

5.25 Following the previous cotton sector financial crisis in 2000, the Bank supported the Government in its adoption of a reform strategy for cotton sector comprising improved financial management in CMDT and partial privatization of CMDT in the first phase of reforms, and full privatization CMDT in the subsequent phase.[16] Following completion of the first phase, however, implementation of the reforms stalled in 2004, and CMDT privatization was officially delayed from 2006 to 2008. At the same time, the authorities agreed to a high cotton producer price (CFAF 210 per kilogram versus CFAF 190 per kilogram in neighboring countries) based on incorrect implementation of the price mechanism at the time, which resulted in a ballooning sector deficit as the international price fell precipitously.

5.26 To resolve the immediate financial crisis in the sector from the 2004-05 crop season the World Bank agreed, in consultation with other partners, to proceed with the SAC IV on the basis of (i) a financing plan for CMDT's deficit and (ii) a credible reform of the producer price mechanism. The negotiation of a new timetable for the privatization would be addressed through a dedicated

[15] Other cotton sector crises were in 1986, 1991 and 2000.

[16] The strategy, negotiated with all stakeholders in the sector over a period of three years, was endorsed by the Council of Ministers in November 2003 following completion of the first phase cotton sector reform program. It aimed at the creation of 3 or 4 new cotton ginning companies by sale of CMDT's existing assets to strategic private investors.

cotton sector dialogue with the authorities. In January 2005, the Government, CMDT and farmer organizations signed a new protocol for setting the cotton producer price. This included an agreed range (applicable for three years) for the initial price set in April each year based on the world price trends, and the possibility of an adjustment in August each year if there was a significant change in the world price trend. Consistent with the protocol, Mali's cotton producer price setting committee announced a price of CFAF 160 per kilogram for the 2005-06 crop season.

5.27 In the course of 2005, the CMDT announced it was near bankruptcy and scheduled an Extraordinary Shareholders Meeting as required by WAEMU law (OHADA) to agree on recapitalization or dissolution of the company. The Meeting, held in September 2005, reached a decision to recapitalize the company. With only the Government participating in the recapitalization (of CFAF 6 billion), the Government's share of the company will increase to 75 percent and that of the foreign shareholder DAGRIS falling to 25 percent. The near bankruptcy of the CMDT underscores the dire situation Mali's cotton sector is facing, and that must be addressed in the medium term to safeguard the sector's performance and competitiveness into the future (see Annex 10 for further information).

Government Action to date

5.28 As noted above, the Government signed a protocol defining an improved producer price setting mechanism, together with the CMDT and farmer organizations, that is to be in force until CMDT's privatisation. A special feature of the new price mechanism is its objective to minimise budget risks through setting the initial price in April each year within a conservative range (CFAF 160-175 per kilogram), reviewing price parameters in August for possible revision of the producer price depending on cotton market developments, and distributing the sector's gross (as opposed to net) income to producers (60%) and the CMDT (40%). In January 2005 the Government adopted an updated timetable for cotton sector reforms with the objective of supporting the funding of CMDT crop season campaigns, implementation of support measures for CMDT privatisation, and CMDT privatisation in 2008. To strengthen producers' ability to participate in sector decision making, the authorities implemented an information awareness session with farmers on the content of the validated proposals from the study on the producers' inter-professional association.

5.29 The authorities also concluded the privatization of the cottonseed oil company HUICOMA, an action envisioned in 2002 under SAC III that was not achieved[17] due in part to adverse market conditions linked to the Cote d'Ivoire crisis which eventually soured investor interest.

Bank assessment and Recommendation

5.30 The Government's actions to correctly implement the cotton producer price mechanism are an important first step in stabilizing the performance of the sector, thereby minimize the risk of deficits placing burden on the government budget. In view of the dire situation the sector faces, the authorities should make progress on the broader cotton sector reforms. Medium term actions for the sector are discussed in Annex 10.

[17] The SAC III conditions to privatize HUICOMA and CMDT's OHVN zone, were amended to "bring to the point of sale" (or negotiations phase) which the authorities achieved to enable disbursement of the last tranche of the SAC III.

Measures taken as part of the proposed operation

5.31 The following actions are included under the EPPFMC: regarding the producer price setting mechanism, continued implementation of producer price determination for the 2005-06 crop season; regarding monitoring of CMDT management, transmission to the Bank of the outcome o the Extraordinary General Assembly of CMDT shareholders; regarding farmers involvement, the producers should designate their representatives for monitoring the CMDT privatization process while waiting for the establishment of the inter-professional association. The authorities also finalized the strategy action plan for the privatization of CMDT.

Indicative triggers for the next operation

5.32 The policy matrix includes the actions under the next operation. Proposed triggers for the next operation are as follows:

- Continued implementation of the cotton producer price setting mechanism for the 2006-07 crop season;
- Define the zones (3 or 4) to be privatized by end January 2006); adoption by the Government of the final design of the full privatization operational scheme (by end-September 2006); and,
- Launch the bids for the selection of the privatization advisor (by July 2006).

2. Support to Growth

5.33 Under SAC IV selected growth-related measures were introduced into the development policy dialogue, based on existing analytical work, with the intension of expanding the growth component into other sector as updated analysis became available and if those actions were not already covered under existing operations. The growth measures under SAC IV comprised financial sector measures emanating from extensive analytical work conducted under the financial sector development TA project (FY00), and irrigation measures complementing the investment program under the national rural infrastructure project (FY00).

5.34 The EPPFMC follows up on the SAC IV financial and irrigation sector program, and includes measures relative to transportation and private sector development based on the integrated trade diagnostic study, the findings of the transport background study to the growth CEM, the investment climate assessment (FY05) and the supply chain analysis undertaken during preparation of the growth support project (FY05). As evident by the preliminary results of the CEM growth analysis (Box 5.2), key driving forces of Mali's growth over the last decade were the private sector (gold mining, other industry, services), transport activities, irrigation reforms enabling productivity increases in rice, and financial sector development enhancing overall efficiency of private sector investment. Selection of these policy areas under the EPPFMC growth component rests on the fact that further reforms are needed to strengthen their contribution to Mali's medium term growth. The next sections discuss the policy issues in each of these four sectors—financial sector, transport, private sector, and irrigation.

Box 5.2: Growth determinants in Mali

Mali's average growth has improved dramatically over the past twenty years, and its volatility has also dropped significantly (Table 1). This performance, a result of steady market-oriented reforms, today puts Mali among the top three highest performing WAEMU countries. Mali's GDP growth has improved from -1.3 percent on average during 1980-1986 (early days of the reform from socialist to market oriented system), to zero on average during 1987-1993 (implementation of agricultural cereal marketing liberalization), and to 5.7 percent on average during 1994-2004 following the devaluation of the CFAF in 1994. Growth since 1994 has been driven by industry (10.5 percent growth) and services (6.3 percent), dramatically over-performing agriculture growth (2.6 percent). Furthermore, the contribution of industry and services to GDP growth (40 percent each) has dominated agriculture's contribution to growth (20 percent), despite agriculture's larger share in the economy (Table 2) and presumed comparative advantage. A puzzle is the fact that agriculture growth after the devaluation (2.6 percent) was lower than it was in the period before the devaluation (3.5 percent).

Table 1: Average annual growth rate and volatility by period (in %)

	GDP growth	Per capita GDP growth	Standard deviation	Coefficient of variation
1980-1986	-1.2	-3.6	7.0	5.6
1987-1993	3.0	0.3	5.3	1.7
1994-2004	5.7	3.3	3.1	0.5

Source: Mali CEM (forthcoming)

Table 2: Sectoral pattern of GDP growth (in %)

	GDP average growth year			Contribution to GDP growth rate			Average share in GDP		
	Agric.	Industry	Services	Agric.	Industry	Services	Agric.	Industry	Services
1980-1986	-5.6	3.9	2.8	-			44	15	42
1987-1993	3.5	3.5	2.3	53	18	30	46	16	39
1994-2004	2.6	10.5	6.3	20	39	40	43	21	36

Source: Mali CEM (forthcoming)

Industry growth has been fueled largely by the dramatic expansion of gold production and exports after 1998, in response to a revision of the mining code. Services growth has been in trade and transport sub-sectors, activities accompanying the export expansion in gold and cotton as well as growth in other sectors such as rice. Growth of agriculture stemmed from expansion of rice production (7.8 percent) for domestic consumption and cotton (4.5 percent) for export. Of note is that rice sector growth stemmed largely from productivity increases in response to sector reforms, while cotton sector growth was due exclusively to cultivated area expansion.

A growth accounting decomposition attributes about half of Mali's GDP growth during 1994-2004 to factors other than physical and quality-adjusted human capital growth (or in other words, to growth in total factor productivity). Analysis of TFP growth determinants during the same time period indicates that about 50 percent of TFP growth was explained by policy variables. In particular, policies that resulted in increases in credit to the economy and in the share of credit going to the private sector, accounted for 36 percent of TFP growth, highlighting the critical importance of financial sector development for growth in Mali. A further 13 percent of TFP growth was due to better public expenditure allocations that reduced the share of wages and salaries in public expenditures, highlighting the importance of the quality of public expenditures for growth. Favorable trends of two exogenous variables—terms of trade and rainfall—together accounted for 15 percent of TFP growth during the period. When viewed in terms of their potential negative impacts, these exogenous variables highlight the importance to Mali's future growth of trade diversification (to counter terms of trade shocks) and irrigation management (to help stabilize agricultural production).

2.A. Financial Sector

Description and Challenges

5.35 There are currently ten banks, including seven commercial banks, one agricultural bank, one housing bank and one bank targeted at micro, small and medium enterprises and microfinance institutions. In addition, there are four financial establishments. The size of these financial

establishments is small compared to that of the banking sector. Altogether, there are 480 microfinance institutions organized in 26 networks with 614,211 members. Six insurance companies and two social security institutions (providing pension benefits, family allowances and workers compensation for work related accidents and illnesses) complete the financial scene.

5.36 The banking sector suffers from several weaknesses: (a) it is highly concentrated and lacks competition—the assets of the largest bank, BDM, account for 40 percent of the total; (b) it is heavily concentrated in Bamako; (c) it lacks medium and long term resources and as a result its credit activities are highly concentrated on the short term; (d) it has a high level of non-performing loans that contribute to keep interest rate spreads high; and (e) some banks and financial intermediaries experience difficulties. BHM and Credit Initiatives, a financial establishment, have negative net worth and serious liquidity problems; BIM remains fragile.

5.37 Micro finance institutions are facing a number of challenges: (a) the absence of internal controls and adequate procedures; (b) inadequate governance; (c) inadapted Management Information Systems for the major networks, (d) vast disparities between microfinance players, with a few strong institutions and a plethora of smaller and weaker institutions; (e) increasing loan delinquency; and (f) rising costs. As a result, very few institutions have reached self-sustainability.

5.38 In addition, barring a correction in the situation, the sector will suffer from weaknesses in supervision. The supervisory unit, CAS/SFD, has recently been placed under the authority of the Ministry of Investment Promotion, which is in opposition with the regional legal framework that stipulates that the microfinance supervisory body should be under the authority of the Ministry of Economy and Finance. This also signals a shift in priority from supervision to promotion.

5.39 The critical challenge is for the financial sector (comprising banks, non-bank financial institutions, and microfinance institutions) to fully contribute to shared growth in Mali. In Mali this translates into the need to create appropriate market-oriented incentives that encourage banks to lower the cost of credit and offer more medium to long term resources as loans. Ability to lower costs of credit depend on cleaning up non-performing loan portfolios of banks; and the availability of longer term resources depends on improved prospects of various financial sub-sectors notably insurance, equipment leasing, and social security (public and private). Specific reforms needed in Mali immediately to address these challenges have been identified and are addressed as part of the continuing dialogue between the authorities and the World Bank team and as part of the support provided by the Bank's financial sector technical assistance project (PDSF). Deeper next phase reform measures will be identified in the context of a Country Economic Memorandum (CEM) on growth that is nearing completion, and an FSAP planned for third quarter of 2006.

5.40 Strengthening commercial bank management is also a challenge, as doing so on a sustainable basis typically entails privatization of bank shares still owned by the Government while the latter sometimes faces difficulties (whether political or market based) in divesting banks or enterprises. Privatization would serve as an assurance of no potential (or no further) government interventions in bank operating decisions. It would also greatly improve bank management through the application of private sector management principles. Currently three banks are fully privately owned, yet the Government of Mali is present in the capital of *Banque de Développement du Mali*

(BDM)[18] and *Banque Commerciale du Sahel* (BCS); and it is the major shareholder of *Banque Internationale pour le Mali* (BIM)[19], the housing bank, *Banque de l'Habitat du Mali* (BHM), and the agricultural development bank, *Banque Nationale de Developpement Agricole* (BNDA). Although most of the capital of the *Banque Malienne de Solidarité* (BMS) is owned by micro-finance institutions, this was at the request of the State which keeps some influence over the bank. The Government has committed to fully disengage from commercial banks, but this disengagement has not yet been completed.

5.41 In the *insurance* sector, two institutions are in poor financial condition and have a negative impact on the market. The regional regulator, CIMA, has been involved with these two institutions for several years, with no visible improvement. In addition the sector suffers from low business activity compared to its potential. Finally the two *social security* institutions suffer from an imbalance between benefits paid and contributions collected. The challenge is to bring the two institutions closer to long term sustainability.

5.42 *Microfinance sector*. Given the rapid growth of the sector and its difficulties as well as the lack of sustainability, it is imperative to strengthen the supervision of microfinance institutions (MFIs) to maximize their impact on growth and poverty alleviation. This implies, in the first instance, the split of the CAS/SFD into two units. The first unit, in charge of supervision of MFIs, would return under the purview of the Ministry of Economy and Finance. The second, in charge of promotion of MFIs, would remain within the Ministry for Investment Promotion.

Government actions to date

5.43 Actions initiated under SAC IV have been completed or are close to completion. In the commercial banking sector, the authorities launched an audit of the non-performing portfolios of all commercial banks with a view of developing a cleaning up strategy. Due to difficulties in securing the cooperation of some of the banks, the study is still in the process of being completed. In the insurance sector, the study on the domiciliation of insurance policies which would contribute to significantly increase the business of insurance companies has been completed. An implementation committee has met about 15 times to follow up on the recommendations of the study. Regarding equipment leasing, a study on the fiscal problems hindering the development of the leasing industry has been completed. Regarding pension system, the Government launched a study of its debt to the private sector social security institution; it also launched actuarial studies of the private and public sector institutions with a view to modifying the main parameters to reduce the imbalances.

5.44 In response to emerging financial difficulties of the housing bank (BHM) in 2005, the Government has been active in the restructuring of BHM. A team of experts has been placed next to the general manager to assist with the daily management (particularly the management of liquidity) and a restructuring action plan has been elaborated. The Government canvassed existing and potential shareholders for the purpose of inviting them to participate in the recapitalization of the bank. It has decided to renew the Board of Directors and include three directors chosen for their expertise who are not directly linked to the shareholders, as allowed under OHADA.

[18] The Government has postponed the sale of its 20 percent stake until the central bank (BCEAO) is ready to sell its own 20 percent shareholding.

[19] The Government acquired this historically private bank when the latter went into receivership in 2000.

5.45 The Government had launched the privatization of the BIM with the hiring of a privatization adviser. A call for expression of interest was successful in bringing six good candidates for the acquisition of at least 51 percent of the capital of the bank. The Government is hesitating between putting for sale at least 51 percent of the capital of BIM to a reference partner or limiting the sale to 33 percent of the capital (which would render the deal much less attractive to partners with an established international reputation). In addition, the Government put the process on hold until the Supreme Court renders a judgment on the ownership of the shares of BIM by end 2005.

5.46 With respect to microfinance, the Council of Ministers has adopted the 2005-2008 microfinance action plan which includes the above mentioned split of the CAS/SFD. The legal texts specifying the split and the transfer of the supervisory arm to the Ministry of Economy and Finance have been prepared and sent to the Council of Ministers for adoption. They will subsequently be sent to the National Assembly for adoption into law.

Bank's assessment and Recommendation

5.47 The authorities have completed the key analytical work which is enabling the formulation of policies to strengthen financial sector institutions (bank and non-bank). Prompt action to redress financial crisis in the housing bank has been appropriate, but protracted privatization process for the BIM contributes uncertainty in the sector. The decision to split promotion and supervision functions for microfinance is a welcome step. It is important now to proceed to implementation of the policies emanating from the studies, complete the restructuring of BHM, and separate microfinance supervision and promotion functions. It is also important to proceed as quickly as possible (following resolution of the judicial issue) with the privatization of BIM (e.g. the sale to the reference partner of 51 percent of the capital).

Measures taken as part of the proposed operation

5.48 The EPPFMC program comprises the following financial sector actions:

- Completion of the final audit of Bank portfolios, including the proposed strategy to clean up bad loans of the banks;
- Holding of a meeting of the validation committee for the study of the leasing industry fiscal regime; Established the monitoring committee; Finalize the draft texts;
- Reaching of an agreement between the state and INPS on the amount of arrears to be paid, based on the consultant study;
- Re-constitution of the Board of Directors of the Malian Housing Bank (*Banque de l'Habitat du Mali* – BHM) with the addition of three private sector specialists independent of the shareholders, and a canvassing of existing and potential new investors to invite them to participate in the recapitalization of BHM;
- Adoption (by the Council of Ministers) of draft laws (to be submitted for adoption by the National Assembly) that (i) separate microfinance supervision and promotion activities, and (ii) return supervision functions to the Ministry of Economy and Finance; and,
- Agreement on the privatization strategy for BIM and the updated implementation timeline.

Indicative triggers for the next operation

5.49 Actions for the next operation are identified in the policy matrix. The proposed trigger under the financial sector component is: undertake negotiations with commercial banks to develop strategy to clean up their respective non-performing loans (NPL) (first half 2006).

2.B. Road Transport and Trade Facilitation

Description and Challenges

5.50 Competitiveness of goods sold or produced in Mali has been continuously hampered by high transport costs. As the trade regime has been liberalized and tariffs significantly reduced, transportation constraints have become one of the binding constraints to market access (both within Mali and externally), and to improving Mali's growth prospects. International and regional trade of Mali is penalized compared to coastal countries because of the country's status of landlocked country. A 2004 study estimated that landlocked countries in West Africa trade 92 percent less than coastal countries. Obstacles result from infrastructure in poor condition, inefficient customs operations and unofficial payments at unauthorized road blocks along the regional corridors. A 2003 survey estimated that on average on the regional corridors in West Africa, trucks were stopped at 48 check points, spend half an hour at each stop and paid on average US$240 per trip per direction. At 100 vehicles per day during 300 days, unauthorized payments total US$7.2 million annually on the corridor Mali-Burkina Faso-Ghana. This situation has been aggravated by the Côte d'Ivoire crisis which has diverted international traffic from Côte d'Ivoire to Ghana, Togo and even Benin. The additional transport costs are estimated at about CFAF10 billion annually due to the additional distance to reach these ports compare to the distance to Abidjan.

5.51 Domestic trade suffers also from high transport costs which have increased on average on the entire road network by 7 percent in real terms between 1995 and 2002. This aggravation of transport costs is the result of a policy which favors upgrading at high standards and paving of a limited number of roads while insufficient resources are allocated to maintenance of the rest of the network. Rural roads especially have suffered from a lack of resources and it is estimated that 90 percent of rural roads are in poor condition, which severely hampers the potential of growth of agricultural production and thus of growth of the entire economy. While the Government has agreed to increase road maintenance resources from CFAF5.6 billion in 2003 to CFAF 13 billion in 2007, it has been unable to meet the agreed target in 2005. Only CFAF 7.5 billion were budgeted that year and by mid-year only CFAF 1.6 billion had been actually disbursed to the Road Fund which manages road maintenance resources. In addition, road user charges which are collected from road users and supposed to be transferred to the Road Fund were not increased in 2005 as agreed by the Government in its 2004 letter of transport sector policy and resources generated by the road user charges were partially retained by the Treasury. This lack of resources for road maintenance is likely to result in additional road deterioration and further increase in road transport costs.

5.52 High transport costs and inefficient road transport services are closely interlinked. The taxation system of the trucking industry favors companies with less than three trucks and thus informal companies which are not well organized to maintain their fleet of trucks or to provide a quality service. Quotas define rules to share international traffic among corridor countries. Malian truckers have the monopoly for the transport of petroleum products for Mali. Tariffs, while

maintained high by the cartelized organization of the industry, are insufficient to make the activity profitable because of the overcapacity and the protection of inefficient transporters resulting from the quotas and the allocation of freight among transporters by turns. Transporters are forced to overload their trucks to increase their revenues per trip as well as to cover the unauthorized payments along the road corridors. Overloading of trucks in turn accelerates the deterioration of the roads resulting in additional funding requirements to build or rehabilitate roads using higher design standards. The overall condition of trucks is poor as a result of the low profitability of the industry. The Government recently decided to exempt the import of trucks of customs duties to reduce the price of new trucks and modernize the fleet of international trucks. As long as the root issues described above have not been addressed, however, this measure will only have a short-term impact and is likely to further exacerbate the sector inefficiency in the long term.

5.53 To facilitate international transit and subsequently reduce transit costs, the Government has to face two main challenges:

- The first one is to implement a complex set of measures which however are all necessary to ensure the success of each of them. The measures involve several administrative services (customs, trade, health, transport) as well as several categories of private operators (truckers, freight forwarders). Implementation will require a significant amount of resources. The capacity to coordinate reforms as well as investments provided by several donors will be key to achieve all the objectives successfully. Implementation of some measures need also to be coordinated at the regional level with other countries and the regional institutions as simultaneous execution is required to be successful.
- The second challenge is to overcome vested interests which oppose the reforms. Numerous categories of personnel in some administrations are benefiting from monies unduly collected at unauthorized road blocks and will lose these revenues after these road blocks are removed. Private customs agents helping the truckers at the borders to go through the administrative hurdles will not be needed after data on transit goods are electronically transmitted to customs offices at the borders.

5.54 With respect to financing of road maintenance, the challenge will be to build the capacity to manage the road sector, to absorb increased and sustained revenues and to use efficiently these resources and demonstrate to the road users that they ultimately benefit from the road user charges that they are paying. After road maintenance execution was privatized in the late 1990s, management remained in the hands of the Public Works Department which suffered of inefficiency problems typical of a department of the administration (lack of resources, lack of accountability, lack of autonomy) while having competent technical staff. In 2004, the Public Works Department was restructured to concentrate on planning and programming or road works. Management of programs' execution was transferred to two autonomous agencies (Agency for the execution of small civil works, Agency for the execution of rural infrastructure works). While efficiency in the execution of programs improved, sector management remained weak. The Department of Public Works had difficulties to fulfill its role of supervisor of the two agencies. The Road Data Bank created when the Department of Public Works was restructured was unable to prepare road maintenance programs based on a survey of road conditions in the absence of resources to carry out these surveys.

Government Actions to date

5.55 Mali is one of the country part of the regional corridor Ghana-Burkina Faso-Mali which is a priority in UEMOA's regional road transport and transit facilitation program. The program is being implemented on the priority corridor with support from African Development Bank, West Africa Development Bank, European Union and the World Bank. It includes physical investments to improve condition of regional roads, and support to implementation of facilitation measures (construction of joint border posts, electronic tracking of vehicles, computerization of transit documents and electronic data interchange between countries along the corridor, control of axle load, suppression of road barriers). With support of the European Union and France, Mali has also launched a program on the 2004-2007 period to improve customs performance. Limited computerization of customs procedures has been implemented under the program.

5.56 The Government defined its road maintenance budget objectives in its Letter of Sector Policy attached to the Transport Corridor Improvement Project (February 2004). The authorities are making the effort to provide the required resources for road maintenance even in difficult macroeconomic circumstances. A supplementary resource allocation of CFAF 1 billion for road maintenance was made available in May 2005 to enable achievement of the 2005 budget target specified in the Policy Letter.

5.57 In early 2005, the Government created the Road Agency to manage the execution of road maintenance programs. The Agency is expected to be operational in early 2006. Its staff has a private statute and the Agency is managed according to private procedures. Annual technical and financial audits will review and analyze the use of road maintenance resources in conformity with the annual programs. The Agency is managed by a Board with five members out of twelve coming from the private sector. The Agency receives its resources from the Road Fund, created in 2002, which was established on the basis of the principles said of "2nd generation road funds" which have been agreed between the World Bank and the IMF. Resources for road maintenance come partly from the Government budget and increasingly from road user charges. The Fund is managed by a Road Board half of whose the members represent road users and the other half private stakeholders.

Bank's assessment and Recommendation

5.58 The authorities have established the institutional and financial foundations enabling the implementation of regular road maintenance activities. The financial underpinnings of that framework, however, need to be further strengthened to ensure sustainability of the road maintenance program. In particular, the authorities need to increase the share of the Road Authority's budget derived from road user charges, by increasing the level of existing fees (e.g. the levy on petroleum product imports or axle load fee) or by introducing new fees. The authorities also need to ensure that the fees collected and sent to the state Treasury are transferred to the Road Authority (RA) in a timely manner, thereby enabling efficient planning and management of the RA's resources. The measures proposed for the EPPFMC and next operation address these needs.

Measures taken as part of the proposed operation

- Transport and transit facilitation:
  - Operationalized the information system SYDONIA++ being extended to the Bamako rail station office.

- Road maintenance:
  - Confirmed that the road maintenance budget is CFAF 11.5 billion in the 2006 Finance Law, as agreed between the Government, the World Bank and the European Union under existing transport programs;
  - Preparation by the Road Fund of monthly cash-flow requirements for road maintenance based on the progress in the execution of road maintenance programs;
  - Established a mechanism in the Treasury Department to ensure regular monthly transfers of revenues from road user charges and the budget to the Road Fund's account, so as to ensure unconstrained contracting operations of the RF during the year. (The collected fees must be transferred to the Road Authority by the end of the subsequent month at the latest); and,
  - Did not renew the law under which imports of new trucks are exempt from import and value added taxes.

Indicative triggers for the next operation

- Confirm that the share of the road maintenance budget stemming from fees reaches 40 percent in 2007; and determine the level of the fees (i.e., axle load fee, road user charge on petroleum product imports, other fees) needed to reach the 40 percent target.

2.C. Private Sector: Export promotion and Investment Climate

Description and Challenge

5.59 The proposed operation addresses selected issues pertaining to investment climate in Mali, namely business start up, property registration and handicrafts export taxation. These issues were selected for the EPPFMC in light of their quick-win nature and their potential high impact on opportunities for the private sector. Mali needs a good investment climate so as to provide opportunities and incentives to firms to invest productively, create jobs, and contribute to growth. The private sector, both domestic and international, need the removal of unjustified costs and risks stemming from administrative procedures and various regulations that implicitly encourage informality, limit market opportunities, and reduce the propensity to invest.

5.60 In the area of **business start up**, entrepreneurs have to go through a process that entails 13 procedures, 42 days and whose cost is about twice the per capita income. Reforms are needed to ease the burden of enterprise creation and expand the formal sector.

5.61 Regarding ***handicrafts "export taxation"***, Mali needs to take every action to unleash the potential of crafts products for income generation outside agriculture for the poor in both rural and peri-urban areas. However, there are currently obstacles to competitiveness of export of Malian crafts: a *de facto* 10 percent "export tax" on handicraft products (the "taxe d'expertise" or assessment tax) is collected by the national museum (ostensibly to certify that the product being exported is not an antiquity) prior to granting an export authorization. While export taxes were removed in the early nineties, this de facto "export tax" on crafts products is a hindrance to the development of the sector. Moreover, the national museum has no clear definition of a Mali cultural product, no system of determining the age of the products, and no reference pricing system to assist exporters to price their products properly. Even for products other than handicrafts exports,

such a fee should correspond to a technical service requested by the exporter to determine the value and to brand the product so as to facilitate its sale on export markets.

Government actions to date

5.62 In order to facilitate ***business start up***, the Council of Minister agreed to the principle of having a single national identification number that would help simplify, inter alia, business registration procedures. The single identification number, which will be managed by the Statistics Directorate in the Planning Ministry, would collapse the number of departments involved in the process from five to one. Whereas currently a candidate for business start up has to secure different identification numbers from the statistics, tax, treasury, employment, and social security departments, the new system would allow the investor to get all this captured in one number issued by the statistics directorate.

5.63 The regulatory framework for the collection of the handicrafts export assessment tax is spelled out in the following texts: a law and its implementation decree, both dated 1986, setting the conditions for dealing with cultural goods exports, and an inter-ministerial decision taken by the Ministers of Culture and Tourism in 1996. Articles 20 and 21 of this inter-ministerial decision are abusively interpreted. While these texts are aimed at protecting the cultural heritage, the assessment tax and the export authorization are applied to all crafts products exports. This indiscriminate fee is applied presumably because many crafts products could be artistically aged and sold as antiques.

Measures taken as part of the proposed operation

5.64 The following measures were achieved under EPPFMC:

- Adopted an interministerial law (*arrêté*) specifying that handicraft products are subject neither to the expertise tax nor to the export authorization issued by the National Museum;
- Launched an awareness campaign to inform artisans that they are not required to obtain export authorization from the National Museum nor pay the expertise tax; and,
- Prepared and submit a law to the National Assembly specifying a reduced number of departments in the process for registering a business from five to one.

Indicative trigger for the next operation

5.65 The proposed trigger for the private sector component is: Adoption by the National Assembly of a law confirming that issuance of the single identification number for new businesses would be handled by one department (the Statistics department) instead of five.

2.D. Office du Niger Irrigation Reforms

Description and challenges

5.66 The *Office du Niger* (ON) irrigation zone has undergone some institutional reforms during the decade of the 90s, which resulted in the ON becoming one of the best performing irrigated zones in sub-Saharan Africa. Following a period of stagnation in the production of paddy rice, there was an extended production boom from 1988 due to rehabilitation of canals, on-farm technical reforms and changes in fertiliser use, all resulting from significant institutional reforms at

within the ON and policy reforms at the national level (e.g., rice market liberalisation, tax reforms, CFA franc devaluation). This spectacular expansion attracted large numbers of people who, with no available developed lands in the *Office du Niger* area, started to cultivate lands not initially intended for that purpose and thereby generated some problems still faced today. Management of the *Office du Niger* is governed by Performance Contracts agreed with the farmers and the Government—the first dating back to 1996-98; and the current fourth contract in force for the period 2005-2007.

5.67 The ON currently comprises 82,000 hectares of fully-controlled irrigation areas, out of a potential of at least 600,000 hectares. Concerns have been expressed recently about the ON's capacity to continue implementing reform measures to further improve its performance. The Bank-supported National Rural Infrastructures Programme (PNIR) includes new reforms under the Large Irrigation component to improve the funding mechanism for irrigation, specifically introduction of approaches to attract private sector funding to enable more rapid expansion of irrigated areas in the *Office*. Two activities were implemented in connection with the private sector financing objective: (i) an experimental test to introduce the private sector into the *Komouna* zone; and (ii) a study on irrigation funding mechanism. Additionally, an organizational audit of the *Office du Niger* is underway as part of the effort to improve the performance and corporate governance of the ON. The outcome of these activities are reflected in the current Performance Contract (or *Contrat Plan*) for 2005- 2007.

5.68 The challenge will be: (i) to adopt a reliable and attractive irrigation funding mechanism for the private sector (inclusive of small holders, agro-businessmen as well as the financial market) and to establish an execution agency—the Land Tenure Agency—to manage irrigation development funds and the land sale; and (ii) to adopt relevant proposals to rationalise ON management and improve ON performance.

Government Action to date

5.69 Under the PNIR the Government has already developed the Koumouna plot (1115 ha) in the ON. Private sector bids to purchase lands are in process of being analysed. The study on the irrigation financing mechanism has been completed, and the decree on the installation of private operators has been signed. An acceptable Performance Contract for 2005-07 has been signed by the Government, ON, and the producers.

Measures taken as part of the proposed operation

5.70 These measures are the following:

- Continued implementing the 2005-2007 Performance Contract program agreed between the *Office du Niger*, producers, and external aid partners;
- Reviewed implementation of the 2005-2007 Performance Contract for the *Office du Niger* and its annual budget;
- Finalized the attribution of land to the private sector in the *Koumouna* test zone, according to the criteria detailed in the Legal Agreement for the Rural Infrastructure Project;
- Moved the Land Management Unit to the CEO's Office and nominate the Manager of the Unit;

- Signed the contract for the consultant conducting the organizational audit of the *Office du Niger*.

Indicative triggers for the next operation

5.71 The proposed trigger for the private sector component is: Strengthen the report on the irrigation financing mechanism in line with the original objective of augmenting resources allocated to irrigation through capital markets and private operators in the agriculture sector; and adopt the revised report.

3. Strengthening Public Expenditure Management, Transparency and Controls

3.A-E. Public Expenditure Management Reforms

Description and Challenges

5.72 A series of studies over the past few years (e.g. CPAR, CFAA, ROSC, EU's audit of budget support flows) have clarified the strengths and weaknesses of Mali's budget system. Each of these studies comprised recommendations and an action plan, requiring the authorities to monitor and report on the status of implementation of multiple plans for multiple donors, placing a burden on the already stretched capacity of the Government. In the spirit of donor harmonization aimed at easing the burden on government institutions, a consolidated action plan comprising recommendations of the various studies and based on a consolidated diagnostic of those studies, was agreed with the donors and adopted by the Government.

5.73 Overall Mali's budget system is reasonably good, particularly at central government level. However, the system requires further strengthening to consolidate past achievements so as to support implementation of the Government's medium term budget reform program, and strengthen the role of the budget as the key instrument for PRS implementation and the dialogue with the external partners. A major challenge for Mali is to strengthen all budget control-related functions (i.e., administrative, internal, external, jurisdictional and legislative), so as to assure reliability of the budget system. In particular, emphasis needs to be on capacity building and establishment of an adequate institutional framework for independent jurisdictional audits. Progress in this area would also assure external partners of the effectiveness of Mali's budget system and facilitate the move to greater budget support flows.

5.74 Mali initiated its decentralization process in the early 1990s and has been working progressively over the years toward making it a reality. To advance implementation of the decentralization process, the Government adopted the Institutional Development Program and in 2004 to accelerate the transfer of resources and competencies, the coordination and harmonization of functions, and the strengthening of the capacities of authorities in the local governments (the *collectivités territoriales*) in resource mobilization. The Government also adopted the texts governing the transfer of competencies in the priority sectors of health, education, and water supply. Some important progress was achieved towards strengthening capacities of actors at sub-national level, such as the establishment of functioning Commune Advisory Centers (CACs) and of technical and financial structures supporting the local governments.

5.75 The Government is nonetheless conscious of the remaining challenges to implementing the decentralization the process, notably: (i) the slow transfer of the competencies and resources from the national to the local governments; (ii) the weak mobilization of local governments' own resources; (iii) the lack of articulation between the sector programs (health, education, rural infrastructure) at the national level and the programs developed by local governments with the assistance of the CACs; and (iv) some gaps in the legal texts on decentralization resulting in weak coordination of planning and management of regional and local development. A key element of the process is to ensure that public finance mechanisms are established and strengthened to enable progress in transferring resources to, and monitoring expenditure execution, of the local governments.

Government Action to date

5.76 Under the SAC IV, improvements to Mali's public finance system fell under two broad thematic areas: (i) strengthening of budget execution and public expenditure control systems (integration of the information systems, improvement of budget execution procedures, strengthening of internal and external controls, and introduction of monitoring and evaluation tools); and (ii) improvement of the transparency and the traceability of public funds (to ensure a wider diffusion of the Government's consolidated accounts). As regards ***budget execution***, the interconnection of key budget-related departments in MEF, inclusive of the establishment of a shared data base covering all phases of budget execution process (commitment, confirmation, authorization, payment), has been an important step in assuring the quality of budget data and of budget management overall. The interconnection was achieved at the central government level, and actions toward achieving it at decentralized government level (regional units of the MEF departments) were initiated. Actions were also initiated to establish an automated auxiliary accounting system in the Treasury department. To facilitate management of procurement costs, a reference list of prices was updated based on a 2004 survey and made available to staff electronically (on CD-ROM). To strengthen public procurement monitoring, terms of reference were prepared to establish a data base of information from the different phases of the procurement process.

5.77 ***Budget control system.*** Regarding strengthening of budget control activities, the authorities: (i) introduced monitoring indicators in MEF's Financial Controls Department to track the quality of control activities and improve effectiveness through performance-based audit processes; (ii) established a classification system for invoices, and its diffusion to staff to facilitate ex-ante controls and reduce the number of payment commitment requests that are rejected; and (iii) provisioned resources in the 2006 Budget Law to fund actions needed to transform the Accounts Section of the Supreme Court into an independent Court of Accounts.

5.78 As regards improvement of ***the transparency of budget management***, the capability to provide data on budget execution status was strengthened at central and decentralized levels. This contributed to strengthening the quality of the quarterly information report produced by the Ministry of Economy and Finance, which now includes information on budget execution in priority sectors. The authorities commenced dissemination through the Internet of the expanded quarterly report, made possible due to the software and database interconnection discussed above (paragraph 5.76). As regards accountability, the authorities made significant progress in timely completion of the annual budget execution report (*Loi de Règlement*)—the 2003 report was submitted to the

National Assembly in December 2004 only three months behind schedule, and the 2004 report was submitted at the end of September 2005 as required by the statutes.

5.79 The authorities prepared and adopted a Consolidated Government Action Plan to Modernize and Strengthen Public Finance Management (PAG) over the medium term (2006-2008), signaling the Government's commitment to achieving increased aid flows through budget support for PRSF implementation. They have provisioned resources in the draft 2006 budget for the 2006 actions in the PAG, and are implementing precursor actions identified for 2005 to enable timely implementation of the PAG in 2006.

Measures taken as part of the proposed operation

5.80 **As regards budget execution**, the actions supported by the EPPFMC continue the process of interconnection of key MEF departments at decentralized level that was initiated in the SAC IV. This process is consistent with the Government's Institutional Development Program (PDI) to operationalize the decentralization policy comprising de-concentration of central government operations (specifically health, education and water supply) to regional departments so as to facilitate the operations of local governments. It is also consistent with the coordination framework with other external partners supporting Mali's decentralization program, with the Bank focusing on public finance aspects in which it has a comparative advantage and other external partners focusing on institutional capacity building of the local governments. Scheduling of the interconnection activity under the EPPFMC is in line with the January 2007 target date under the PDI for transferring responsibility for health and education programs to the local governments. Specific actions under the EPPFMC are:

- Establishment of the institutional framework for implementing the public finance action plan; defining the mechanisms for its implementation, monitoring and evaluation; and providing adequate resources in the draft budget 2006 for implementing the 2006 activities of the action plan (prior action); and
- Steps taken to ensure the implementation in 2005, of 2005 actions from the Modernization Plan that have no budgetary implications.

5.81 ***Budget control functions.*** Under the EPPFMC the authorities are focusing on capacity building of audit departments and enhancing performance-based management. The following actions are included in the policy matrix:

Strengthening administrative control of the budget:

- Establishment of a framework for consultations between all participating entities in the public expenditure control system;
- Provision of adequate resources (financial and human) for implementation of 2006 activities of the Finance Inspection department (IF), as determined by its specific objectives for 2006 and their control responsibilities;
- Provision of adequate resources for 2006 activities of the General Public Service Audit Department (CGSP), as determined by their audit and capacity building program for 2006;
- Production of semi-annual reports on ex-post (IF and CGSP) administrative control activity; and

- Production of quarterly expenditure activity reports on the basis of ex-ante control performance indicators.

Strengthening jurisdictional control of the budget:

- Provision of adequate resources in the draft 2006 budget for the Accounts Section of the Supreme Court as determined by the Section's agreed work program for 2006;
- Provision of adequate budgetary resources in the draft 2006 budget for the eventual change in the statutory number of staff for the Accounts Section of the Supreme Court;
- Definition of the timeline for the establishment of the Court of Accounts consistent with Mali's commitment under WAEMU;
- Rewriting of the legal texts to increase the statutory number of magistrate staff in the Accounts Section of the Supreme Court from 15 to 67 by 2008; and
- Commenced implementation of actions required to redefine the status of magistrates of the Accounts Section of the Supreme Court.

5.82 ***Budgetary transparency and accountability***. The EPPFMC supports the systematic and timely production of budgetary information so as to strengthen public finance management and transparency. The following actions are included in the policy matrix:

- Establish the website of the Ministry of Economy and Finance along with the institutional framework to daily management and regular updating of the site. Complete compilation of information to be posted on the site, including the MTBF of the budget department, and the budget execution status prepared by the Financial Controls department DNCF, disaggregated by Ministry at the *engagement* and *liquidation* stages.
- Prepare and submit the draft 2004 Budget Execution Law (*Loi de règlement*) to the National Assembly.

Indicative triggers for the next operation

5.83 The proposed trigger for the public finance management component is: Implement mechanisms for monitoring and evaluation of the Government's public finance action plan; and implement the actions in the plan.

3.F. Procurement Reforms

Description and Challenges

5.84 The **1998 Country Procurement Assessment Report** (CPAR) prepared by the Malian Government and the Bank concluded that Mali possesses a corpus of legislation and regulations that was remarkable for the sub region and that the private sector operated satisfactorily, benefiting from a widespread network and modern commercial practices. However, the report showed that far-reaching measures had to be adopted to (i) increase the public sector's efficiency and transparency of its procurement system; (ii) improve the dialogue with the private sector, so that it can develop and become more competitive; and (iii) reduce smuggling and import fraud. The **2004 CPAR** of the Malian procurement system was based on an analysis of four pillars that define the structure of a public procurement system, namely: (i) the legislative and regulatory framework; (ii)

the institutional framework and capacity; (iii) the procurement operations and market practices; and (iv) the integrity of the public procurement system. The report concluded that the system continues to harbor a significant number of deficiencies in the four pillars as indicated below:

(i) *Pillar I: The legislative and Regulatory Framework* is the starting point for the development of a governance system and sets the rules of the process and provides the legal basis for enduring the rights of participants and establishing their responsibilities.

- *Public Procurement Legislative and Regulatory Framework achieves the agreed standards and complies with applicable obligations*: The legislative framework which is governed by the Procurement Code - Décret No 95-401/P-Rm of November 10, 1995 needs to be completed and modernized to meet the agreed international standards and comply with applicable internal and external obligations.
- *Existence of Implementing regulations and Documentation*: Mali possesses a set of implementing regulations and documentation (ministerial *arrêtés*, standard procurement documents and a manual of procedures). However, like the code, they need to be completed and modernized.

(ii) *Pillar II: The Institutional Framework and Capacity* is designed to examine the central government institutional framework and its capacity to oversee, manage and support efficient implementation as well as to provide leadership in modernizing and maintaining the public procurement system.

- *Mainstreaming Procedures into Public Financial Management*: Public procurement in Mali is not an integral part of the overall public financial management and public sector governance systems in a country. The procurement system should be strengthened to provide information to support the process of budget development and execution. It should also be made to benefit from the public financial management system with regard to timely appropriations and availability of funds to support the award and payments of contracts. The lack of integration between the budgeting and procurement processes may lead to cancellations and/or insufficient funds to make timely payments, resulting in increased costs and inefficiencies in the use of public funds.

- *Existence of Functional Management Regulatory Body:* Mali should benefit from the existence of a regulatory body within the central government to provide a range of functions that support the consistent development, maintenance and application of the legislative and regulatory requirements of a procurement system. This body can provide guidance on interpretation of rules and support training and capacity development and can develop and oversee the implementation of the use of technology to support procurement, including development and support to e-procurement solutions. The present system in Mali lacks independence and is not efficient enough to respond to the needs of a sound public procurement system. DNMP is supposed to be the both regulatory and control body; there is no separation of responsibilities and it gives rise to situations of conflict of interest.

- *Existence of Institutional Development Capacity*: The performance of the system relies heavily on the capacity of the participants, both public and private sector, to understand and implement the procedures. Performance is also reliant on the capacity of the various stakeholders who interact with the system. There is not an efficient system for collection and

dissemination of procurement information, including tender invitations, requests for proposals and contract award information or for collection and monitoring of national procurement statistics. In addition, Mali does not have a national sustainable training strategy to provide training, advice and assistance to develop the capacity of government and private sector participants to understand the rules and regulations and the how they should be implemented.

(iii) *Pillar III: Procurement Operations and Market Practices:* Public procurement requires performance from both the public sector and private sector participants. A functioning and competitive private sector market is therefore a key partner to the public procurement system in a well-functioning system. To be an effective partner, the market must have confidence in the competence of the contracting authorities at all levels within the system to implement and administer the public procurement system in accordance with the legislative and regulatory framework.

- *Efficiency of Procurement Operations and Practices:* Procurement operations capacity and practices are at the core of a well-functioning procurement system. They depend on the staffing, knowledge, skills and capabilities of the human resources and on the incentives and controls in the systems that influence human behavior and institutional performance. The assessment has shown that the level of procurement competence among government officials within the entity is not consistent with their procurement responsibilities; the procurement training and information programs implemented for government officials and private sector participants is not consistent with demand and the administrative systems for public procurement operations, and information databases, to support monitoring of performance and reporting to and responding to the information needs of other related government systems are inadequate just as the internal control mechanisms for the undertaking of procurement operations at the contracting level which includes a code of conduct, separation of responsibilities as a check/balance mechanism and oversight/control of signature/approval authority.

- *Functionality of the Public Procurement Market.* A developed private sector able to respond to procurement opportunities is important to a well-functioning public procurement market. The assessment has shown that there are major systemic constraints (e.g. inadequate access to credit, access to information on business opportunities, non existence of an efficient complaint mechanisms, and other contracting practices etc.) inhibiting the private sector's capacity to access the procurement market. The report lists a few recommendations to improve the partnership between the public and private sector.

(iv) *Pillar IV: The Integrity of the Public Procurement System.* The system in Mali is characterized by a lack of transparency, credibility and fairness. The report makes recommendations to strengthen the system by putting in place efficient mechanisms for independent control and audit of procurement operations to provide for accountability and compliance. Similarly, there is a recommendation to put in place a complaint mechanism to allow participants to file complaints and challenge decisions with administrative and jurisdictional review bodies having both appropriate levels of independence and the legal power to impose corrective measures and remedies against contracting entities in breach of the legal and regulatory framework. Even though corruption has been adequately addressed in legislation, there is a lack of accompanying measures for its enforcement. The Government of Mali should address the issue of fraud, corruption and conflict of interest in legislation as well as through special measures in order to create a sound and fair environment for public procurement system.

Government Action to date

5.85 Following the action plan of the 1998 CPAR, the Government engaged in a reform program with the assistance of an Institutional Development Fund (IDF) Grant of an amount of US$434,000. This grant's objectives were to allow the Government to (i) revise the National Procurement Code (*Code national des marchés publics*) in 1999; (ii) redefine the attributions of the National Procurement Department (*Direction générale des marchés publics*, DGMP); (iii) prepare the procedures manual and standard procurement documents; (iv) organize training sessions for staff involved in procurement both at the central and decentralized levels of the administration; and (v) put in place an information system in DGMP to strengthen its capacity to be more effective in managing and controlling the system.

5.86 The Government implemented only some of the above actions financed by the IDF and its impact on the public procurement system as a whole was limited. The Government failed to provide the number of trained procurement staff to support the decentralization policy and the tools needed to do their work more efficiently. In addition, the Government did not implement the full range of the recommendations made in the 1998 CPAR which is believed to have contributed to the degradation of the system and its environment. Nonetheless, the authorities recently established a procurement reform committee comprising representatives from all stakeholders (Government, private sector, civil society) to review the 2004 CPAR update. This bodes well for implementing procurement reforms going forward.

Bank's assessment and recommendation

5.87 Given the fact that procurement cuts across all sectors and given its sensitivity, there is a need for the Government to involve other national stakeholders such as the private sector, the civil society and other key ministries in the diagnostic study and reform. The stakeholder committee established by the Government is deemed to be too large for effective discussion and decision making on procurement reforms. Furthermore the committee is not sufficiently independent of the Government. It is advised that the size of the committee be reduced to a workable number of stakeholder representatives. The Government should also invest the new committee with full authority to steer the procurement reform process in partnership with (rather than in subordination to) the Government.

Measures taken as part of the proposed operation

5.88 The following measures have been achieved under the EPPFMC:

- Establishment of a tripartite national steering committee (comprising a restrained number of administration, private sector and civil society representatives) to coordinate and monitor implementation of procurement reforms (CNCS); and,
- Adoption by the committee of the revised CPAR.

Indicative triggers for the next operation

5.89 The proposed trigger for the procurement component is: Adoption (by the Council of Ministers) of the revised CPAR.

6. OPERATION IMPLEMENTATION

POVERTY AND SOCIAL IMPACTS

6.1 The poverty and social impacts of the EPPFMC are expected to be favorable overall. Many of the measures have an indirect poverty and social impact through creating the conditions for improved governance and provision of public services (i.e., macroeconomic and public finance management), improved quality of infrastructure services (i.e., transport road maintenance, irrigation reforms), health or and access to financial sector services (i.e., financial sector reforms) and lower cost of goods and services (transport road maintenance, trade facilitation). The potential increase in the road user fee on petroleum product imports would tend to negatively impact better-off households rather than the poor since the former consume much more petroleum products than the poor (see Annex 13). The elimination of the export-related "expertise tax" on handicrafts would benefit the poor since handicrafts are a major source of income for large numbers of the poor. Handicraft activities are also the main source of diversification outside agriculture in the rural areas, thereby translating into economic opportunities for the poorest Malians. As regards the cotton sector, the findings of the poverty and social impact analysis (PSIA) of the cotton producer price reform, suggest a much less adverse impact on farmers of the drop in producer prices than initially feared. Annex 11 explains the dynamics underlying those findings.

IMPLEMENTATION, MONITORING AND EVALUATION

6.2 Supervision and monitoring of results. The Ministry of Economy and Finance is the main interlocutor of this operation, and is responsible for overall coordination of supervision and monitoring of program implementation through a commission chaired by the Secretary General of the Ministry of Economy and Finance. The commission will comprise designated representatives of concerned sector Ministries (Transport, Industry and Trade, Investment Promotion and Small and Medium Enterprises, Culture, Tourism and Artisan Activities, Health, Education, State Patrimony), MEF Departments (Treasury, Budget, Financial Controls, Internal Controls, Fiscal, Customs), Agencies (Procurement (DGMP); the Financial Sector Development Project Unit (PDSF), *Mission de Restructuration du Secteur Coton* (MRSC), the Road Authority; National Highway Department; Public Sector Retirement Fund (CRM); Private Sector Insurance Agency (INPS); *Office du Niger*, the Central Bank) or Companies (CMDT); and the various private sector banks (BIM, BHM, BDM).

6.3 The participating Ministries and Agencies will furnish relevant documents to the MMU accompanied by an explanatory note (see below for further sector information as applicable). The MMU will confirm and validate those notes and other documentation, and consolidate them into a package to be provided to IDA. The package will cover: (i) progress on the implementation of the actions in the policy matrix, (ii) progress on the jointly agreed key performance indicators; and (iii) macroeconomic developments, particularly budgetary outcomes. On a monthly basis, budget

revenues and expenditures, reconciled bank accounts and statements of the EPPFMC's deposit account will be submitted to IDA. On a yearly basis, the detailed draft budget will be provided for review and discussion, prior to its adoption by the Council of Ministers. IDA supervision missions will also monitor EPPFMC implementation, in coordination with the IMF and other major donors.

6.4 For *Transport and trade facilitation*, the Road Authority will produce monthly reports detailing: resources transferred from the Government budget, revenues from the axle load duty, revenues from the road user charge on petroleum products and revenues from road tolls. The 2006 road maintenance program will be prepared by the National Highway Department. A convention will be signed between the National Highway Department and the Road Agency delegating to the agency the management of the execution of the road maintenance program. In 2007, a technical and financial audit of the Road Agency and the Road Authority will review the financial and technical execution of the 2006 road maintenance program. The service of the Road Data Bank will carry out a survey in 2006 and 2007 which will provide information on the condition of the road network and the impact of the road maintenance program executed in 2006.

6.5 For *private sector development measures* (Export assessment tax and Investment Climate), the Ministry of Investment Promotion will be responsible for policy measures pertaining to business start up and property registration and will work closely with the Planning Ministry (regarding the single identification number) as well as the "*Ministère des Domaines de l'Etat*" (regarding property registration issues).

6.6 For *handicrafts exports*, whilst the Ministries in charge of handicrafts and culture are responsible for the passing of the "*arrêté interministérel*" and for the communication campaign, the Ministry of Finance retains the primary responsibility of making things happen as agreed upon in the context of the proposed operation and reporting on progress.

FIDUCIARY ASPECTS

Public financial management (PFM) system

6.7 A Country Financial Accountability Assessment (CFAA) was completed in FY03. The main conclusions of this report are that the Malian PEM system is quite coherent, with a strong budget process, functioning in a clear organizational framework with an improving control system. However, there are areas that need improvement. To further strengthen the financial accountability, an integrated action plan over the medium term (paragraph 4.16) was discussed and agreed with the Government and donors. Implementation of the action plan is being supported under EPPFMC and will be supported under subsequent operations.

Funds flow arrangements[20]

6.8 An on-site safeguards assessment of the BCEAO proposed specific remedies to alleviate vulnerabilities that were identified by IMF staff. Although Fund staff and BCEAO authorities disagreed on the initial modalities of the recommendations, the following specific understandings were subsequently reached regarding the key remedies.

[20] Draft staff report for the Second Review Under the Three year Arrangement Under the PRGF (July 2005).

6.9 *Financial reporting framework.* Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed between the BCEAO and Fund staff that the BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS, as adopted internationally by other central banks.

6.10 *Internal controls system.* The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed between the BCEAO and Fund staff that, after seeking the opinion of the external auditor (*Commissaire Contrôleur*), BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.

6.11 Based on the 2002 financial statements, the staff noted that the BCEAO has improved the explanatory notes to the financial statements and further changes are scheduled for the next fiscal year, with a view toward a graduated alignment with IAS accounting to the extent applicable to central banks by 2005. The external auditor has apprised the Board of Directors of the BCEAO of the quality of internal controls in June 2003, and the financial statements for the year 2002 were published on the bank's website. The staff will continue its follow-up on the progress of the BCEAO in implementing the proposed recommendations as part of the ongoing safeguards monitoring process.

DISBURSEMENT AND AUDITING

6.12 The proposed credit will follow the Bank's disbursement procedures for development policy credits. The untied budget support will be disbursed against satisfactory implementation of the development policy program and not tied to any specific purchases and no procurement requirements will be needed. Once the credit is approved by the Board and becomes effective, the proceeds of the credit will be deposited by IDA in an account designated by the Borrower at the Central Bank of West African States (BCEAO) in Bamako at the request of the Borrower. The Borrower shall ensure that upon the deposit of the Credit into said account, an equivalent amount is credited in the Borrower's budget management system. If the proceeds of the credit are used for ineligible purposes as defined in the Development Credit Agreement, IDA will require the Borrower to promptly refund upon notice from IDA, an amount equal to the amount of said payment to IDA. Amounts refunded to the Bank upon such request shall be cancelled. Although an audit of the deposit account will not be required, IDA reserves the right to require audits at any time. The administration of this credit will be the responsibility of the Ministry of Economy and Finance.

ENVIRONMENTAL ASPECTS

6.13 The implementation of the EPPFMC reform program is not expected to have any negative environmental impact, especially in the short-term horizon of this operation. Implementation of the sector reforms under the operation (cotton, irrigation and transport) may have environmental implications. Potential implications of irrigation and transport measures are being addressed under the respective ongoing sector operations—the National Rural Irrigation Project (FY00) and

Transport Corridor Improvement Project (FY04). Implementation of the longer-term cotton sector reforms may have environmental implications due to the potential increase in cotton production and attendant increase in fertilizer/pesticide use. An assessment of the likely environmental impact shows, however, that the magnitude of environmental risks strictly associated with the cotton sector is very limited, as no major expansion of cotton cultivated areas is expected. Specific measures that will address the minimal potential environmental impact of the cotton recovery program are included in the ISDS of the Agricultural Services Project (PASAOP, FY02). Environmental issues associated with the cotton privatization program will be incorporated in the bidding/negotiations process for each company privatized.

6.14 The EPPFMC program, if successful, would likely contribute to expansion of private sector activity, inclusive of production operations in polluting sectors. These impacts will be addressed to some extent under future Bank projects, but would best be tackled in a perennial manner through the country's environmental management agency. Yet Mali's capacity to guide industrial development in sustainable manner (through, for example, the review of proposals, issuance of permits, and enforcement of standards) is currently assessed to be weak. Consideration for providing Bank support to strengthen Mali's environment management capacity should be discussed in the context of the upcoming CAS exercise.

RISKS AND RISK MITIGATION

6.15 The operation faces the external, institutional, and political risks. *External risks* stem mainly from the well-known vulnerability of the Malian economy to vagaries of weather and commodity price fluctuations (cotton, oil) as well as regional crises (e.g., Cote d'Ivoire, cricket infestation). Mitigating these risks over the horizon of the proposed project remains difficult. However, the project would be broadly consistent with policies and initiatives to reduce Malian economy's structural vulnerabilities over the medium term by the inclusion of key measures for financial sector development, transport diversification and trade facilitation measures (including customs reform). Additionally, the country dialogue would allow for some budget flexibility to address crisis-related expenses within the context of a prudently managed budget supporting priority growth and poverty reduction programs. Increasing progress toward predictable and timely donor support and coordination promoted under the project will also be key.

6.16 *Institutional risk* comprises the threat of weak capacity and governance to program implementation and outcomes. This risk of slower-than-desired program implementation stemming from capacity constraints will be reduced through continued technical support by the Bank and other donors to strengthen capacity, particularly in coordination of the PRSF and growth/macroeconomic programs. Project design also includes strengthening growth-critical areas such as prudent fiscal policy, financial sector development and transport and trade facilitation. Furthermore, by building on the good record of policy reform in public finance management, the Credit itself will contribute to the institutional strengthening of various agencies involved in public finance management including at sub-national levels.

6.17 *Political risk* remains that the Government's current commitment to the continued reforms, including privatization and liberalization program (banking, cotton, transport, telecommunication sectors) could wane. Potential re-opening of discussion on agreed measures could cause a loss of momentum in reform implementation. This risk is constantly monitored by the country team in order to detect problem areas early on and adjust the Bank response as needed. Finally, and

perhaps most importantly, given the low international cotton prices, there is a critical political risk that insufficient recovery of world cotton prices would dictate a sharp downward adjustment in local producer prices, an adjustment that could prove politically extremely difficult. While this risk is not possible to control, the operation draws from estimates of the potential poverty and financial impact of various cotton prices in order to inform the policy choices and trade offs between the need for local prices to reflect world market conditions and the desirability of cushioning the temporary impact on the poor.

ANNEX 1: LETTER OF DEVELOPMENT POLICY

Unofficial translation of the French original

To:
Mr. Paul Wolfowitz
President of the World Bank
Washington, DC

Subject: Letter of Development Policy for the Economic Policy and Public Finance Management Credit

Mr. President:

I have the honor to submit this Letter of Development Policy to you in support of the request of the Government of Mali for World Bank assistance for an Economic Policy and Public Finance Management Credit (EPPFMC). The assistance requested will allow the Government to continue implementation of a reform program covering the following areas: (a) the macroeconomic and budget management, and poverty reduction strategy; (b) support to economic growth; and (c) improvement of public finance management. It will also help cover the residual financing gap for fiscal year 2006, thereby ensuring financing of the priority public finance program for that year.

The Ministry of Economy and Finance will coordinate implementation of EPPFMC-supported activities through a commission chaired by the Secretary General of the Ministry which will include, among others, representatives of the other ministerial departments involved with the reform program, as well as the Cotton Sector Restructuring Mission Unit (*Mission de Restructuration du Secteur Coton*).

The attached documents are an integral part of this Letter of Development Policy. They set forth the specific objectives, strategies, and action plans for each program component that the Government intends to implement, as well as their implementation schedule.

Very truly yours,
/s/
Abou-Bakar TRAORE
Minister of Economy and Finance

Attachments: Letter of Development Policy
Matrix of Reform Measures

MALI

REFORM PROGRAM SUPPORTED BY THE ECONOMIC POLICY AND PUBLIC FINANCE MANAGEMENT CREDIT (EPPFMC)

1. OBJECTIVES OF THE REFORM PROGRAM SUPPORTED BY THE EPPFMC

1. The Economic Policy and Public Finance Management Credit (EPPFMC) falls within the scope of continued assistance by the World Bank to Mali to achieve macroeconomic stabilization. It seeks to support the Government's efforts to strengthen the fundamentals for robust, sustainable, and equitable economic growth. To this end, it focuses on: (i) strengthening and deepening the reforms undertaken by the Government in recent years as part of the Third and Fourth Structural Adjustment Credits (management of the budget, financial sector, cotton sector, and *Office du Niger*); (ii) providing assistance to the Government with implementation of its poverty reduction strategy prepared in 2002 and the establishment of conditions conducive to greater support for the strategy through direct budgetary assistance. The reform program revolves around three principal components.

2. **The first program component** is aimed at strengthening the macroeconomic, budgetary, and poverty frameworks. It encompasses those activities whose implementation should contribute to: (i) maintaining a coherent macroeconomic framework; (ii) enhancing consistency between fiscal policy and the poverty reduction strategy; (iii) strengthening implementation of the poverty reduction strategy framework (PRSF) and preparing the second generation PRSF (2007-2011 period); and (iv) pursuing cotton sector reforms, including implementation of a joint vision of the Government and all partners on progress made with cotton sector reform and the privatization of the Mali cotton ginning company *Compagnie Malienne pour le Développement des Textiles (CMDT)*.

3. **The second component** covers reforms aimed at supporting equitable economic growth, with a view to achieving the poverty reduction objectives that the Government has set itself. It is deepening those reforms already undertaken as part of the Fourth Structural Adjustment Credit in the financial sector and *Office du Niger*, and is expanding reforms to other key growth areas of the Malian economy, such as transport and trade facilitation, export promotion, and the business climate.

4. **The third component** is aimed at strengthening budget management. The objective of this component is the operationalization of modern management tools that have been successfully implemented in recent years, with emphasis on streamlining the budget process and achieving greater transparency and dissemination of budget information. This component also includes the basic elements for more extensive reform of national public procurement procedures.

2. STRENTHENING MACROECONOMIC AND BUDGET MANAGEMENT AND THE POVERTY REDUCTION STRATEGY

2.1 Specific Objectives

5. Implementation of this component should contribute to stabilization of the macroeconomic framework and to greater consistency in fiscal policy. Specifically, the actions planned should, as a whole, contribute to: (i) maintaining prudent fiscal policy within a coherent macroeconomic framework; (ii) strengthening the overall consistency between the budget and the poverty reduction strategy and improving mechanisms for the sectoral allocation of resources (Medium-Term Budget Framework – MTBF); (iii) improving the allocation of intra-sectoral resources that target the development objectives sought by sectoral policies (Medium-Term Expenditure Framework in the health, education, and infrastructure sectors); and (iv) strengthening the PRSF process as a whole (implementation of the 2002-2006 PRSF and preparation of the 2007-2011 PRSF). These actions fall within the scope of deepening the activities supported by the Fourth Structural Adjustment Credit (SAC IV). The objective of this component was to provide overall visibility to public policies and medium-term fiscal policy, with a view to a gradual shift from project assistance to budget assistance for Mali.

2.2 Reform Program

2.2.1 Macroeconomic framework and budget policy

6. **Macroeconomic framework.** In this regard, the Government is continuing the prudent policy it adopted a few years ago, in particular since the shocks experienced by the Malian economy resulting from the deterioration in the socio-political environment in the sub-region. This prudence is reflected in the design and implementation of a rigorous fiscal policy which nonetheless ensures the allocation of resources to the social sectors. In general terms, the Government has therefore pursued a macroeconomic management approach conducive to the stabilization of economic conditions, despite climatic vagaries and unfavorable price fluctuations on the international market (raw materials and petroleum products in particular). It intends to continue this rigorous macroeconomic management in 2006, as reflected in the draft proposal submitted for approval by the national assembly, the thrust of which is globally in line with the economic outlook for 2006.

7. **Fiscal policy**. With a view to obtaining the tools for ensuring that public policy is in line with the state budget, the Government has developed and incorporated several instruments into the budgetary process in recent years. The results-based fiscal management approach adopted in 1998 has been bolstered by the introduction of the Medium-Term Expenditure Framework (METF).

2.2.1.1 Actions taken in 2005

8. In general terms, a review process undertaken by the Government has pointed to the need to organize the use of these current public policy management tools in such a way that the process is assimilated by government departments and that second generation PRSF objectives are supported by credible and financially sustainable strategies. To this end, the Government has decided to make the organizational framework for the budget formulation process clearer, introducing an overall

logic into multi-year public expenditure programming by: (i) establishing stronger linkages between the macroeconomic framework and the state budget preparation process, in order provide economic forecasts and analyses on a more regular basis and to integrate them fully with the budget formulation process, thereby enabling them to feed into the other phases (drafting and execution); (ii) establishing strong linkages between preparation of the Medium-Term Budget Framework (MTBF) and the sectoral Medium-Term Expenditure Frameworks; and (iii) creating stronger linkages between this process, on the one hand, and budget formulation and the PRSF monitoring/evaluation on the other.

9. **Logical framework**. In order to implement an organizational framework for the integration of the PRSF process into the budget process, a logical framework has been adopted with a view to establishment of the schedule to take effect in 2006, in order to ensure greater consistency between the budget, macroeconomic framework, sectoral priorities, and the PRSF process (preparation and implementation). This logical framework can been summarized as follows:

(i) Conducting a review of the programs during the first quarter of the year in question in order to draw lessons from the program budget implementation process and to obtain information for program budget preparation for the three years ahead;

(ii) Establishing a macroeconomic framework (first quarter) in order to provide medium-term macroeconomic projections and the basic elements for preparing a Medium-Term Budget Framework (March-April) as well as a budget circular letter (May);

(iii) Updating the Medium-Term Expenditure Framework of the sectoral ministries (April-May) in order to simulate the intra-sectoral allocation of resources, taking into account sectoral policy objectives and the poverty reduction strategy;

(iv) Submitting sectoral draft budgets (program budgets and accounting budgets) to the Ministry of Economy and Finance (July) so that the technical and policy arbitrage processes can be carried out (August). These processes should be clarified through updating of the macroeconomic framework; and

(v) Submitting the draft state budget, taking into account the findings of the PRSF implementation report (June), with the different arbitrage processes being finalized (August-September), for approval by the Council of Ministers (September), followed by submission by the Government to the National Assembly for approval (October).

10. **Medium-Term Budget Framework (MTBF)**. Overall, from the standpoint of preparation of the 2007-2011 PRSF, the Ministry of Economy and Finance has updated the Medium-Term Budget Framework (MTBF), allocating indicative sectoral financial packages to all ministries and institutions during the 2006-2008 period. The MTBF:

(i) Is based on recent macroeconomic trends in Mali (2004-2005) and on the medium-term outlook, taking into account the environment in West African Economic and Monetary Union (WAEMU) countries and constraints linked to international conditions;

(ii) Makes projections regarding budgetary resources over the 2006-2008 period (internal and external resources); and

(iii) Decides on the provisional allocation of expenditures, determined by the Mali's macroeconomic constraints and other sectoral priorities outlined for the social sectors and those sectors that support production.

11. The Government will systematize this highly effective exercise in the context of PRSF implementation and dialogue with its partners on external support for PRSF implementation. The 2006 updating exercise will, in particular, facilitate operationalization of the second generation PRSF from a programming and budgetary standpoint for the 2007-2011 period.

12. **Medium-Term Expenditure Frameworks (MTEFs).** At the sectoral level, the MTEFs for the education and health sectors have been updated for the 2006-2008 period and the Ministry of Equipment and Transport has prepared an initial MTEF for the 2006-2008 period. These activities have paved the way for: (i) ensuring consistency between the sectoral health and education strategies (as envisioned in the second PRODESS and PRODEC phases), along with the medium-term macroeconomic outlook and the longer term objectives (millennium development goals); and (ii) linking the draft 2006 budget of the Ministry of Health and Education with 2006 PRODESS and PRODEC programming.

2.2.1.2. Medium-term actions envisioned

13. These actions will be carried out and strengthened in the years ahead (post-EPPFMC) period, through the following, among others: (i) preparing a Medium-Term Budget Framework (MTBF) for the 2007-2009 period consistent with the 2007-20011 macroeconomic framework, which allocates resources by ministry, sector, and expenditure type (deadline: April 2006); (ii) improving the content of the budget framework letter, along with the provisional allocation of resources to ministries and institutions as set forth in the MTBF (deadline: end-May 2006); (iii) systematizing the updating of the health and education MTEFs within the ministries; (iv) updating the Equipment and Transport MTEF for the 2007-2009 period; (v) establishing a schedule for transition from the National Budget Directorate's computer system to the new PTI/BSI (GEPRIMA) application for management of the system (deadline: end-December 2005).

2.2.2. Poverty Reduction Strategy Framework

14. The 2002 Poverty Reduction Strategy Framework (PRSF) prepared by Mali is based on a projection of the poverty situation and a shared vision of its fundamental driving factors. The PRSF sets forth an overall strategy aimed at significantly reducing the incidence of poverty in the country in the medium-term.

2.2.2.1 Actions taken in 2005

15. In 2005, the Government undertook a number of activities, the general objective of which was to strengthen the PRSF process through: (i) an institutional mechanism for purposes of monitoring, implementation, and evaluation (institutional matters, strengthening of entities, and oversight procedures); and (ii) linkage with the aid harmonization process, and; (iii) bolstering the

credibility of the poverty reduction strategy (defining a clear growth strategy to support the PRSF objectives for the 2007-2011 period).

16. In line with the above, the Government has:

(i) Adopted the official documents to restructure the PRSF coordination unit in order to accord it an expanded role in PRSF implementation and monitoring and allocated significant resources to this unit in the draft 2006 budget so that it can properly serve as a driver of the second generation PRSF process;

(ii) Produced the second PRSF implementation report based on a process of broad consultation with all stakeholders. This report covers the 2003-2004 period and provides guidance for orienting preparation of the second generation PRSF, to cover the 2007-2011 period; and

(iii) Drafted the terms of reference for the 2007-2011 PRSF in line with: (1) the process for drafting the 2007 budget and 2006 budget execution; and (2) the formulation of the second phases of the sectoral strategies, which will facilitate implementation of a health and education policy in the years ahead.

17. In view of the need to base the 2007-2011 PRSF on a clear growth strategy, the Government has incorporated the coordination aspects of the formulation of the economic growth strategy into the missions of the PRSF coordination unit. It is in the process of making arrangements to formulate an economic growth strategy that will lay the groundwork for identifying objectives for the 2007-2011 PRSF. In addition, the 2007-2011 PRSF will provide an opportunity to implement more effective mechanisms for harmonizing the schedule for production of PRSF implementation and annual evaluation reports, the budget cycle schedule, and implementation of the joint framework (Government/technical-and-financial partners) for monitoring PRSF budgetary assistance.

2.2.2.2 Medium-term actions envisioned

18. During the post-EPPFMC period, the Government will implement a more functional mechanism for PRSF monitoring and implementation, in light of the experience gained with 2002-2006 PRSF implementation. Special attention will be paid to capacity-building within the coordination unit that will pilot the process, as well as the entities involved with monitoring the statistics of ministerial departments.

2.2.3. Cotton sector reforms

19. Implementation and strengthening of the cotton sector reform process is a priority for the Government in order to reinforce the sector's role as the driver of economic growth and provider of revenue to the rural populations. From the standpoint of possible access to increased budgetary resources from the World Bank, the Government is cognizant of the importance of continuing the reform process until the CMDT is fully privatized, and it pledges its firm commitment to this process.

20. In view of the major shortfall experienced during the 2004-2005 crop year, which underscored the risks posed by the cotton sector vis-à-vis the state budget, the Government has adopted a new mechanism for determining the price of seed cotton through a Memorandum of Understanding signed by the State, the CMDT, and producers in January 2005. This should contribute to signification mitigation of the risks tied to the cotton sector and to improved distribution of revenue among CMDT producers.

21. During the current crop year (2005-2006), all the principles of the mechanism were adopted in fixing producer prices. Based on grain prices in August 2005 (65 cts/lb), projected production (600,000 tons of cotton seed), and the exchange rate to the dollar (CFAF 500/US$1), the sector should post a surplus for the 2005/2006 crop year. Producers should benefit from a price supplement; consequently, the initial price for the crop year, set at CFAF 160/Kg for the highest quality, should not have to be adjusted for reasons of *force majeure* (Article 8 of the January 13, 2005 Memorandum).

22. Moreover, the Government has reached a joint agreement with all stakeholders on the main steps that should lead to privatization of the CMDT in 2008. This agreement has resulted in a detailed timetable, implementation of which should send a strong signal of its desire to move the process forward.

2.2.3.1 Reform follow up

23. In view of the fact that the key steps during the 2006-2008 period have been clearly identified, the Government will adopt the measures it deems necessary to ensure that the reform process that will lead the sector to the watershed point of full privatization can be reached by 2008. These steps entail: (i) defining the zones (3 or 4) to be privatized (by January 31, 2006) and adopting a final operational plan for full privatization (by September 30, 2006); (ii) launching the bidding process for recruitment of the privatization council (by July 30, 2006); (iii) adopting the draft privatization law (September-November, 2007); (iv) issuing invitations to tender for the privatization of zones (January 2008); and (v) executing of the process of privatization until the actual sale takes place (August 2008).

3. SUPPORT TO GROWTH

3.1 Objectives

24. The Government has already implemented the reforms supported by the Fourth Structural Adjustment Credit (SAC IV), based on the results of analytical studies conducted by it. These reforms include the development of the financial sector and reforms applicable to the *Office du Niger*. These measures have been undertaken within the EPPFMC framework, and have been expanded to encompass other growth-supporting sectors such as transport and trade facilitation, export promotion, and the business climate.

3.2. Reform program

3.2.1 The financial sector

25. The financial reforms implemented by the Government over the past two years are part of an effort to strengthen the role of the private sector based on a joint approach to growth. Consequently, it has sought to establish a framework that is favorable to banks, so that they can mobilize long-term resources that permit them to offer financial services and medium- and long-term loans at lower cost. The actions supported by the Fourth Structural Adjustment Credit are taking place against this backdrop. In general, these actions have either been implemented or are in the process of implementation.

3.2.1.1. Actions undertaken in 2005

26. Specifically, within the framework of the EPPFMC, the Government has continued and deepened actions undertaken as part of the Fourth Structural Adjustment Credit.

27. Consequently, it has:

(i) Undertaken a review of proposals related to a settlement plan for doubtful debt in the final audit report completed this year. It has also adopted a final plan to be implemented in 2007;

(ii) Prepared the official tax reform documents deemed necessary following validation of the findings of the 2005 study on the tax system applicable to leasing;

(iii) Renewed the term of the Administrative Council of the Malian Housing Bank (*Banque de l'Habitat du Mali* (BHM)) and appointed three specialists who have no ties to shareholders. The recapitalization plan for the bank has been implemented (State, INPS, OMH, and Chamber of Commerce). Of the CFAF 18 billion needed, the State has contributed CFAF 15.5 billion;

(iv) Adopted, in the area of microfinance, an action plan for the 2005-2008 period, as well as draft laws separating supervision and promotion activities, and reassigning supervision to the Ministry of Economy and Finance through the National Assembly (by December 31, 2005);

(v) Started the privatization process of the *Banque Internationale pour le Mali* (BIM) and hired a privatization expert. The call for expressions of interest has produced satisfactory results with six bidders expressing an interest in acquiring at least 51 percent of the Bank's capital. However, a decision was made to suspend the process until the decision of the Supreme Court to be handed down in late November on the dispute regarding the ownership of shares; and

(vi) Reached an agreement with the INPS regarding the amount of state arrears (CFAF 5.1 billion), with a three-year settlement plan being agreed upon between the two parties. Implementation of this plan will begin in the context of the 2006 budget (CFAF 5.1 billion over three-years).

3.2.1.2 Medium-term reforms

28. During the post-EPPFMC period, the following actions will be taken: (i) negotiations with commercial banks with a view to identifying final settlement and implementation strategies; (ii) adoption of amendments to tax system for leasing activities included in the amendments to the General Tax Code (*Code général des impôts*); (iii) strengthening of oversight in the insurance area; (iv) continuation of the BHM restructuring plan; and (v) implementation of the privatization strategy for the BIM.

3.2.2 Transport

29. In the area of transport, efforts have focused largely on maintenance of the current road network. As part of the 2006 budget, the Government has increased the resources earmarked for road maintenance to CFAF 11.5 billion, in accordance with the commitment made in the context of the sectoral transport program. However, the share of own resources of the Road Authority, which should amount to 30 percent of the financing of road maintenance, will amount to a mere 16 percent (CFAF 1.7 billion instead of 3.5 billion). In order to ensure the actual performance of road maintenance work in 2006, the Government has decided to finance the CFAF 1.8 billion gap through inter-ministerial communal charges during execution of the 2006 budget. The Government undertakes to make these additional resources available to the Road Authority on a semi-annual basis.

30. With regard to the post-EPPFMC period, the Government is confirming, at this juncture, its commitment to augment to CFAF 13 billion the resources allocated to current road maintenance. It will adopt measures to increase the share of resources of the Road Authority to 40 percent of total resources allocated to the Road Authority. Moreover, in order to lay the groundwork for an effective survey of road data, the road data office will be given budgetary resources commensurate with its mission and the results expected of it in terms of the availability of information for purposes of road maintenance.

3.2.3 Exports and the investment climate

31. The actions taken in this area by the Government in the context of this credit are aimed at enhancing the business climate in Mali. These actions will be deepened in the medium-term, and concern, in particular, procedures regarding the establishment of enterprises, export promotion, and implementation of an integrated, trade-related technical assistance framework.

32. In order to streamline enterprise establishment procedures, the Government has agreed to the principle of assigning responsibility for this task to a single government department, instead of the five departments that were formerly involved in this process. In May 2005, it approved the official documents assigning a single identifier to the National Statistics Department (*Direction Nationale de la Statistique et de l'Informatique* (DNSI)).

33. In order to promote exports, the Government introduced an inter-ministerial decree that will allow for the exemption of handicraft products from the expert's assessment tax (*taxe d'expertise*)

and an export permit from the national museum. Information on this initiative will be disseminated largely through an awareness-building campaign targeting artisans.

3.2.4 *Office du Niger* reforms

34. In general, the actions supported by the EPPFMC are aimed at establishing a reliable irrigation financing mechanism for the private sector and establishing an improved system for managing and evaluating the performance of the *Office*.

3.2.4.1 Progress made in 2005

35. The activities undertaken in 2005 fall within the scope of those carried out earlier by the Government in the context of the Fourth Structural Adjustment Credit, supported by the national rural infrastructure project, for which the World Bank is providing assistance.

36. Consequently:

(i) Implementation of the 2005-2007 contract plan has continued and the Government has assigned the initial parcels in the Koumona pilot zone to the private sector. Based on the feedback provided by the technical and financial partners, it will undertake a more in-depth analysis of results and will appoint the commission so that allocation can be resumed with greater consideration being given to the objectives and specifications of the pilot;

(ii) The steps necessary will be taken with a view to a more in-depth assessment of the irrigation financing mechanism, taking into account the shortcomings identified in the findings of the study conducted in relation to the initial objective to seek additional financing in order to increase irrigated surface areas; and

(iii) The land management unit has been placed directly under the general directorate of the *Office* with a view to enhancing its performance.

3.2.4.2 Reform follow up

37. During the post-EPPFMC period, the Government will take steps to ensure the dissemination of the results of the Master Plan for the development of the ON zone to producers, prior to its adoption by the Council of Ministers, and to allocate parcels in the Koumona zone to the private sector, based on feedback received from technical and financial partners.

4. STRENGTHENING PUBLIC FINANCE MANAGEMENT, TRANSPARENCY, AND OVERSIGHT

4.1 Objectives

38. Over the past three years, noteworthy improvements have been made to the budget system in Mali. The authorities have concentrated their efforts on the design and implementation of management instruments which, by and large, are currently operational. The following are some of the actions taken: (i) linkage of key entities of the Ministry of Economy and Finance involved with

the budget process (Budget Office, Financial Control Directorate, and Treasury Directorate), a measure that has significant implications for the reliability of budget data; (ii) adoption of a complete budget nomenclature showing budget allocations according to accepted international standards; (iii) establishment of a budget and accounting nomenclature for the national authorities which is consistent with budget nomenclature and WAEMU recommendations; and (iv) the design of tools for budget administrators and financial comptrollers with a view to improving execution of the state budget.

39. The main objectives sought in this component are: (i) establishment of the fundamental elements for implementation of a three-year budget program prepared by the Government on the basis of the various public finance projections made in recent years (World Bank's CFAA, IMF's ROSC, and European Union's Audit, among others); (ii) continuation of actions undertaken as part of the Third and Fourth Structural Adjustment Programs in the areas of strengthening budget execution, enhancing the effectiveness of public expenditure, and improving budget transparency; and (iii) commencement of the reform process of national public procurement procedures.

4.2 Implementation of the action plan

4.2.1. Action plan to strengthen fiscal management

40. In recent years, studies conducted and projections made have fostered a better understanding of the strengths and weakness of Mali's budget system. Based on these findings and on reform recommendations made, the Government drafted and adopted a government action plan for the modernization and strengthening of public finance management proposing, over the medium-term (2006-2008), in-depth reforms which also provide guarantees with respect to the budgetary process. This action signals the willingness of the Government to organize PRSF assistance through budgetary support.

4.2.1.1 Actions taken in 2005

41. Based on the institutional mechanism proposed for implementation of this action plan, the Government has:

(i) Entrusted monitoring and implementation activities to the budget reform support unit (CARB), based on the mechanism for implementation, monitoring, and evaluation of the action plan proposed in the consultants' study;

(ii) Made provisions for the 2006 action plan tranche in the draft budget law for that year (a total of CFAF 7 billion). Amounts have been earmarked for each beneficiary entity; and

(iii) Taken steps to ensure that 2005 projected actions that do not have budgetary implications can actually be implemented during the course of the year. These 2005 actions are being carried out (preparation of a logical framework).

4.2.1.2 Reform follow up

42. During the post-EPPFMC period, the Government will accord all the attention needed to its action plan for the modernization and improvement of pubic finance management. Consequently, it will ensure that the following actions will be taken: (i) implementation of the mechanisms for follow up and evaluation of the action plan (from January 2006); (ii) implementation of the action plan (2006); and (iii) updating of the 2006 programmed actions to reflect 2005 achievements (January 2006).

4.2.2. Budget execution

43. The actions undertaken in the area of budget execution pertain largely to the computerization of the flow of budget information. These actions were all undertaken as part of the Fourth Structural Adjustment Credit, based on a timeline that extends beyond that of the EPPFMC. Consequently, during the post-EPPFMC period, the Government will continue the following actions, in particular: (i) computerizing auxiliary accounting with a view to exercising better control over shortfalls; and (ii) linking the deconcentrated services of the National Budget Directorate, the National Financial Control Directorate, the National Treasury Directorate, and the Public Accounting Office.

4.2.3. Budget oversight and transparency

4.2.3.1 Strengthening budget oversight

44. One major challenge faced by Mali in the context of its budgetary system is the strengthening of all dimensions of the oversight function (administrative, internal, external, judicial, and legislative). This is necessary not only to ensure the reliability of the budget system but also to facilitate dialogue between the Government and its partners on the effectiveness of public expenditure, official development assistance, and poverty reduction policies. The core problem lies in capacity-building within the oversight entities and the establishment of an appropriate institutional framework for the autonomous exercise of judicial oversight.

45. Although efforts have been made in the context of the SAC IV to produce draft budget execution laws within reasonable timeframes; a commensurate level of progress needs to be made in the areas of *a priori* controls (monitoring of control performance and the quality of the expenditure request files) as well as *a posteriori* controls (quality of the controls and audits, as well as follow up related to the recommendations contained in the control reports). The EPPFMC expects to provide very targeted assistance in order to strengthen the oversight bodies as well as results-based management.

4.2.3.1.1 Actions taken in 2005

46. With regard to **administrative budget oversight**, the Government has:

(i) Provided the *Inspection des Finances* (IF) and the *Contrôle Général des Services Publics* (CGSP), in the context of the 2006 draft budget, with resources that are generally in line with the results expected of these entities from the standpoint of their oversight functions and the quality of oversight reports;

(ii) Prepared progress reports on the entities regarding *a priori* controls (IF and CGSP) (September 2005); and

(iii) Prepared third-quarter progress reports on *a priori* control based on *a priori* control performance indicators.

47. With a view to enhancing **judicial budget oversight**, the Government has:

(i) Provided the Accounts Section (in the 2006) budget with resources determined on the basis of the work program adopted for 2006 (September 2005);

(ii) Made provisions in the 2006 budget for the budgetary implications of the Accounts Section staff review, programmed as part of the Government action plan for the modernization and strengthening of fiscal management;

(iii) Undertaken the review of the legal documents needed to increase the number of staff in the Accounts Section from 15 to 67 magistrates; and

(iv) Begun a review of the preliminary activities involved in the drafting of the statutes for magistrates in the Accounts Section.

4.2.3.1.2 Follow up actions

48. In the context of administrative oversight, the Government will review the documents establishing and organizing the oversight entities and will implement a training program with a view to the systematic application of the international auditing standards and practices for *a posteriori* administrative oversight entities (IF-CGSP). Furthermore, it will adhere to the standards adopted in the framework of 2006 budget preparation in order to provide oversight entities with human resources.

49. The following actions will be taken in the area of judicial oversight: (i) implementation of a training program with a view to the systematic application of international audit standards and practices, (ii) systematic inclusion of budgetary allocations in order to make allowances for the review of staff in the Accounts Section (2006-2007); (iii) hiring of a minimum of 12 magistrates in 2006 and the necessary administrative support staff; and (iv) drafting of a statute for magistrates in the Accounts Section (end-March 2006).

4.2.3.2. Enhancing transparency and strengthening budget execution reporting mechanisms

50. The EPPFMC-supported program is structured in such a way as to provide support, within reasonable timeframes, for the systematic production of budget information, with a view to better public management and greater transparency of this process. Noteworthy progress has been made in two areas:

(i) Transparency and the publication of economic and financial information, as evidenced by the establishment of a website that provides the public with the main data on budget execution by the state and improvement in the content of the quarterly public finance note.

These efforts should be continued and systematized from the standpoint of content and regularity.

(ii) Preparation and submission by the Government of the 2004 draft budget execution law to the National Assembly, thereby meeting institutional deadlines. This regularity will be maintained in the years ahead.

51. These activities will be strengthened during the post-EPPFMC period, with production taking place in accordance with the institutional deadlines applicable to 2005 draft budget execution law.

4.2.4. Public procurement

52. The World Bank has done a Country Procurement Assessment Report (CPAR) for Mali and made a number of recommendations intended to strengthen the public procurement institutional framework and improve actual procedures. This report is currently being reviewed and is should be adopted by end-December 2005. Steps have already been taken to ensure that the Public Procurement Reform Coordination and Monitoring (*Coordination et le Suivi de la Réforme des Marchés Publics*, CNCS) committee will be limited in size and will have a tripartite structure (Government, private sector, and civil society).

MINISTERE DE L'ECONOMIE
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REPUBLIQUE DU MALI
Un Peuple - Un But - Une Foi

Bamako, le 16 DEC 2005

Le Ministre de l'Economie et des Finances

A

M. Paul WOLFOWITZ
Président de la Banque Mondiale
Washington D.C
États Unis

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DEC 16 2005

OBJET : Lettre de Politique de Développement du Crédit de Politique Economique et de Gestion des Finances Publiques

Monsieur le Président,

J'ai l'honneur de vous soumettre la présente Lettre de Politique de Développement en appui à la requête du Gouvernement du Mali sollicitant l'assistance de la Banque mondiale pour un Crédit de Politique Economique et de Gestion des Finances Publiques (CPEGFP). L'appui sollicité permettra au Gouvernement de poursuivre la mise en œuvre d'un programme de réformes couvrant les domaines suivants : (a) la gestion macroéconomique et la politique budgétaire ; (b) le soutien à la croissance économique et ; (c) l'amélioration de la gestion des dépenses publiques. Il contribuera également au financement du déficit résiduel de financement pour l'année budgétaire 2006 en assurant un financement du programme de dépenses publiques prioritaires de l'année.

La coordination de la mise en œuvre des actions soutenues par le CPEGFP sera assurée par le Ministère de l'Economie et des Finances à travers une commission présidée par le Secrétaire Général du Ministère et comprenant, entre autres, des représentants des autres départements

ministériels impliqués dans le programme de réformes et de la Mission de restructuration du secteur coton.

Les documents annexés font partie intégrante de la présente lettre de politique de développement. Ils décrivent les objectifs spécifiques, les stratégies et les plans d'actions relatifs à chacune des composantes du programme que le Gouvernement compte mettre en œuvre, ainsi que leur calendrier d'exécution.

Veuillez agréer, Monsieur le Président, l'assurance de ma haute considération.

Le Ministre de l'Economie et des Finances

Ministère de l'Economie et des Finances
LE MINISTRE

Abou-Bakar TRAORE

Pièces jointes : Lettre de Politique de Développement
Matrice des mesures de réformes

MALI

PROGRAMME DE REFORMES SOUTENU PAR LE CREDIT DE POLITIQUE ECONOMIQUE ET DE GESTION DES FINANCES PUBLIQUES (CPEGFP)

1 LES OBJECTIFS DU PROGRAMME DE REFORMES SOUTENU PAR LE CPEGFP

1. Le Crédit de Politique Economique et de Gestion des Finances Publiques (CPEGFP) s'inscrit dans la continuité de l'appui que la Banque Mondiale apporte au Mali dans le cadre de la stabilisation macroéconomique. Il a pour vocation d'appuyer les efforts du gouvernement dans la consolidation des bases pour une croissance économique forte, durable et équitablement partagée. Il s'inscrit de ce fait, dans une perspective : i) de renforcement et d'approfondissement des réformes que le gouvernement a engagées au cours des dernières années dans le cadre des troisième et quatrième Crédit d'Ajustement Structurel (gestion budgétaire, secteur financier, secteur coton et Office du Niger) ; ii) d'accompagnement du gouvernement dans la mise en œuvre de sa stratégie de lutte contre la pauvreté élaborée en 2002 et de la mise en place de conditions favorables à un soutien accru de la stratégie à travers l'appui budgétaire direct. Le programme de réforme s'articule autour de trois composantes principales.

2. **La première composante** du programme concerne le renforcement de la gestion macroéconomique et budgétaire et la mise en œuvre de la stratégie de lutte contre la pauvreté. Elle regroupe des actions dont la mise en œuvre devrait contribuer à : i) maintenir un cadre macroéconomique cohérent ; ii) renforcer la cohérence de la politique budgétaire avec la stratégie de lutte contre la pauvreté ; iii) renforcer la mise en œuvre du cadre stratégique de lutte contre la pauvreté (CSLP) et la préparation de la deuxième génération de CSLP (période 2007-2011) ; iv) poursuivre les réformes au niveau du secteur coton y compris la mise en place d'une vision commune entre le gouvernement et l'ensemble de ses partenaires sur la conduite de la réforme du secteur coton et du processus de privatisation de la Compagnie Malienne pour le Développement des Textiles (CMDT).

3. **La seconde composante** concerne des réformes pour soutenir la croissance économique équitablement partagée dans l'optique de l'atteinte des objectifs de réduction de la pauvreté que le gouvernement s'est assigné. Elle approfondit des réformes déjà engagées dans le cadre du quatrième crédit d'ajustement structurel au niveau du secteur financier et de l'Office du Niger, et élargit les réformes à d'autres

aspects fondamentaux pour la croissance de l'économie malienne tels que, le secteur du transport et la facilitation du commerce, la promotion des exportations et le climat des affaires.

4. **La troisième composante** concerne le renforcement de la gestion budgétaire. Cette composante poursuit l'opérationnalisation des outils modernes de gestion mis en place avec succès au cours des dernières années avec comme préoccupation la recherche d'une plus grande efficacité du processus budgétaire et une meilleure transparence et la circulation de l'information budgétaire. La composante intègre également les éléments de base pour une réforme plus importante des procédures nationales liées aux marchés publics.

2 LE RENFORCEMENT DE LA GESTION MACROECONOMIQUE ET BUDGETAIRE ET DE LA STRSTEGIE DE LUTTE CONTRE LA PAUVRETE

2.1 Objectifs spécifiques

5. La mise en œuvre de cette composante devrait contribuer à la stabilisation du cadre macroéconomique et à une plus grande cohérence de la politique budgétaire. De manière spécifique, les actions envisagées devraient contribuer dans l'ensemble : i) au maintien d'une politique budgétaire prudente dans un cadre macroéconomique cohérent ; ii) au renforcement de la cohérence globale du budget avec la stratégie de lutte contre la pauvreté et à l'amélioration des mécanismes d'allocations sectorielles de ressources (le cadre budgétaire à moyen terme - CBMT) ; iii) à l'amélioration de l'allocation intra sectorielles de ressources ciblée sur les objectifs de développement poursuivi dans les politiques sectorielles (Cadre des Dépenses à Moyen termes dans les secteurs de la santé, de l'éducation et des infrastructures) et ; iv) au renforcement du processus CSLP dans son ensemble (mise en œuvre du CSLP 2002-2006 et préparation du CSLP 2007-2011). Ces mesures s'inscrivent dans un cadre d'approfondissement des actions soutenues par le quatrième crédit d'ajustement structurel (CAS IV) qui avait pour cette composante l'objectif de donner une visibilité d'ensemble sur les politiques publiques et la politique budgétaire de moyen terme dans la perspective d'un passage progressif de l'aide projet au Mali vers l'appui budgétaire.

2.2 Le programme de réforme

2.2.1 Cadre macroéconomique et politique budgétaire

6. **Cadre macroéconomique.** Dans ce domaine le gouvernement poursuit la politique de prudence qu'il a adoptée depuis quelques années et en particulier depuis les chocs que l'économie malienne a subis suite à la dégradation de l'environnement socio-politique de la sous-région. Cette prudence se traduit par la définition et la mise en œuvre d'une politique budgétaire rigoureuse marquée néanmoins par la sécurisation des allocations de ressources aux secteurs sociaux. Le gouvernement a poursuivi une gestion macroéconomique favorable à la stabilisation de la conjoncture

économique malgré les aléas climatiques et les fluctuations défavorables observées sur les marchés internationaux (matières premières et produits pétroliers notamment). Il entend poursuivre cette gestion macroéconomique rigoureuse en 2006 à travers le projet de budget qu'il a introduit pour l'approbation de l'Assemblée nationale et dont les orientations sont globalement cohérentes avec les perspectives économiques pour 2006.

7. **Politique budgétaire.** Dans l'objectif de disposer d'instruments permettant d'assurer la cohérence entre les politiques publiques et le budget de l'Etat, le gouvernement a développé et introduit divers instruments dans le processus budgétaire au cours des dernières années. L'optique qu'il a prise en 1998 de fonder la gestion budgétaire sur les résultats a été renforcée et confortée à travers l'introduction des Cadres de Dépenses à Moyen Terme (CDMT).

2.2.1.1 Les actions entreprises en 2005

8. Le gouvernement a poursuivi des réflexions qui ont révélé la nécessité d'organiser l'utilisation de ces instruments dans la gestion courante des politiques publiques afin que le processus soit internalisé au sein des administrations et que les objectifs du CSLP de seconde génération reposent sur des stratégies crédibles et financièrement soutenables. Pour ce faire le gouvernement a décidé de procéder à une clarification du cadre organisationnel du processus de formulation budgétaire en introduisant une logique d'ensemble dans la programmation pluriannuelle des dépenses publiques : i) meilleure articulation entre le cadrage macroéconomique et le processus de formulation du budget pour rendre la prévision et l'analyse économique plus régulières et complètement intégrées dans le processus de formulation du budget de l'Etat et pour qu'elles alimentent ainsi ses différentes étapes (élaboration et exécution) ; ii) meilleure articulation entre la préparation du cadre budgétaire à moyen terme (CBMT) et celles des Cadres des Dépenses à Moyen Termes sectoriels ; iii) meilleure articulation de ce processus avec la formulation du budget et le processus de suivi/évaluation du CSLP.

9. **Le cadre logique.** Afin de mettre en place le cadre organisationnel pour l'intégration entre le processus CSLP et le processus budgétaire, un cadre logique a été adopté pour établir le calendrier applicable à partir de 2006 pour assurer une plus grande cohérence entre le budget, le cadrage macroéconomique, les priorités sectorielles et le processus CSLP (élaboration et mise en œuvre). Ce cadre logique se résume de la manière suivante :

i) une revue de programmes est effectuée au cours du premier trimestre de l'année en cours en vue de tirer les enseignements de la mise en œuvre du budget-programmes et éclairer la préparation du budget-programme des trois années suivantes ;

ii) un cadrage macroéconomique est effectué (premier trimestre) pour fournir les perspectives macroéconomiques sur le moyen terme et les éléments de base pour l'élaboration du cadre budgétaire à moyen terme (mars-avril) et la préparation de la lettre circulaire budgétaire (mai) ;

iii) les Cadres de Dépenses à Moyen Terme des ministères sectoriels sont actualisés (avril-mai) en vue de simuler les allocations intra sectorielles de ressources compte tenu des objectifs des politiques sectorielles et de la stratégie de lutte contre la pauvreté ;

iv) les projets de budget sectoriels (budget-programmes et budgets comptables) sont déposés au Ministère de l'Economie et des Finances (juillet) en vue des arbitrages techniques et de l'arbitrage politique (août) ; ceux-ci devront être éclairés par une actualisation du cadrage macroéconomique ; et

v) le projet de budget de l'Etat tenant compte des conclusions du rapport de mise en œuvre du CSLP (juin) et des différents niveaux d'arbitrages est finalisé (août-septembre), soumis à l'approbation du Conseil des Ministres (septembre) et introduit par le gouvernement à l'approbation de l'Assemblée nationale (octobre).

10. Le Cadre Budgétaire à Moyen Terme (CBMT). Au niveau global, et dans la perspective de la préparation du CSLP 2007-2011, le Ministère de l'Economie et des Finances a mis à jour le Cadre Budgétaire à Moyen Terme (CBMT) avec une mise à disposition d'enveloppes financières sectorielles indicatives pour tous les ministères et institutions sur la période 2006-2008. Le CBMT :

i) se fonde sur l'évolution macroéconomique récente du Mali (2004-2005) et sur les perspectives sur le moyen terme, compte tenu de l'environnement des pays au niveau de l'Union Economique et Monétaire Ouest Africaine (UEMOA) et des contraintes liées au contexte international ;

ii) effectue des prévisions de ressources budgétaires sur la période 2006-2008 (ressources propres et ressources extérieures) ; et

iii) détermine des allocations prévisionnelles de dépenses qui reflètent d'une part les contraintes macroéconomiques du pays et d'autre part les priorités sectorielles énoncées pour les secteurs sociaux et les secteurs de soutien à la production.

11. Le gouvernement procédera à une systématisation de cet exercice particulièrement efficace dans le contexte de la mise en œuvre du CSLP et du dialogue avec ses partenaires sur l'appui extérieur à la mise en œuvre du CSLP. En particulier, l'exercice d'actualisation de 2006, permettra d'opérationnaliser le cadrage macroéconomique du CSLP deuxième génération en termes de programmation budgétaire sur 2007-2011.

12. Les cadres de Dépenses à Moyen Terme (CDMT). Au niveau sectoriel, les CDMT pour les secteurs de l'éducation et de la santé ont été actualisés sur la période 2006-2008 et le Ministère de l'Equipement et des Transports a préparé un premier CDMT pour 2006-2008. Ces actions ont permis : i) d'assurer une cohérence entre les stratégies sectorielles santé et éducation (telles que envisagées dans les deuxièmes phases du PRODESS et du PRODEC) avec les perspectives macroéconomiques de moyen terme ainsi que les objectifs à plus longue échéance (objectifs de développement du millénaire) ; ii) d'établir un lien entre le projet de budget 2006 des Ministères de la Santé et de l'Education et les programmations 2006 du PRODESS et du PRODEC.

2.2.1.2 Les actions prévues sur le moyen terme

13. Ces actions seront poursuivies et renforcées au cours des prochaines années (période Post CPEGFP), à travers notamment : i) l'élaboration d'un Cadre Budgétaire à Moyen Terme (CBMT) sur la période 2007-2009 cohérent avec le cadrage

macroéconomique du CSLP 2007-2011 et qui fournit des allocations de ressources par ministère et secteur et par nature de dépenses (échéance : avril 2006) ; ii) l'amélioration du contenu de la lettre de cadrage budgétaire avec les allocations prévisionnelles de ressources aux ministères et institutions telles que définies dans le CBMT (échéance : fin mai 2006) ; iii) la systématisation de l'actualisation du CDMT santé et éducation au sein des ministères ; iv) l'actualisation du CDMT Equipement et Transport pour la période 2007-2009 ; v) la création d'une table de passage entre la nouvelle application informatique de gestion du système PTI/BSI (GEPRIMA) et l'application informatique de la Direction Nationale du Budget (échéance fin décembre 2005)

2.2.2 Cadre stratégique de Lutte contre la Pauvreté

14. Le Mali a élaboré en 2002 un Cadre Stratégique de Lutte contre la Pauvreté qui se fonde sur un diagnostic de la situation de la pauvreté et une compréhension partagée de ses déterminants fondamentaux. Le CSLP propose une stratégie globale dont l'objectif est de réduire de manière significative l'incidence de la pauvreté dans le pays dans un horizon temporel de moyen terme.

2.2.2.1 Actions mises en œuvre en 2005

15. Au cours de l'année 2005, le gouvernement a mis en œuvre des actions dont l'objectif général est de renforcer le processus CSLP en termes de : i) dispositif institutionnel de suivi, de mise en œuvre et d'évaluation (aspects institutionnels, renforcement des structures et du dispositif de suivi) et ; ii) lien avec le processus d'harmonisation de l'aide et ; iii) crédibilisation des objectifs de réduction de la pauvreté (définition d'une stratégie de croissance explicite pour soutenir les objectifs du CSLP 2007-2011).

16. Ainsi le gouvernement a :

i) adopté les textes qui restructurent la cellule de coordination du CSLP dans le sens d'un rôle plus accru dans la mise en œuvre et le suivi du CSLP et prévu dans le projet de budget 2006 des ressources conséquentes pour que la cellule puisse pleinement jouer son rôle moteur dans la conduite du processus d'élaboration du CSLP de seconde génération.

ii) produit le second rapport de mise en œuvre du CSLP selon un processus de consultation large incluant toutes les parties prenantes du processus. Ce rapport couvre la période 2003 et 2004 et fournit des enseignements permettant d'orienter la préparation du CSLP de seconde génération qui devra couvrir la période 2007-2011.

iii) élaboré des termes de référence pour l'élaboration de ce CSLP 2007-2011 en cohérence avec : 1/ le processus pour l'élaboration du budget 2007 et l'exécution du budget 2006 ; 2/ la formulation des secondes phases des stratégies sectorielles qui permettront de mettre en œuvre la politique de santé et d'éducation au cours des prochaines années.

17. Prenant en compte la nécessité de fonder le CSLP 2007-2011 sur une stratégie de croissance explicite, le gouvernement a intégré dans les missions de la Cellule de coordination du CSLP les aspects de coordination dans la formulation de la stratégie de croissance économique. Il est en train de s'organiser pour la formulation d'une

stratégie de croissance économique qui servira de base pour la définition des objectifs du CSLP 2007-2011. Par ailleurs, le CSLP 2007-2011 sera l'occasion de mettre en œuvre des mécanismes plus efficaces pour rendre compatibles le calendrier de production des rapports de mise en oeuvre du CSLP et d'évaluation annuelle, celui du cycle budgétaire et la mise en œuvre du cadre commun (Gouvernement – Partenaires Techniques et Financiers) de suivi des appuis budgétaires au CSLP.

2.2.2.2 Les actions prévues à moyen terme

18. Au cours de la période post CPEGFP, le gouvernement mettra en place un dispositif plus fonctionnel de suivi et de mise en œuvre du CSLP à la lumière de l'expérience acquise dans la mise en œuvre du CSLP 2002-2006. Une attention particulière sera accordée au renforcement des capacités de la cellule de coordination à piloter le processus ainsi que celles des structures impliquées dans le suivi statistique des départements ministériels.

2.2.3 Reformes du secteur du coton

19. La mise en œuvre et le renforcement du processus de réforme du secteur du coton constituent une priorité du gouvernement en vue de conforter le rôle moteur du secteur dans la croissance économique et la sécurisation des revenus des populations rurales. Le gouvernement est conscient des enjeux de la poursuite de ces réformes jusqu'à la privatisation totale de la CMDT en termes d'accession à toute éventualité d'appui budgétaire plus large pouvant provenir de la Banque Mondiale au Mali. Il confirme son engagement ferme dans le processus.

20. A la lumière de l'expérience de la campagne 2004-2005 qui s'est traduite par un déficit important de la filière lequel a démontré les risques que le secteur coton fait peser sur le budget de l'Etat, le gouvernement a adopté un nouveau mécanisme de détermination des prix du coton-graine à travers le protocole d'accord signé par l'Etat, la CMDT et les Producteurs en janvier 2005. Ceci devrait contribuer à limiter significativement les risques budgétaires liés au secteur coton et à améliorer la distribution des revenus entre les producteurs et la CMDT.

21. Au cours de la campagne actuelle (2005-2006), tous les principes du mécanisme ont été adoptés dans la fixation du prix aux producteurs. Sur la base des cours de la fibre en août 2005 (65 cts/lb), de la production attendue (600 000 tonnes de coton graine) et du cours du dollar (500 FCFA/$), la filière devrait dégager un excédent pour la campagne 2005/06. Les producteurs devraient bénéficier d'un complément de prix et par conséquent le prix initial de la campagne, fixé à 160 FCFA/Kg pour la 1ère qualité, ne devrait pas être révisé pour raison de force majeure (Article 8 du protocole du 13/01/2005).

22. Par ailleurs, le gouvernement est parvenu à un entendement commun avec toutes les parties prenantes sur les principales étapes qui devront conduire à la privatisation de la CMDT en 2008. Cet accord a donné lieu à un chronogramme détaillé dont la mise en œuvre constituera un signal fort de la volonté du gouvernement d'avancer dans le processus.

2.2.3.1 La suite de réformes

23. Etant donnée que les étapes clés entre 2006 et 2008 sont clairement définies, le gouvernement prendra les dispositions qu'il jugera utiles afin que le processus devant

amener la réforme du secteur au point décisif de privatisation totale de la CMDT soit réalisé à l'horizon de 2008. Ces étapes sont : i) la définition des zones (3 ou 4) à privatiser (d'ici au 31 janvier 2006) et l'adoption par le gouvernement du schéma opérationnel final de privatisation totale (d'ici au 30 septembre 2006) ; ii) le lancement du dossier d'appel d'offre pour le recrutement du conseil en privatisation (d'ici au 30 juillet 2006) ; iii) adoption du projet de loi de privatisation par le gouvernement (septembre à novembre 2007) ; iv) le lancement du dossier d'appel d'offres pour la privation des zones (janvier 2008) ; et v) la conduite du processus de privatisation jusqu'au point de vente (août 2008).

3 LE SOUTIEN A LA CROISSANCE

3.1 Objectifs

24. Le gouvernement avait déjà introduit des réformes qui ont été appuyées par le quatrième crédit d'ajustement structurel (CAS IV), sur la base des résultats des études analytiques qu'il avait effectuées. Ces réformes comprenaient le développement du secteur financier et les mesures de réformes de l'Office du Niger. Ces mesures ont été poursuivies dans le cadre du CPEGFP avec également un élargissement à d'autres secteurs de soutien à la croissance tels que le transport et la facilitation du commerce, la promotion des exportations et le climat des affaires.

3.2 Le programme de réformes

3.2.1 Le secteur Financier

25. Les réformes que le gouvernement a mises en œuvre au cours des deux dernières années dans le secteur financier s'inscrivent dans une perspective de renforcement du rôle du secteur dans la croissance partagée. Aussi a-t-il œuvré à créer un cadre favorable pour les banques, afin que celles-ci puissent mobiliser des ressources longues leur permettant d'offrir des services financiers et des crédits à moyen et long terme et à moindre coût. C'est dans cette optique que se situent les actions qui ont été soutenues par le quatrième crédit d'ajustement structurel. D'une manière générale ces actions sont, soit mises en œuvre, soit en état d'exécution..

3.2.1.1 Les actions engagées en 2005

26. De manière spécifique, dans le cadre du CPEGFP, le gouvernement a poursuivi et approfondi les actions engagées dans le cadre du quatrième crédit d'ajustement structurel.

27. Ainsi :

i) il a entamé des réflexions sur la base des propositions de schéma d'apurement des créances compromises faites dans le rapport final de l'audit qu'il a achevé cette année ; il adoptera un schéma définitif dont la mise en œuvre sera effective au cours de l'année 2007.

ii) il a préparé les textes de réformes fiscales qui sont apparues nécessaires suite à la validation des conclusions de l'étude réalisée en 2005 sur le régime fiscal du crédit-bail ;

iii) il a renouvelé le Conseil d'Administration de la Banque de l'Habitat du Mali (BHM) et désigné trois experts non liés aux actionnaires ; le plan de recapitalisation de la banque a été mis en œuvre (Etat, INPS, OMH et chambre de commerce) ; sur les 18 milliards de FCFA nécessaires, l'Etat a apporté 15.5 milliards de FCFA par la reconversion d'une partie de ses dépôts ;

iv) il a, dans le domaine de la microfinance, adopté un plan d'action pour la période 2005-2008 ainsi que les projets de lois qui seront soumis à l'Assemblée Nationale avant le 31 décembre 2005 et qui séparent les activités de supervision et de promotion, la supervision relevant de la tutelle du Ministère de l'Economie et des Finances.

v) il a engagé le processus de privatisation de la Banque Internationale du Mali (BIM) et recruté un conseiller en privatisation ; l'appel à manifestation d'intérêt a donné des résultats satisfaisants ; en effet six soumissionnaires ont exprimé leur intérêt pour acquérir au moins 51% du capital de la banque ; toutefois, il a décidé de suspendre le processus jusqu'à la décision de la Cour Suprême qui devrait rendre son verdict à la fin du mois de novembre sur un litige lié à la propriété des actions et

vi) il est parvenu à un accord avec l'INPS sur le montant des arriérés de l'Etat (5.1 milliards FCFA) et un plan d'apurement sur trois ans a été arrêté entre les deux parties : la mise en œuvre de ce plan sera entamée dans le cadre du budget 2006 (5.1 milliards FCFA sur trois ans).

3.2.1.2 Les réformes sur le moyen terme

28. Pour la période Post CPEGFP les actions concerneront : i) la poursuite des négociations avec les banques commerciales en vue de dégager des stratégies d'apurement définitives et leur mise en œuvre ; ii) l'adoption des modifications au régime fiscal pour les activités de crédit-bail qui font partie des modifications du Code général des impôts ; iii) le renforcement des contrôles dans le domaine des assurances ; iv) la poursuite du plan de restructuration de la BHM ; et v) la mise en œuvre de la stratégie de privatisation de la BIM.

3.2.2 Le transport

29. Dans le domaine du transport, les efforts ont surtout été concentrés sur l'entretien courant routier. Dans le cadre du projet de budget 2006, le gouvernement a porté le niveau des ressources consacrées à l'entretien courant des routes à 11.5 milliards de FCFA conformément aux engagements qu'il avait pris dans le cadre du programme sectoriel transport. Toutefois, la part des ressources propres de l'Autorité Routière qui devraient être de 30% dans le financement de l'entretien routier ne serait que d'environ 16% (1.7 milliard de FCFA au lieu de 3.5 milliards). Afin de sécuriser pour 2006, la réalisation effective de l'entretien routier, le gouvernement a décidé de financer l'écart de 1.8 milliards FCFA sur les charges communes interministérielles au cours de l'exécution du budget 2006. Le gouvernement s'engage à mettre ces

ressources complémentaires à la disposition de l'autorité routière sur une base semestrielle.

30. Pour la période post CPEGFP, le gouvernement confirmera d'ores et déjà son engagement à porter à 13 milliards de francs CFA les ressources consacrées à l'entretien courant routier. Il prendra les mesures afin de conforter la part des ressources propres de l'Autorité routière à 40% du total des ressources consacrées à l'autorité routière. Par ailleurs, afin de permettre un relevé efficace des données routières, le service des données routières sera doté de ressources budgétaires cohérentes avec ses missions et les résultats attendus de lui en termes de mise à disposition d'informations pour l'entretien routier.

3.2.3 Les exportations et le climat des investissements

31. Dans ce domaine, les actions engagées par le gouvernement dans le cadre du présent crédit ont pour objectif de contribuer à l'amélioration de l'environnement des affaires au Mali. Elles seront approfondies sur le moyen terme. Ces actions concernent notamment les procédures de création d'entreprises, le soutien aux exportations et la mise en œuvre du cadre intégré d'assistance technique liée au Commerce.

32. Afin d'alléger les procédures de création des entreprises, le gouvernement a adopté le principe de responsabiliser une seule administration pour cette tâche en lieu et place des cinq administrations qui intervenaient auparavant dans le processus ; il a adopté en mai 2005 des textes qui confient l'attribution de l'identifiant unique à la Direction Nationale de la Statistique et de l'Informatique (DNSI).

33. Pour encourager les exportations, il a initié un arrêté interministériel qui précisera la non soumission des produits artisanaux à la taxe d'expertise et à une autorisation d'exportation du musée national. Cette action sera largement relayée à travers une campagne de communication/sensibilisation en direction des artisans.

3.2.4 Les réformes au niveau de l'Office du Niger

34. D'une manière générale, les actions soutenues par le CPEGFP ont pour objectif de mettre en place au niveau de l'Office du Niger un mécanisme fiable de financement de l'irrigation pour le secteur privé et d'adopter un système amélioré de gestion de l'Office ainsi que d'évaluation de ses performances.

3.2.4.1 Les progrès réalisés en 2005

35. Les actions mises en œuvre en 2005 se situent dans la poursuite de celles que le gouvernement avait entamées dans le cadre du quatrième crédit d'ajustement structurel et qui sont soutenues par le projet national d'infrastructures rurales appuyé par la Banque Mondiale.

36. Ainsi :

i) la mise en œuvre du contrat-plan 2005-2007 s'est poursuivie et le gouvernement a effectué une première attribution des parcelles du périmètre expérimental de Koumouna au secteur privé ; compte tenu de commentaires reçus de la part des partenaires techniques et financiers il engagera une analyse

plus approfondie des résultats et commettra la commission pour que l'attribution soit reprise sur la base d'une meilleure prise en compte des objectifs et du cahier des charges du test ;

ii) les actions nécessaires seront engagées pour approfondir les réflexions sur le mécanisme de financement de l'irrigation compte tenu des insuffisances constatées au niveau des résultats de l'étude réalisée par rapport aux objectifs initiaux de recherche de financement complémentaires en vue d'augmenter les superficies irriguées ; et

iii) la Cellule de gestion foncière a été directement rattachée à la direction générale de l'Office en vue de renforcer ses performances.

3.2.4.2 La suite des réformes

37. Pour la période post CPEGFP Le gouvernement engagera des actions en vue de diffuser les résultats du Schéma Directeur de Développement de la Zone de l'ON aux producteurs avant son adoption par le Conseil des Ministres et d'effectuer les attributions de parcelles du périmètre de Koumouna au secteur privé sur la base des commentaires qu'il a reçus des partenaires techniques et financiers.

4 LE RENFORCEMENT DE LA GESTION DES FINANCES PUBLIQUES, TRANSPARENCE ET CONTROLE

4.1 Objectifs

38. Au cours des trois dernières années, le système budgétaire du Mali a connu des améliorations importantes. Les efforts des autorités ont été concentrés sur la conception et la mise en place d'instruments de gestion qui, pour l'ensemble, sont aujourd'hui opérationnels. On peut citer notamment : i) l'interconnexion des structures-clés du Ministère de l'Economie et des Finances qui interviennent dans le processus budgétaire (Direction du Budget, Direction du Contrôle Financier et Direction du Trésor) dont la portée est fondamentale sur la fiabilité des données budgétaires ; ii) l'adoption d'une nomenclature budgétaire complète permettant une présentation des allocations budgétaires selon les normes admises au plan international ; iii) la mise en place d'une nomenclature budgétaire et comptable des collectivités territoriales cohérentes avec la nomenclature budgétaire et celle recommandée au niveau de l'UEMOA ; et iv) la conception d'outils à la disposition des administrateurs de crédits et des contrôleurs financiers afin d'améliorer l'exécution du budget de l'Etat.

39. Les principaux objectifs poursuivis à travers cette composante sont de : i) mettre en place les éléments de base pour la mise en œuvre du programme triennal de réformes des finances publiques élaboré par le gouvernement sur la base des différents diagnostics effectués au cours des dernières années sur les finances publiques (CFAA de la Banque Mondiale, RONC du Fonds Monétaire Internationale et audit de l'Union Européenne notamment) ; ii) poursuivre les actions entamées dans le cadre des troisième et quatrième programmes d'ajustement structurel en termes de renforcement de l'exécution du budget et d'amélioration de l'efficacité de la dépense

publique et de renforcement de la transparence budgétaire ; et iii) initier des réformes des procédures nationales de passation des marchés publics

4.2 Mise en œuvre du plan d'actions

4.2.1 Plan d'action de renforcement de la gestion budgétaire

40. Les dernières années ont été marquées par la réalisation d'un ensemble d'études et de diagnostics qui ont permis de mieux appréhender les forces et les faiblesses du système budgétaire du Mali. S'appuyant sur ces constats et les recommandations de réformes suggérées, le gouvernement a élaboré et adopté un plan d'action gouvernemental de modernisation et de renforcement de la gestion des finances publiques qui propose sur le moyen terme (2006-2008) des réformes de fond et qui donne par la même occasion une perspective à la sécurisation du processus budgétaire. Ceci constitue un signal dans le sens de la volonté du gouvernement d'organiser l'appui au CSLP à travers l'appui budgétaire.

4.2.1.1 Les actions mises en oeuvre en 2005

41. Sur la base du dispositif institutionnel proposé pour la mise en œuvre de ce plan d'action, le gouvernement a :

i) confié la responsabilité des activités de suivi et de mise en œuvre à la Cellule d'appui aux réformes budgétaires (CARB) conformément au dispositif de mise en œuvre, de suivi et d'évaluation du Plan d'action proposé par l'étude des consultants ;

ii) prévu dans le projet de loi de finances 2006 (pour un total de 7 milliards FCFA) la tranche 2006 du plan d'actions ; les inscriptions budgétaires ont été faites au niveau de chaque structure bénéficiaire ; et

iii) pris les dispositions afin que les actions prévues pour 2005 et n'ayant pas d'implications budgétaires puissent être effectivement mises en oeuvre au cours de l'année. Ces actions 2005 sont en cours de réalisation (la préparation du cadre logique).

4.2.1.2 La suite des réformes

42. Pendant la période post CPEGFP, le gouvernement accordera toute l'attention nécessaire au plan d'action gouvernemental de modernisation et de renforcement de la gestion des finances publiques. Ainsi, il s'assurera que les actions suivantes seront entreprises : i) mettre en oeuvre les mécanismes de suivi et d'évaluation du plan d'action (à partir de janvier 2006) ; ii) mettre en oeuvre le plan d'actions (2006) ; iii) actualiser la programmation 2006 des actions afin de refléter les réalisations 2005 (janvier 2006).

4.2.2 Exécution budgétaire

43. Les actions engagées dans le domaine de l'exécution budgétaire concernent pour l'essentiel l'informatisation des flux d'informations budgétaires. Elles ont toutes été entamées dans le cadre du quatrième crédit d'ajustement structurel avec une période de réalisation qui se situe au-delà de l'horizon temporel du CPEGFP. Ainsi, sur la période post CPEGFP, le gouvernement poursuivra en particulier : i) l'informatisation de la comptabilité auxiliaire en vue d'une meilleure maîtrise des restes à payer ; ii) l'interconnexion des services déconcentrés de la Direction Nationale du Budget, de la Direction Nationale du Contrôle Financier et de la direction Nationale du Trésor et de la Comptabilité Publique

4.2.3 Contrôle et transparence budgétaire

4.2.3.1 Renforcer le contrôle budgétaire.

44. Un défi majeur que le Mali devra relever dans son système budgétaire constitue le renforcement de la fonction de contrôle sous toutes ses formes (administratif, interne, externe, juridictionnel et législatif). Ceci est nécessaire non seulement pour la fiabilité du système budgétaire en soi mais également pour l'amélioration du dialogue entre le gouvernement et ses partenaires sur l'efficacité de la dépense publique, de l'aide publique au développement et des politiques de réduction de la pauvreté. Le problème de fond concerne surtout le renforcement des capacités des corps de contrôle et la mise en place de cadre institutionnel adéquat pour l'exercice souverain du contrôle juridictionnel.

45. Autant les efforts ont été appuyés dans le CAS IV pour la production des projets de lois de règlement dans des délais raisonnables, autant des progrès sont à faire en matière de contrôle a priori (suivi de la performance du contrôle et de la qualité des dossiers de demandes de dépenses) et de contrôle a posteriori (qualité des contrôles et des audits et suivi des recommandations de rapports de contrôle). Le CPEGFP envisage un appui très ciblé sur le renforcement des corps de contrôle et la gestion basée sur le résultat.

4.2.3.1.1 Les actions mises en œuvre en 2005

46. Dans le domaine du **contrôle administratif du budget**, le gouvernement a :

i) doté l'Inspection des Finances et le Contrôle Général des Services Publics dans le cadre du projet de budget pour 2006 de ressources globalement conformes aux résultats attendus de ces structures en termes de missions de contrôle et de qualité des rapports de contrôle ;

ii) produit des rapports d'activités des structures de contrôle a posteriori (IF et CGSP) (septembre 2005) ; et

iii) produit le rapport d'activités du troisième trimestre sur le contrôle a priori à partir des indicateurs de performances du contrôle a priori.

47. En vue de renforcer **le contrôle juridictionnel du budget**, le gouvernement a :

i) doté la Section des Comptes (dans le cadre du budget 2006) de ressources déterminées sur la base d'un programme de travail adopté pour l'année 2006 (septembre 2005) ;

ii) prévu dans le budget 2006 les implications budgétaires de la révision de l'effectif de la section des comptes programmée dans le cadre du plan d'action gouvernemental pour la modernisation et le renforcement de la gestion budgétaire ;

iii) entamé la relecture des textes législatifs nécessaires pour porter l'effectif de la Section des Comptes de 15 à 67 magistrats et

iv) commencé la mise en œuvre des actions préalables à l'élaboration d'un statut des magistrats de la Section des Comptes.

4.2.3.1.2 La suite des actions

48. Dans le domaine du contrôle administratif, le gouvernement procédera à la relecture des textes de création et d'organisation des structures de contrôle et mettra en œuvre un programme de formation en vue d'une application systématique des normes et pratiques d'audit international par les structures de contrôle administratif a posteriori (IF-CGSP). Il maintiendra par ailleurs, les normes qu'il a adoptées dans le cadre de la préparation du budget 2006 pour doter les structures de contrôle en ressources humaines.

49. En matière de contrôle juridictionnel les actions sont les suivantes : i) mettre en oeuvre un programme de formation en vue d'une application systématique des normes et pratiques d'audit international par les structures de contrôle juridictionnel ; ii) intégrer systématiquement des dotations budgétaires pour prendre en compte la révision de l'effectif de la Section des Comptes (2006 et 2007) ; iii) procéder au recrutement d'au moins 12 magistrats en 2006 et du personnel d'appui administratif nécessaire ; iv) élaborer un statut des magistrats de la Section des Comptes (fin mars 2006).

4.2.3.2 Accroître davantage la transparence et renforcer les mécanismes pour rendre compte de l'exécution du budget.

50. Le programme soutenu par le CPEGFP est articulé pour appuyer la production systématique et dans des délais raisonnables de l'information budgétaire aux fins de meilleure gestion publique et de transparence de la gestion publique. Deux aspects ont faits l'objet de progrès sensibles :

i) l'amélioration de la transparence et de publication des informations économiques et financières s'est traduite par la mise en place d'un site internet qui met à la disposition du public les principales données de l'exécution du budget de l'Etat et l'amélioration du contenu de la note trimestrielle sur les finances publiques. Ceci devrait se poursuivre et être systématisée en termes de contenu et de régularité.

ii) le gouvernement a préparé et soumis le projet de loi de règlement 2004 à l'Assemblée Nationale, comblant ainsi les écarts par rapport aux délais institutionnels ; cette régularité sera poursuivie au cours des prochaines années.

51. Ces actions seront renforcées pendant la période post CPEGFP avec notamment la production selon les délais institutionnels du projet de loi de règlement pour 2005.

4.2.4 Les marchés publics

52. La Banque Mondiale a réalisé une revue des procédures de passation des marchés publics du Mali (CPAR) et formulé un certain nombre de propositions dont l'objectif est de renforcer le cadre institutionnel d'exécution des marchés publics et d'améliorer les procédures en elles-mêmes. Ce rapport est en cours d'examen et devrait être adopté d'ici le 15 décembre 2005. D'ores et déjà, les dispositions sont prises afin que le comité qui servira à la Coordination et le Suivi de la Réforme des Marchés Publics (CNCS) soit restreint et tripartite (administration, secteur privé et société civile).

Domaine	Mesures CPEGFP	Post CPEGFP	Résultat attendu
Composante 1 : Renforcement du cadre macroéconomique, politique fiscale et budgétaire			
A. Cadre macroéconomique et politique budgétaire			
Gestion macroéconomique	**Maintenir une politique budgétaire prudente dans un cadre macroéconomique cohérent. En permanence. (Action préalable)**	**Maintenir une politique budgétaire prudente dans un cadre macroéconomique cohérent. En permanence.**	Maîtriser l'inflation selon les critères de convergence de l'UEMOA (3%)
Politique budgétaire	Mettre à jour les projections du Cadre Budgétaire à Moyen Terme (CBMT) sur la période 2006-2008 en cohérence avec le cadre macroéconomique	**Elaborer un Cadre Budgétaire à Moyen Terme (CBMT) sur la période 2007-2009 cohérent avec le cadrage macroéconomique du CSLP deuxième génération et qui fournit des allocations de ressources par ministères et secteurs et par natures de dépenses. (Avril 2006)**	Meilleure cohérence entre la politique budgétaire, les stratégies sectorielles et leurs programmations sur le moyen terme avec notamment : une augmentation des parts de l'éducation (15,36%) en 2005) et de la santé (6,82% en 2005), dans l'ensemble du budget (y compris financement extérieur du budget spécial d'investissement et appuis budgétaires sectoriels)
	Produire un rapport de présentation du projet de budget 2006 traduisant la cohérence avec le cadrage macroéconomique 2006-2008, les priorités sectorielles définies dans le CSLP et les recommandations du rapport de mise en œuvre 2003 et 2004 du CSLP		
	Adopter un cadre logique général pour l'opérationalisation et l'internalisation du processus CBMT-CDMT (articulation CBMT, cadrage macroéconomique, processus budgétaire, processus CSLP, CDMT sectoriels, budgets-programme) dans la perspective de la préparation du CSLP 2007-2011. (Action préalable)	Annexer à la lettre de cadrage budgétaire les allocations prévisionnelles de ressources aux ministères et institutions telles que définies dans le CBMT (fin mai 2006)	
	Actualiser le CDMT Santé pour la période 2006-2008. La tranche 2006 devra être en phase avec le projet de budget du ministère pour 2006. Le CDMT devra être cohérent avec : 1/ le CBMT du MEF ; 2/ la stratégie sectorielle Santé telle que envisagée dans le PRODESS II.	Systématiser l'actualisation du CDMT Santé, et la préparation du rapport CDMT-Santé, en phase avec le chronogramme du cycle budgétaire tel que défini dans le Cadre logique (à partir du 2006). Le rapport analysera : 1/ les allocations intrasectorielles de ressources sur la base du CDMT actualisé et des objectifs sectoriels poursuivis sur la période 2007-2009 ; 2/ le projet de budget-programme mis en perspective avec les Objectifs de Développement du Millénaire	Allocation intrasectorielle du budget conformes aux objectifs de développement du secteur de la santé avec notamment une augmentation du % de population situé à moins de 5 Kms d'un Centre de santé fonctionnel (47% en 2004)
	Actualiser le CDMT Education pour la période 2006-2008. La tranche 2006 devra être en phase avec le projet de budget du ministère pour 2006. Le CDMT devra être cohérent avec : 1/ le CBMT du MEF ; 2/ la stratégie sectorielle éducation telle que envisagée dans le PISE II.	Systématiser l'actualisation du CDMT Education, et la préparation du rapport CDMT-Education, en phase avec le chronogramme du cycle budgétaire tel que défini dans le Cadre logique (à partir du 2006). Le rapport analysera : 1/ les allocations intrasectorielles de ressources sur la base du CDMT actualisé et des objectifs sectoriels poursuivis sur la période 2007-2009; 2/ le projet de budget-programme mis en perspective avec les Objectifs de Développement du Millénaire	Allocation intrasectorielle du budget conformes aux objectifs de développement du secteur de l'éducation avec notamment : amélioration du TBS (qui est de 79,5% en 2004)
	Préparer le CDMT Equipement et transport pour la période 2006-2008 qui devra être approuvée par le MEF et cohérent avec le CBMT	Actualiser le CDMT Equipement et Transport pour la période 2007-2009 en phase avec le chronogramme du cycle budgétaire tel que défini dans le Cadre logique. Il devra être cohérent avec : 1/ le CBMT du MEF ; 2/ la stratégie sectorielle infrastructures	
Faciliter la préparation du budget		Créer la table de passage entre la nouvelle application informatique de gestion du système PTIP/BSI (GEPRIMA) et l'application informatique de la Direction Nationale du Budget (fin décembre 2005)	
B. Cadre stratégique de Lutte contre la Pauvreté et Croissance			
Lutte contre la pauvreté	**Adopter des termes de références pour l'élaboration du CSLP 2007-2011 intégrant l'aspect "coordination dans la formulation et la mise en oeuvre de la stratégie de soutien à la croissance économique"** et assorti d'un programme de travail et d'un chronogramme des actions envisagées, (processus participatif, ...) **(Action Préalable)**		

Domaine	Mesures CPEGFP	Post CPEGFP	Résultat attendu
	Lancer le processus d'élaboration du CSLP pour la période 2007-2011 sur la base du chronogramme défini	**Rendre le projet de CSLP 2007-2011 disponible pour les arbitrages du budget 2007 (juillet 2006)**; Finaliser le CSLP 2007-2011 sur la base du projet de budget 2007 à introduire au parlement (fin septembre 2006)	CSLP 2007-2011 disponible en juin 2006 pour être introduit à l'Assemblée nationale en même temps que le projet de budget 2007
Formulation d'une stratégie intégré de croissance	Mise en place d'un programme de travail en vue de l'élaboration d'une stratégie Nationale de croissance économique qui soutiendra le cadrage macroéconomique du CSLP 2007-2011		Cadrage macroéconomique du CSLP 2007-2011 fondée sur une stratégie de croissance économique explicite
	Renforcer les capacités de la cellule de coordination du CSLP en cohérence avec les termes de références adoptés (voir ci-dessus) : redéfinition des missions et attributions, capacités ressources humaines, définition postes, statut du personnel…	Mise en œuvre du programme de renforcement des capacités de la cellule	Renforcement du dispositif de suivi du CSLP - Production du rapport de mise en œuvre de 2005 en juin 2006.
	Doter la Cellule (dans le cadre du budget 2006) des ressources nécessaires pour l'opérationnalisation de sa réforme et pour la conduite du processus CSLP 2007-2011		CSLP 2007-2011 disponible en juin 2006
	Finaliser le rapport de mise en œuvre du CSLP pour les années 2003 et 2004 (fin Juin 2006). Définir un calendrier précis de production des rapports de mise en œuvre du CSLP et d'évaluation annuelle cohérent avec le cycle budgétaire (i.e., le cadre logique mentionné ci-dessus) et le cadre commun (gouvernement-PTF) de suivi des appuis budgétaires au CSLP	Finaliser le rapport de mise en œuvre du CSLP année 2005 (fin Juin 2006).	Maîtrise des délais et meilleur suivi de la préparation du CSLP nouvelle génération.
C. Réformes du secteur du coton			
Minimisation des risques budgétaires du secteur coton	**Poursuivre la mise en œuvre du mécanisme de détermination du prix du coton-graine au producteur (Août 2005), afin de limiter les risques que fait peser la CMDT sur le Budget de l'Etat. (Action préalable).**	**Poursuivre la mise en œuvre du mécanisme de détermination du prix du coton-graine au producteur (Avril 2006), afin de limiter les risques que font peser al CMDT sur le Budget de l'Etat. (En permanence).**	Réduction des dépenses courantes en pourcentage du PIB
	Transmettre à la Banque les comptes rendus des réunions du conseil d'administration de la CMDT		
		Définition des zones (3 ou 4) à privatiser validé par les principaux partenaires (Etat, producteurs, DAGRIS) [au plus tard le 31 janvier 2006] et adoption par le Conseil des Ministres du schéma opérationnel définitif de privatisation totale [au plus tard le 30 septembre 2006]	
		Lancement du dossier d'appel d'offre pour le recrutement du conseiller en privatisation [au plus tard le 30 juillet 2006]	
		Lancement du dossier d'appel d'offres pour la privatisation de la CMDT [janvier 2008]	
		Conduite du processus de privatisation jusqu'au point de vente (début des négociations avec les repreneurs) [août 2005]	
	Désignation par les producteurs de leurs représentants pour le suivi du processus de privatisation de la CMDT en attendant la mise en place de l'interprofession		
Composante 2 : Soutien à la croissance			
A. Secteur Financier			
	Dépôt du rapport final de l'audit avec une proposition de schéma d'apurement avant le 15 octobre 2005	**Négociations actives avec chacune des banques commerciales en vue du dégager des stratégies d'apurement définitives auxquelles les banques adhèrent** (négociations en cours sur la période novembre 2005 à juin 2006); et pour les banques où les négociations ont été conclusives, début de la mise en œuvre de la stratégie (janvier 2007).	réduction du portefeuille non performant et des marges bancaires

Domaine	Mesures CPEGFP	Post CPEGFP	Résultat attendu
	Adoption des projets de textes issus de la validation de l'étude sur le régime fiscal du crédit-bail	Adoption des modifications au régime fiscal pour les activités de crédit bail	accroissement des activités de leasing
		Renforcer les contrôles, particulièrement au niveau des automobiles, pour s'assurer que les véhicules sont bien assurés	
	Accord entre l'Etat et l'INPS sur le montant des arriérés à apurer sur la base de l'étude du consultant. Plan d'apurement finalisé avant le 15 novembre 2005		Réduction arriérés selon le plan d'apurement défini (montant des arriérés est de 5.1 milliard FCFA et le plan prévoit un remboursement annuel de 1.7 milliards FCFA)
	Renouveler le Conseil d'Administration avec trois experts du secteur privé non liés aux actionnaires; réaliser le tour de table des actionnaires potentiels, afin de les inviter à participer dans la recapitalisation de la BHM [Action préalable]	Plan de restructuration soit son entrée BHM recapitalisée	BHM rencontre tous les ratios prudentiels
	Adopter les projets de lois séparant les activités de supervision et de promotion et rebaptisant la supervision sous la tutelle du Ministère de l'Economie et des Finances par l'Assemblée Nationale.	Nouvelle structure en place.	missions de supervision renforcées
	Décision sur la stratégie de privatisation et présentation d'un nouveau chronogramme	Chronogramme de privatisation suivi	BHM est privatisée
	B. Transport et facilitation du commerce		
Améliorer l'entretien routier	Confirmation des budgets pour l'entretien routier ayant fait l'objet d'un accord entre le Gouvernement, la Banque mondiale et l'Union Européenne soit 11,5 milliards de FCFA pour 2006.	Confirmation des budgets pour l'entretien routier ayant fait l'objet d'un accord entre le Gouvernement, la Banque mondiale et l'Union Européenne soit 13 milliards de FCFA pour 2007. [fin septembre 2006]	
		Sur la base des réflexions qui seront menées en 2006, prendre les mesures pour mobiliser les ressources (redevance d'usage de la route, taxe à l'essieu, péage, taxe sur les importations) pour atteindre l'objectif de 40% de ressources propres de l'autorité routière.	
	Etablir un mécanisme dans la Direction du Trésor afin de s'assurer que le transfert des redevances d'usage de la route et des ressources propres budgétisées entre le trésor et l'Autorité routière	**Confirmation de la part des ressources propres de l'Autorité Routière ayant fait l'objet d'un accord entre le Gouvernement, la Banque mondiale et l'Union Européenne soit 40 pour cent en 2007 (fin septembre 2006), et détermination de la redevance d'usage de la route (charge à l'essieu, produits pétroliers, autre redevance) permettant d'atteindre le niveau de ces ressources**	Des redevances collectées devraient être transférés à l'Autorité routière au plus tard avant la fin du mois suivant
		Allocation de ressources au Service des Douanes Riveraines dans les budgets 2007 cohérente avec les résultats attendus de la structure (**fin septembre 2006**)	
	Rendre opérationnel l'extension du réseau informatique SYDONIA++ au bureau de la gare ferroviaire de Bamako		
		Mise en œuvre de l'application intégrant des textes douaniers sur le réseau intranet	
Renforcer l'environnement de compétitivité des transporteurs, et leurs participation dans les décisions sur la politique sectorielle	Non renouvellement de l'arrêté d'exemption des droits de Douanes et TVA sur l'importation de camions neufs		

Domaine	Mesures CPEGFP	Post CPEGFP	Résultat attendu
C. Secteur privé : Promotion des exportations, Climat des investissements			
	Adopter un arrêté interministériel précisant que les produits artisanaux ne sont soumis ni à la taxe d'expertise ni à une autorisation d'exportation du musée national	Trouver un mécanisme plus efficace de conservation du patrimoine culturel et éliminer la taxe d'expertise	Amélioration de la compétitivité des exportations artisanales nationales; attractivité de l'investissement dans le secteur.
	Engager une campagne de communication/sensibilisation pour informer les artisans qu'ils ne sont pas tenus de passer par le musée national ni pour une autorisation d'exporter ni pour une taxe d'expertise.		
	Elaboration d'un projet de loi à soumettre au Parlement pour la **session d'octobre**, qui confie l'attribution de l'identifiant unique à une seule structure	**Adoption par le Parlement 2005 d'une loi confirmant que la procédure relative à l'identifiant unique remplacera les procédures relatives à la DN Statistiques, DN Impôts, Trésor, INPS et ANPE.**	Accroissement du nombre d'entreprises du fait de la réduction des délais et du coût de création
D. soutien aux réformes de l'Office du Niger			
	Mettre en œuvre le programme du Contrat Plan	Mettre en œuvre le programme du Contrat Plan. (entre 2005 et 2007)	
	Faire une revue de la mise en œuvre du Contrat Plan et du budget annuel entre l'ON, les producteurs et les Partenaires Techniques et Financiers.	Faire une deuxième revue de la mise en œuvre du CP du budget annuel entre l'ON, les producteurs et les PTF (2006)	
Soutien aux réformes de l'Office du Niger		Finaliser l'attribution des parcelles au secteur privé dans le périmètre expérimental de Kourouma suivant les critères décrits dans l'accord du PNIR Assurer le démarrage effectif des activités de production sur ces parcelles	
		Renforcer le rapport sur le mécanisme de financement de l'irrigation en phase avec les objectifs initiaux pour l'étude; et adopter le rapport révisé (juin 2006).	
		Adoptez les textes portant création de la structure en charge de la mise en œuvre du mécanisme de financement de l'irrigation et mettre en place la structure (fin 2006)	
	Rattacher la cellule de gestion financière au PDG de l'ON et nommer un chef de la cellule		
	Signer le contrat de consultant pour l'audit organisationnel de l'Office du Niger	Rendre disponible le rapport provisoire (**avril 2006**) - Rapport final disponible (**juin 2006**) - Validation des propositions du rapport (**septembre 2006**)	
		Communiquer les résultats du schéma directeur de développement de la zone de l'Office du Niger aux producteurs	
		Adopter le schéma directeur de développement de la zone de l'Office du Niger	
Composante 3 : Renforcer la gestion des dépenses publiques, transparence et contrôle			
A. Programme de réformes budgétaires			
	Mettre en place le dispositif institutionnel de mise en œuvre du Plan d'action (gestion des finances publiques), et définir les mécanismes pour sa mise en œuvre, son suivi et son évaluation; Intégrer la tranche 2006 du plan dans le projet de budget 2006 (Action préalable)	**Mettre en œuvre les mécanismes de suivi et d'évaluation du plan d'action (à partir de janvier 2006); Mettre en œuvre le plan d'actions (2006)**	Gestion budgétaire satisfaisante dans la mise en œuvre de l'initiative de passage progressif vers l'aide budgétaire, Alignement de l'aide et l'harmonisation des bailleurs de fonds dans la mise en œuvre du CSLP Evolution progressive de la structure du financement extérieur progressivement en
	Prendre les dispositions afin que les actions prévues pour 2005 et n'ayant pas d'implications budgétaires puissent être effectivement mises en œuvre au cours de l'année.	Actualiser la programmation 2006 des actions afin de refléter les réalisations 2005 (**janvier 2006**)	

Domaine	Mesures CPEGFP	Post CPEGFP	Résultat attendu
			faveur de l'appui budgétaire en 2005, la part prévue de l'aide budgétaire dans le financement est d'environ 25% alors qu'elle était de 12,1% en 2004)
B. Exécution du budget			
		Poursuivre la mise en place d'une comptabilité auxiliaire totalement informatisée au niveau central (production informatisée des données relatives à la comptabilité auxiliaire. **(31 Décembre 2005)** -	Meilleure connaissance des "Restes à Payer" dans la comptabilité de l'Etat
		Achever la mise en place de la comptabilité auxiliaire informatisée et la rendre fonctionnelle au niveau des régions (production informatisée des situations de restes à payer **(fin juin 2006)** -	
		Rendre fonctionnel le système informatique intégré au niveau des services déconcentrés de la DNB, DNCF et DNTCP. **(Juin 2006)** -	
		Mettre à disposition des gestionnaires de crédits la mercuriale des prix actualisée pour l'exercice budgétaire 2006 (après la période complémentaire - février 2006).	
C. Audit interne et externe			
		Procéder à la relecture des textes de création et d'organisation des structures de contrôle **(PAG)**	
Contrôle administratif interne	Doter l'inspection des finances d'un budget et de ressources humaines pour 2006 élaboré sur la base d'objectifs précis de missions de contrôle.	Mettre en œuvre d'un programme de formation en vue d'une application systématique des normes et pratiques d'audit international par les structures de contrôle administratif a posteriori (IF COSP) et maintenir les normes de dotation en ressources humaines pour ces structures **(PAG).**	
	Doter le Contrôle Général des Services Publics d'un budget pour 2006 élaboré sur la base d'objectifs de contrôle assortis d'un programme de formation conséquent dans le domaine de l'audit de gestion.		Contrôle et audits de gestion aux normes INTOSAI
	Produire des rapports d'activités semestriels sur le contrôle administratif a posteriori (IF et CGSP).		
Renforcer la performance de la DNCF	Produire des rapports d'activité trimestriels sur la base d'indicateurs de performances du contrôle a priori		
Contrôle juridictionnel	Doter la section des comptes (dans le cadre du budget 2006) de ressources déterminées sur la base d'un programme de travail adopté pour l'année 2006	Mettre en œuvre un programme de formation en vue d'une application systématique des normes et pratiques d'audit international par les structures de contrôle juridictionnel **(PAG)**	Amélioration des délais de production des rapports de conformité de la Section des Comptes (en 2005, le rapport de conformité du projet de loi de règlement de l'année 2003 a été produit)
	Prévoir dans le budget 2006 les implications budgétaires de la révision de l'effectif de la section des comptes	Intégrer systématiquement des données budgétaires pour prendre en compte la révision de l'effectif de la section des comptes **(PAG) (2006 et 2007)**	
	Entamer la relecture des textes législatifs nécessaires pour porter l'effectif de la section des compte de 15 à 67 magistrats à fin 2008	Procéder au recrutement d'au moins 12 magistrats en 2006 et du personnel d'appui administratif nécessaire **(PAG)**	
	Entamer les actions préalables à la définition d'un statut des magistrats de la section des comptes	Elaborer un statut des magistrats de la section des comptes **(PAG) (fin mars 2006)**	

Domaine	Mesures CPEGFP	Post CPEGFP	Résultat attendu
D. Transparence et Nécessité de rendre compte			
	Mettre en place le site Internet du Ministère de l'Economie et des Finances et l'organisation institutionnelle adéquate pour sa gestion quotidienne et sa mise à jour régulière. Les informations actuellement prévues pour être mises sur le site seront complétées : pour la DNB par le cadre budgétaire à moyen terme et pour la DNCF par la ventilation d'exécution du budget par ministère aux stades engagements et liquidation		Responsabilité accrue du gouvernement pour rendre compte de la gestion publique au parlement
	Préparer et soumettre le projet de loi de règlement 2004 à l'Assemblée Nationale	Produire le projet de loi de règlement 2005 selon les délais réglementaires **(début Octobre 2006)**	
E. Passation de Marchés publics			
Assurer le suivi des procédures de passation des marchés		Concevoir et réaliser une base de données relative aux diverses phases de la passation des marchés **(mars 2006)** -	
Renforcer le système de passation des marchés	Mettre en place un comité restreint impartite (administration, secteur privé et société civile) qui servira à la Coordination et le Suivi de la Réforme des Finances Publiques (CNCS) **(fin septembre 2005)**		
	Adoption du CPAR révisé par le comité (15 décembre 2005).	**Adoption du CPAR révisé par le conseil des ministres.**	

ANNEX 2: EVALUATION OF PRIOR ACTIONS UNDER EPPFMC

POST SAC IV TRIGGERS (in bold)	EPPFMC PRIOR ACTIONS (in bold)	Comments
Component 1: Macroeconomic and Fiscal Framework		
A. Macroeconomic Framework and Budget Policy		
1. Maintenance of prudent fiscal policy within a consistent macroeconomic framework. (Permanently).	**1. Maintain a prudent budget policy consistent with the agreed macroeconomic framework.**	**Action fulfilled as specified.** The IMF budget mission in September 2005 concluded that execution of the budget had been good so far. Expenditure targets were broadly in line with program targets, despite revenue shortfalls that resulted in slight reductions in current expenditures. GDP growth is projected to be 5.4 percent in 2005, only slightly lower than the program due to effective macroeconomic management of various exogenous shocks. The pickup in inflation is due to food market imbalance stemming from the 2004 drought. The draft 2006 budget is consistent with PRSP priorities within the prudent macroeconomic framework. GDP growth is projected to be 5.4 percent and inflation -1.5 percent as food market balance is restored.
2. The 2006 budget arbitrage consistent with the macroeconomic framework, the sector priorities defined in the PRSF and the recommendations of the second year report on the implementation of the PRSF.	Produce a Report presenting the draft 2006 Budget that discusses the consistency of the budget with the macroeconomic framework for 2006-2008, with sector priorities defined in the PRSF, and with recommendations of the 2003-2004 PRSF implementation progress report.	Not retained as a prior action because another action (EPPFMC prior action # 2) was deemed more critical to success of the program, and decision to keep prior actions to a bare minimum. In any case, the **action is completed as specified.** The draft 2006 budget adopted by the Government was sent to the National Assembly on 3 October 2005 along with the Draft Budget Presentation Note.
	2. Adopt an overall logical framework for operationalizing and appropriating the medium term budget framework (MTBF) and medium term sector expenditure framework (MTEF), synchronized with the processing timelines for the macroeconomic framework, budget preparation cycle, and preparation of the 2007-2011 PRSF.	**Action nearing completion.** The logical framework has been prepared by the Budget office and is awaiting adoption by the Economy and Finance Minister.

POST SAC IV TRIGGERS (in bold)	EPPFMC PRIOR ACTIONS (in bold)	Comments
B. Growth and Poverty Reduction Strategy		
3. Complete the evaluation report on the PRSF implementation, before July each year.	Complete the 2003-2004 PRSF implementation progress report.	Not retained as a prior action, since EPPFMC prior action # 3 was deemed more important to program success and sustainability. In any case, the **action is completed.** The 2003-2004 PRSF implementation status report was available in early October 2005.
	3. Adopt terms of reference for preparing the 2007-2011 PRSF, that integrates the work required to coordinate the formulation and implementation of an economic growth support strategy, and includes a work program and chronogram reflecting the various steps involved (e.g. surveys, participatory process, etc).	This action was added as a prior action due to insufficient development of growth dimension in the current poverty strategy, and need to ensure a growth action plan was accorded a high priority. **Action nearing completion.** The draft TOR was discussed with the Donor-Government Commission on 30 September 2005, and comments have been taken into account in an updated version. The next step is adoption of the TOR by the Council of Ministers.
C. Budgetary Risk of the Cotton Sector		
4. (i) **Implementation of the new pricing mechanism for the 2005-2006 campaign according to the Protocol Agreement;** (ii) completion of a training program for each of the participants in the price negotiation (Producers, CMDT, members of the commission for the application of the mechanism); (iii) establishment of a consensual database of technical and economic references; (iv) dissemination of this information among the producers and their representatives. Start of the process in *April 2005.*	**4. Continue implementation of the cotton producer price setting mechanism** (August 2005) **with a view to limiting the state budgetary risk of the national cotton ginning company CMDT.**	**Action fulfilled as specified.** In April 2005 the committee in charge of setting the cotton producer price fixed the initial producer price at 160 CFAF per kilogram according to the price setting mechanism. That initial price was the lowest in the range allowed by the price protocol, and represented a 24 percent drop from the previous year's producer price. This sent a strong signal at the beginning of the production season, of prudent price setting in line with international cotton market conditions. In August as required by the price mechanism the committee reviewed cotton market parameters and determined that the producer price could remain at 160 CFAF per kilogram. At this price, both farmers and the ginning company CMDT are making more efficient decisions in the management their respective operations. Furthermore, the market oriented price has greatly reduced the risk of large financial losses in the sector and thus the risk to the state budget (the June 2005 estimate of sector financial balance for the 2005-06 season showed a robust surplus of about US$53 million, which has been revised downward in September to a much lower surplus of US$8 million due to the sagging of international prices).

POST SAC IV TRIGGERS (in bold)	EPPFMC PRIOR ACTIONS (in bold)	Comments
Component 2: Support to Growth		
A. Financial Sector		
5. Financial audit completed by *mid-August 2005*. Cleanup of the non performing portfolio implemented.	Complete the final audit report on bank portfolios and propose a strategy to clean up non-performing loans.	This action was not selected as a prior action because the implementation timeline indicated under SAC IV program turned out not to be realistic in view of slow response by some private banks in providing the information requested for the audit. In any case, the **action is fulfilled.**
	5. Re-constitute the Board of Directors of the Malian Housing Bank (*Banque de l'Habitat du Mali* – BHM) with the addition of three private sector specialists independent of the shareholders; Canvass existing and potential new investors to invite them to participate in the recapitalization of BHM.	This action was added in view of grave condition of the portfolio of the Mali Housing Bank, and importance of the health of this bank for improved supply of long term credit. **Action fulfilled as specified.** A new Board of directors has been appointed including three outside experts (BCEAO, a former banker and an accountant), and BHM has been recapitalized by the Government, INPS, the Mali Housing Office (OMH) and the chamber of commerce. The canvassing of potential new investors is ongoing (e.g. there was a visit to the housing bank of Senegal) with the view to increasing private sector shareholding in the bank in 2006.
Component 3: Public Finance Management, Transparency and Audit		
A. Budget Reform Program		
	6. Establish the institutional framework for implementing the Government's action plan for modernization and improvement of public finance management; define the mechanisms for its implementation, monitoring and evaluation; and inscribe resources in the draft 2006 budget for the 2006 time slice of the action plan.	**Action fulfilled as specified.** The authorities have designated an existing unit in the Ministry of Finance (the Budget Reform Support Center—CARB) as the focal point for coordinating and monitoring implementation of the public finance management action plan. The CARB is currently operational to carry out this mandate, and have been allocated sufficient resources in the draft 2006 Budget for this purpose. The authorities have decided to formalize CARB's responsibilities through a new law which must be adopted by the National Assembly. The draft legal texts are available and in process of being adopted by the Government for submission to the Assembly.

ANNEX 3: MATRIX OF POLICY ACTIONS AND RESULTS

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
Component 1: Macroeconomic and Fiscal Framework				
A. Macroeconomic Framework and Budget Policy				
Prudent macroeconomic and budgetary management.	**Maintenance of prudent fiscal policy within a consistent macroeconomic framework.**	**Maintain a prudent budget policy consistent with the agreed macroeconomic framework.**	**Maintain a prudent budget policy consistent with the agreed macroeconomic framework.** (Permanently).	Annual inflation rate below the UEMOA criteria (3 percent)
Strengthening consistency of the budget with the poverty reduction strategy.		Update the projections for the Medium Term Budget Framework (MTBF) for 2006-2008, consistent with the macroeconomic framework.	**Prepare the Medium Term Budget Framework (MTBF) for 2007-2009 consistent with the macroeconomic framework of the 2nd generation PRSF, and that provides resource allocations by Ministry, sector and expenditure type.** (April 2006).	Improved consistency between budget policy, sector strategies and the medium term programming of expenditures by: increasing education resources (from 15.3 percent in 2005) and health resources (from 6.82 percent in 2005) as a share of the budget (including external financing for projects and sector budget support).
Improving the MTEF process to strengthen the links between the PRSF, sector policies, the budget as a means to, in part, contribute to the dialogue between the Government and other development actors.	The 2005 budget arbitrage has been carried out within the consistent macroeconomic framework, MTEF's financial envelopes, the sector priorities defined in the PRSP, and the recommendations of the first-year report on the implementation of the PRSP.	Produce an overview report presenting the draft 2006 Budget that discusses the consistency of the budget with the macroeconomic framework for 2006-2008, with sector priorities defined in the PRSF, and with recommendations of the 2003-2004 PRSF Implementation Progress Report.		
		Adopt an overall logical framework for operationalizing and appropriating the medium term budget framework (MTBF) and sector medium term expenditure framework (MTEF), synchronized with the processing timelines for the macroeconomic framework, budget preparation cycle, and 2007-2011 PRSF preparation.	Annex to the budget framework letter (the *letter circulaire*) the preliminary resources allocations for the Ministries and other organizations as tabulated in the MTBF. (End May 2006).	

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
Improve the tools for preparing and implementing the health sector strategy under the PRSF.	**The MTEF 2005-2007 of the Ministry of Health has been implemented in consistency with the elaboration of the second phase of the ten-year program for health and social development (PRODESS); mechanisms for systematic annual updates have been defined.**	Update the health sector medium-term expenditure framework for 2006-2008, with the 2006 tranche consistent with the Ministry's component of the draft 2006 Budget. The MTEF should be consistent with (i) the MTBF of the Economy and Finance Ministry, and (ii) the health sector strategy as envisaged in the PRODESS II.	Systematize the preparation of the health sector MTEF report consistent with the budget preparation cycle as defined in the MTBF-MTEF logical framework. (From 2006).	Budget sectoral allocation is consistent with sector objectives, notably increase in share of population within 15 kms of a health center (above 47 percent posted in 2004).
Improve the tools for preparing and implementing the education sector strategy under the PRSF.	**The 2005 budget arbitrage concerning the Ministry of Education on the MTEF 2005-2008 has been implemented with the objective of consistency between the sector policy and the budget.**	Update the education sector medium-term expenditure framework for 2006-2008, with the 2006 tranche consistent with the Ministry's component of the draft 2006 Budget. The MTEF should be consistent with (i) the MTBF of the Economy and Finance Ministry, and (ii) the health sector strategy as envisaged in the 2nd phase of PRODEC.	Systematize the preparation of the education sector MTEF report consistent with the budget preparation cycle as defined in the MTBF-MTEF logical framework. (From 2006).	Budget sectoral allocation is consistent with sector objectives, notably increase the in gross enrollment rate (above the 70.5 percent posted in 2004).
Improve the tools for preparing and implementing the transport sector strategy.	The Ministry of Equipment and Transport has prepared a model for the planning of the MTEF expense.	Prepare the MTEF for the Equipment and Transport Ministry for 2006-2008 consistent with the MTBF	Update the MTEF for the Equipment and Transport Ministry for 2007-2009, consistent with the MTBF of the Economy and Finance Ministry and with the infrastructure sector strategy.	
Facilitate budget preparation.	System tests have been completed for the new computer application which manages the investment budget (PTI/BSI) system.		Create a table showing the links between (a) the new information application for managing the investment budget system (GEPRIMA) and (b) the information application of the budget department. (End-December 2005).	

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
B. Growth and Poverty Reduction Strategy				
Strengthen the PRSF process including incorporation of a growth strategy.		**Adopt terms of reference for preparing the 2007-2011 PRSF, that integrates a work program for coordination of the formulation and implementation of an economic growth support strategy.**		
		Launch the preparation process for the 2007-2011 PRSF on the basis of a defined implementation schedule.	**Complete a draft of the 2007-2011 PRSF to be used during the arbitrage sessions for the 2007 Budget. (by July 2006).** Finalize the 2007-2011 PRSF on the basis of the draft 2007 budget adopted by the Government (end September 2007).	The draft 2007-2011 PRSF is available in June 2006 for incorporation in the draft 2007 budget, and final version submitted to the National assembly along with the draft budget .
Formulation of an integrated growth strategy.		Establish a work program for the formulation of an economic growth strategy underpinned by the macroeconomic framework in the 2007-2011 PRSF.		The macroeconomic framework of the 2007-2011 PRSF is based on an explicit growth strategy.

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
Strengthen the PRSF process: implementation monitoring framework, annual assessment report, financial support, and growth strategy monitoring.		Strengthen the capabilities of the PRSF Unit consistent with the Unit's new TOR, including: redefinition of its mission and attributions, human resource capacity, job descriptions, staff status.	Implement the PRSF Unit's capacity building program.	A strengthened framework for PRSF monitoring and implementation. Annual progress report for 2005 implementation is available in June 2006.
		Provide adequate resources in the draft 2006 Budget for the PRSF Unit to operationalize its reforms and coordinate preparation of the 2007-2011 PRSF.		2007-2011 PRSF is available in June 2006..
	The report on the second year of implementation has been elaborated, taking into account the results of the national workshop on the indicators for the monitoring-evaluation of the PRSP, as well as the recommendations of the joint World Bank/IMF evaluation of the report on the first year of implementation.	Complete the 2003-2004 PRSF implementation progress report. Define an implementation schedule for preparing the annual PRSF Implementation Progress Report, consistent with the budget cycle timeline (i.e., the logical framework mentioned above) and the common framework (under finalization by the Government and donors) to monitor budget support.	Complete the 2005 PRSF implementation progress report. (End-June 2006).	Timeliness and better monitoring of preparation of the next PRSF. More effective budget planning through timely incorporation of lessons from the previous year's implementation.

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
C. Budgetary Risk of the Cotton Sector				
Reduce the fiscal risks of potential cotton sector losses.	A protocol agreement between the State/CMDT/Producers on the cotton purchase price mechanism has been signed by the different parties. It is based on three principles under which the price mechanism will have to function: (i) the initial price is fixed, with the view towards budgetary prudence, at a range of 160 to 175 CFAF/Kg and for a three year period; (ii) the final price is fixed based on a formula for sharing the sector's gross revenues, calculated on the basis of the international market prices; and (iii) the price support fund is not a "sine qua non" condition for the application of the mechanism.	**Continue implementation of the cotton producer price setting mechanism with a view to limiting the state budgetary risk of the national cotton ginning company CMDT.**	**Continue implementation of the cotton producer price setting mechanism** (April 2006) **with a view to limiting the state budgetary risk of the national cotton ginning company CMDT.**	Lower current expenditures as a share of GDP
	The following actions were taken: (i) Acceptable proposal on the measures to reduce CMDT's deficit related to the 2004-2005 campaign. (ii) Acceptable proposal for the new price mechanism and the calculation/management of the refund.	Inform the World Bank of the outcome of CMDT shareholders' Extraordinary General Assembly regarding need for recapitalization of CMDT.	Ensure transparency of the financial situation of the cotton ginning company (CMDT) during its pre-privatization phase by furnishing timely relevant information to the external partners.	
		Adopt a strategy for the privatization of CMDT.	**Define the zones (3 or 4) to be privatized** (by end January 2006); and **adoption by the Government of the final design of the full privatization operational scheme** (by end-September 2006). **Launch the bids for the selection of the privatization advisor** (by July 2006).	

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
			Launch the bids for the sale of the zones to be privatized (January 2008). Bring the privatization process of the zones to the point of sale (i.e., invitation of the winning bidder to negotiate; by August 2008).	
Strengthen capacity of cotton producers to participate in sector consultations and effectively monitor implementation of cotton sector reforms.	Implementation of an information session on the content of the validated proposals from the study on the inter-profession.	Designation by the producers of their representatives for the monitoring of the privatization process of CMDT, while waiting for the establishment of the inter-profession.		
Component 2: Support to Growth				
A. Financial Sector				
Strengthen commercial bank performance.	**The contract for the audit of the non performing portfolio (defined according to the norms of the Banking Commission) has been signed.**	Final audit report available, including the proposed strategy to clean up bad loans of the banks.	**Conduct negotiations with each of the commercial banks with the view to finalize the respective strategies to clean up the bad loans** (by June 2006); and for banks for which the negotiations are concluded, start implementing the clean up strategy (January 2007).	Reduction of non-performing loans, loan spread of banks, and hence cost of credit.
Improve performance prospects of the leasing sector.	A study of the fiscal regime for leasing activities has been launched.	Hold a meeting of the validation committee for the study of the leasing industry fiscal regime; Establish the monitoring committee; Finalize the draft texts.	Adopt modifications to the fiscal regime regulating the leasing industry.	Increased leasing sector activities.

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
Improve performance prospects of the insurance sector.	A timetable has been prepared for the implementation of the recommendations of the study. Measures have been taken to strengthen the regulation of the mandatory insurance and domiciliation in Mali.		Strengthen regulatory oversight, particularly for vehicles, to ensure that they are adequately insured.	
Strengthen social security system.	An audit of the payments arrears of the State toward INPS has been launched.	Reach an agreement between the state and INPS on the amount of arrears to be paid, based on the consultant study. Finalize the plan for payment of arrears due to the INPS.		Reduction in the arrears due to l'INPS, in line with the action plan (annual reduction of CFAF 1.7 billion a year for three years).
Strengthen the housing mortgage sector.		**Re-constitute the Board of Directors of the Malian Housing Bank (*Banque de l'Habitat du Mali* – BHM) with the addition of three private sector specialists independent of the shareholders; and canvass existing and potential new investors to invite them to participate in the recapitalization of BHM.**	Continue to implement BHM's restructuring Plan, and complete BHM's recapitalization with entry of private investors.	Strengthened financial situation of the housing bank (all prudential ratios met).
Strengthen microfinance supervision.		Adopt (by the Council of Ministers) draft laws (to be submitted for adoption by the National Assembly) that (i) separate microfinance supervision and promotion activities, and (ii) return supervision functions to the Ministry of Economy and Finance.	Establish and operationalize the new microfinance supervision department.	Supervision of microfinance institutions strengthened.

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
Strengthen commercial bank performance.		Agree on the privatization strategy for BIM and the updated implementation timeline.	Continue implementing the privatization action plan for the BIM.	BIM is privatized and quality of its financial operations strengthens.
B. Transport and Trade Facilitation				
Improve road maintenance.		Confirm that the road maintenance budget is CFAF 11.5 billion in the 2006 Budget Law, as agreed between the Government, the World Bank and the European Union under existing transport programs.	Confirm that the road maintenance budget is CFAF 13 billion in the 2007 Budget Law, as agreed between the Government, the World Bank and the European Union under existing transport programs. (By end-September 2006).	
			Based on analysis undertaken in 2006, implement measures to mobilize resources (road user fee, axle load fee, toll road fee) to comprise 40% of the Road Authorities 2007 budget.	
			Confirm that the share of the road maintenance budget stemming from fees reaches 40 percent in 2007 (end-September 2006); **and determine the level of the fees (i.e., axle load fee, road user charge on petroleum product imports, other fees) needed to reach the 30 percent target.**	
		Establish a mechanism in the Treasury department to ensure that the Road Authority receives timely transfers of the road user fee and the allocation from the national budget.		Road maintenance is funded in a timely manner, as demonstrated by the monthly monitoring table.
			Allocate adequate resources in the 2007 Budget for operations of the Road Data Bank department consistent with the results expected	Improved management of road maintenance program.

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
			of the department in 2007 (end-September 2006).	
		Operationalize the information system SYDONIA++ being extended to the Bamako rail station office.		Rail transit times decline.
			Implement the data base application that posts customs documents on the Customs intranet system.	Improved quality of customs personnel and procedures. Increased predictability of customs procedures.
Strengthen operations of transport service providers, and their participation in sector policy discussions.		Non-renewal of the law under which imports of new truck are exempt from import and value added taxes.		Elimination of costly non-effective government policy. Increased government revenues.
C. Private Sector: Export Promotion and Investment Climate				
Improve export prospects of Malian producers.		Adopt an interministerial law (*arrêté*) specifying that handicraft products are subject neither to the expertise tax nor to the export authorization issued by the National Museum.	Establish a more effective mechanism to protect cultural assets so as to be able to eliminate the expertise tax levied on potential antiquities.	Improved competitiveness of handicraft exports, and increased business/investment activity in the sector.
		Launch an awareness campaign to inform artisans that they are not required to obtain export authorization from the National Museum nor pay the expertise tax.		Improved competitiveness of handicraft exports, and increased business/investment activity in the sector.

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
Improve the investment climate.		Prepare and submit a law to the National Assembly specifying that attribution of the unique firm ID number will be done by a single department (the national statistics office).	**Adoption by the National Assembly** (by December 2005) **of a law confirming that procedures pertaining to the attributing the unique firm ID number supercede previous procedures applied by Statistics, Tax and Treasury, Social security and Employment departments.**	Increase in the number of firms registered as a result of reduced time and cost to create a business.
D. Support to Irrigation Reforms in the Office du Niger				
Strengthen performance of the *Office du Niger* irrigation zone so as to enhance productivity and growth.	An acceptable draft contract plan is available.	Continue implementing the 2005-2007 Performance Contract (*Contrat Plan*) program agreed between the *Office du Niger*, producers, and external aid partners.	Implement the 2005-2007 *Contrat Plan* program.	Sustainable level and growth of agricultural production in the Office du Niger zone.
		Review implementation of the 2005-2007 Performance Contract (*Contrat Plan*) for the *Office du Niger* and its annual budget.	Conduct a second review of implementation of the *Office du Niger*'s Performance Contract and budget. (2006)	
			Finalize the attribution of land to the private sector in the Koumouna test zone, according to the criteria detailed in the Legal Agreement for the Rural Infrastructure Project. Ensure the effective launch of cultivation activities in the Koumouna test zone.	Increased production in the Office du Niger.
Strengthen performance of the *Office du Niger* irrigation zone so as to enhance productivity and growth (cont.).	The final report on the mechanism for financing irrigation expansion is available; the decree on the installation of private operators was signed.		**Strengthen the report on the irrigation financing mechanism in line with the original objective of augmenting resources allocated to irrigation through financial capital markets and private operators in the agriculture sector; and adopt the revised report.** (June 2006)	Increased expansion of production in the *Office du Niger* due to additional financing from the private sector.

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
			Adopt the texts to create the Department responsible for implementing the irrigation finance mechanism. Establish the Department. (End 2006.)	
		Move the Land Management Unit to the CEO's Office and nominate the Manager of the Unit.		Improved management of the *Office du Niger.*
		Sign the contract for the consultant conducting the organizational audit of the *Office du Niger.*	Make available the preliminary audit report (April 2006); Make available the final report (June 2006); and validate the report's propositions. (By September 2006).	
			Disseminate to farmers the contents of the Master Plan for development of the *Office du Niger.* Adopt the Master Plan for development of the *Office du Niger.*	
Component 3: Public Finance Management, Transparency and Audit				
A. Budget Reform Program				
Support PRSF implementation and improved donor harmonization, by establishing a medium-term action plan for public finance management reforms.	**Consultants have been recruited for the development of an action plan which integrates the recommendations of the different studies proposed by the donors. The study has been completed.**	**Establish the institutional framework for implementing the Government's action plan for modernization and improvement of public finance management; define the mechanisms for its implementation, monitoring and evaluation; and inscribe resources in the draft 2006 budget for the 2006 time slice of the action plan.**	**Implement mechanisms for monitoring and evaluation of the Government's public finance action plan** (from January 2006); **and implement the actions in the plan** (2006).	Budget management is satisfactory during the transition to progress increase in budget support from the donors, and improved aid effectiveness due to increased donor harmonization around the PRSF. Increasing share of external finance in the form of budget support (in 2005 the share was

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
		Take steps to ensure the implementation in 2005, of 2005 actions from the Modernization Plan that have no budgetary implications.	Update the scheduling of 2006 actions to reflect implementation status achieved during 2005. (January 2006).	22 percent in contrast with 12.1 percent in 2004).
B. Budget Execution				
Improve traceability of expenditures.	The specifications for the design and implementation of the auxiliary accounting have been submitted to the CAISFF.		Pursue implementation of a computerized auxiliary accounting system at the central government level, and produce tables of the auxiliary accounting data (by 31 December 2005).	Better expenditure management and effectiveness, in particular better information on unpaid commitments.
Improve transparency, reliability and processing rate of transactions, and information diffusion at central government and de-concentrated levels.			Establish a computerized auxiliary accounting system at de-concentrated levels (the regions), operationalize it, and produce information on the status of the payments remaining to be effectuated (*restes à payer*) (end-June 2006).	
	Terms of reference have been prepared and the tender launched for the design and implementation of the integration of the current information systems at the level of the de-concentrated services of DNB, DNCF and DNTCP. The inputs and updates of the financial control application have become operational at central government level.		Operationalize the integrated information system at de-concentrated level of key MEF departments (Treasury, Budget and Financial Controls) (June 2006).	Increased quality and reliability of expenditure data.

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
Improve efficiency and effectiveness of public expenditures.	The information on operational unit price of goods and services procured by the Government has been integrated into a CD-ROM and distributed though the internet.		Distribute to budget execution staff the updated reference list of prices for the 2006 budget year (after the complementary budget period—February 2006).	
Implementation of the Decentralization policy.	A national workshop to validate the study on the making operational of the transfer of competences was held from. A report on the proceedings of the workshop has been prepared: this report contains detailed recommendations for the plan to transfer the competences.			
C. Internal and External Controls				
Improve consistency and effectiveness of the internal control system.			Rewrite the legal texts on the creation and organization of the control departments.	
Strengthen administrative controls over the budget.	Internal administrative controls.	Provide adequate resources (financial and human) for implementation of 2006 activities of the Finance Inspection department, as determined by its specific objectives for 2006 and their control responsibilities	Implement a training program to strengthen capacity to systematically apply international audit norms and practices by the ex post administrative control departments (i.e., IF, CGSP), and maintain required staff numbers.	Improved management of controls/audits according to international (INTOSAI) standards.
		Provide adequate resources in the draft 2006 Budget for 2006 activities of the General Public Service Audit Department (CGSP), as determined by their audit and capacity building program for 2006.		
		Produce semi-annual reports on ex-post (IF and CGSP) administrative control activity.		

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
Improve performance of the financial controls department (DNCF).	List of indicators permitting to assess the quality of controls effectuated by DNCF has been defined.	Produce quarterly expenditure activity reports on the basis of ex-ante control performance indicators. (15 days after the end of the quarter).		
Improve documentation for justification of expenditures, and facilitate ex-ante control.	The list of supporting documentation for justification of expenditures has been implemented through *Arrêté* 1866.			
Strengthen judicial controls over the budget.		Provide adequate resources in the draft 2006 budget, for the Accounts Section of the Supreme Court as determined by the Section's agreed work program for 2006.	Implement a training program to strengthen capacity to systematically apply international audit norms and practices by the judicial control departments.	Reduction in the time to production of audit reports (*certificats de conformité*) (in 2005 the audit of the 2003 budget law was drafted).
		Provide adequate budgetary resources in the draft 2006 budget for the eventual change in the statutory number of staff for the Accounts Section of the Supreme Court.	Systematically provide adequate budget resources to cover the statutorily increased staff numbers of the Accounts Section of the Supreme Court. (2006 et 2007)	
		Rewrite the legal texts to increase the statutory number of magistrate staff in the Accounts Section of the Supreme Court from 15 to 67 by 2008.	Recruit at least 12 magistrates in 2006, together with the corresponding administrative support staff needed.	
		Commence implementation of actions required to redefine the status of magistrates of the Accounts Section of the Supreme Court.	Prepare a new Statute of magistrates of the Accounts Section of the Supreme Court (by end-March 2005).	

Key Objectives	SAC IV Achievements (Prior Actions in bold)	EPPFMC (Prior Actions in bold)	Post EPPFMC (Proposed Triggers in bold)	Medium-term Results/Indicators
D. Transparency and Accountability				
Strengthen publication, quality and exhaustivity of financial and economic information.	**An information note on budget execution was disseminated on the internet (web site: www.timbagga.com.ml/tresor) and in a paper addressed to the technical and financial donor partners (PTF).**	Establish the website of the Ministry of Economy and Finance along with the institutional framework to daily management and regular updating of the site. Complete compilation of information to be posted on the site, including the MTBF of the budget department, and the budget execution status prepared by the Financial Controls department DNCF, disaggregated by Ministry at the *engagement* and *liquidation* stages.		Enhanced accountability of the Government to the public on public expenditures.
Strengthen information dissemination and government accountability.	The draft Budget Execution Law for 2003 has been adopted by the cabinet.	Prepare and submit the draft 2004 Budget Execution Law (*Loi de règlement*) to the National Assembly.	Produce the draft 2005 Budget Execution Law (*Loi de règlement*) in the time frame dictated by the regulations (early October 2006).	
E. Public Sector Procurement				
Assure better monitoring of procurement procedures.	Terms of reference have been prepared for the design and implementation of a database on the different phases of the procurement.		Design and put in place a database on different phases of procurement. (March 2006).	Improved procurement operations.
Strengthen procurement system.		Establish a the tripartite national steering committee (comprising the administration, private sector and civil society representatives) to coordinate and monitor implementation of procurement reforms (CNCS).		Improved governance of the procurement system.
		Adopt (by the procurement reform committee) the revised CPAR.	**Adopt (by the Council of Ministers) the revised CPAR.**	

ANNEX 4: FUND RELATIONS NOTE

(As of December 5, 2005)

1. **The Fund supports Mali's economic program for 2004-07 under a three-year Poverty Reduction and Growth Facility (PRGF) approved in June 2004.** Total access under the arrangement is SDR 9.33 million, or 10 percent of quota, of which SDR 2.66 million has been disbursed. The second and third reviews under the arrangement have been combined because of delays in reaching understandings on fuel taxes. Following discussions during April 28-May 12, August 28-September 1, and October 18-November 1, 2005, staff supports completion of the outstanding reviews and approval of waivers for nonobservance of three structural performance criteria. The Executive Board meeting is tentatively scheduled for December 19. A disbursement of SDR 2.66 million becomes available on the completion of these reviews. The PRGF-supported quantitative program is broadly on track through end-September 2005. Although the record on the structural program has been disappointing, steadfast implementation of the program for 2006 would mark significant progress on addressing key challenges.

2. **The 2005 Article IV Consultations have focused on the management of recent exogenous shocks and progress toward accelerating growth and poverty reduction.** The policy response to shocks has been broadly appropriate and helped maintain macroeconomic stability. Adverse exogenous shocks during 2004-05 weakened economic growth, budget finances, and the performance of several significant state enterprises. Agriculture is beginning to recover from drought and locusts in 2004, while the terms of trade declined 13 percent in 2005 to a 25-year low. Measured progress is being made toward growth and poverty reduction goals. The staff view an acceleration of growth as unlikely unless the vulnerability to shocks is reduced and structural reforms, particularly private sector development, are accelerated.

COPING WITH ADVERSE EXOGENOUS SHOCKS

3. **The Malian authorities have put in place broadly appropriate policies to address the terms of trade shocks that have contributed to weaker income growth and threatened budgetary objectives.** Central to these efforts is the successful implementation of a flexible cotton producer price mechanism in full consultation with producers. The new mechanism protects farmer interests while also limiting risks of budget support to the cotton sector. The courageous decision to set seed cotton prices at the floor of the price range for the 2005/06 season tackles a significant risk that was hanging over the 2006 budget. Further, the authorities have continued to pass through increases of international oil prices to pump prices to protect budgetary revenue, albeit partially and with some delay. A formula for full but gradual pass-through and measures to protect the poor could better balance consumer and revenue objectives.

4. **Mali will remain vulnerable to further shocks, linked to climatic conditions and deteriorating terms of trade, and needs to be prepared to strengthen adjustment efforts if necessary.** While the prompt sale and distribution of food stocks contributed to a narrow avoidance of widespread food insecurity, the efficiency of food markets remains in doubt, with substantial spatial and temporal price differences. More attention should be focused on impediments to food trade, particularly at a regional level. Further increases in oil prices, and

declines in cotton or gold prices, in the context of an undiversified economic base and a pegged exchange rate, are also major challenges to continued macroeconomic stability and growth. Stronger adjustment efforts may be needed, in particular maintaining a prudent fiscal position and allowing prices to adjust.

5. **The continued support of development partners has contributed to a relatively smooth adjustment to the difficult external circumstances**. While some donor budget support has been delayed into early 2006 for procedural reasons, other donors have increased their support in 2005. Nonetheless, the staff believes that continued increases in donor support are contingent on concrete steps to open up the cotton sector to private capital, financial management reform, and other operational reforms. However, progress toward privatization of CMDT has stalled. The initial steps taken by the authorities to improve surveillance of the financial operations of the state-owned cotton company, CMDT, are welcome. To build on this success, a comprehensive business plan is required to chart the course to privatization, a clear strategy to disengage the Government from the cotton sector while protecting farmers' interests, and firm evidence that this strategy is being implemented.

6. **The staff recommend closer surveillance of the financial sector in Mali**, and in particular a significant reduction of forbearance as regards observance of prudential ratios, taking into account the unavoidably high levels of exposure to the cotton sector. Increased vigilance is called for on the part of the supervisory authorities, notwithstanding ample system-wide liquidity. Within the constraints of prudential norms, the authorities should examine ways of reinvigorating financial intermediation and private sector lending.

7. **As a member of the West African Economic and Monetary Union, Mali does not independently determine its exchange rate policy**. Nonetheless, the staff is of the view that the fixed peg of the CFA franc to the euro remains an important nominal anchor for inflation and remains credible in light of the levels of reserve coverage. In connection with its WAEMU commitments, Mali has accepted the obligations of Article VIII and maintains an exchange system that is free of restrictions on current transactions. Moreover, the Union has succeeded in substantially reforming the trade regime while economic convergence criteria are useful discipline on the conduct of fiscal policies. Competitiveness issues are best addressed through reforms that will reduce the costs of doing business and factor price flexibility.

ENABLING FASTER GROWTH AND POVERTY REDUCTION

8. **Implementation of other structural reforms under the program has been generally disappointing and risks undermining both the program's medium-term growth objective and poverty reduction objectives**. Although the privatization of the cottonseed oil company is a move in the right direction, the broader picture appears to be a waning commitment to pursue private sector development characterized by continued delays in the disengagement from the banking and telecommunications sectors. Further, the deterioration of relations with companies in recently privatized sectors, notably electricity and water, does not augur well for attracting future investment. Implementation of the 2006 program of structural reforms regarding privatization and management of state enterprises would provide a clear signal of the authorities policy priorities.

9. **The authorities need to complement their clear vision of the growth potential of various sectors, with determined implementation of reforms to improve the investment environment and boost productivity**. Much of the diagnostic work is in place, and the next Poverty Reduction Strategy should, in the view of the staff, make explicit the link between a growth strategy and poverty reduction, as well as maintaining a realistic assessment of the growth potential. The discussions of exchange rate competitiveness in the context of a fixed peg underscore the importance of increasing the flexibility of other prices, notably wages and key product market prices (cotton, fuel), to send market signals to producers and consumers and improve the efficiency of resource allocation.

10. **The concept of creating and using fiscal space is a useful term for analyzing the medium-term budgetary outlook and the scope for poverty reduction in Mali.** While public finance management reforms continue to progress and are likely to support revenue growth over the medium term, the specifics of key budgetary policies relating to pensions, the efficiency of spending, and social safety net payments have not received the attention commensurate with their potential impact on fiscal space. The staff will continue to focus on policy advice in these areas in the remainder of the PRGF. Nonetheless, economic growth remains the key factor in creating fiscal space for poverty reducing spending over the medium term, even in the context of MDRI and higher than projected external assistance. This, in turn, underscores the importance of accelerating structural reforms, particularly relating to private sector and financial market development, while addressing the numerous impediments to doing business.

ANNEX 5: COLLABORATION WITH THE IMF ON MALI

Mali: IMF-World Bank Relations

(As of December 6, 2005)

A. Partnership in Mali's development strategy

1. Mali's development strategy increasingly emphasizes growth and poverty reduction. Its PRSP (adopted by the government in May 2002) highlights growth as a precondition for poverty reduction, and outlines programs for (i) institutional development and improved governance, (ii) human development and access to basic social services, and (iii) infrastructure development and support for key productive sectors. Mali's growth strategy aims to be private sector led and market oriented toward the West Africa region as well as the global market.

2. The IMF and World Bank staffs maintain a collaborative relationship in supporting the government's macroeconomic and structural reforms, in line with the guidelines for enhanced Bank-Fund collaboration. This includes regular participation of Bank staff in the meetings with the government on the Fund's program review missions, IMF staff participation in Bank development policy missions and Bank internal review meetings. The IMF takes the lead in macroeconomic stabilization and the World Bank in social and structural areas, with close collaboration on a few structural areas that have a particular impact on macroeconomic stability. The Fund's dialogue and conditionality are consistent with the structural programs agreed with the Bank, and the Bank's dialogue and conditionality have maintained consistency with the macroeconomic framework endorsed by the Fund.

B. World Bank Group strategy

3. The World Bank Group's strategy, outlined in the Country Assistance Strategy (CAS) discussed by the Board of Directors on July 31, 2003, emphasizes three broad themes in line with the country's PRSP: (i) promotion of economic growth; (ii) human resources development; and (iii) public finance management and governance. Mali also benefits under the Bank's Regional Integration Assistance Strategy (2001), notably a program for connection to the West Africa Power Pool, harmonization of country policies and/or regulatory frameworks (telecommunications, agriculture, financial sectors), water resource development of the Niger and Senegal Rivers, strengthening of road transport corridors, and strengthening the regional payments system.

4. Support to Mali during fiscal years 2004-06 amounts to US$400 million in the base case, with about 30 percent in grants. Budget support of $25 million is provided annually through development policy credits (DPCs), subject to satisfactory macroeconomic management. This is complemented by selected investment operations (targeting education, support to growth, and infrastructure development) and a community-driven development operation. The Bank will prepare a new CAS in the course of FY07 in support of Mali's next PRSP (under preparation in the first half of 2006). In that context, the Bank envisions aligning its annual budget support with Mali's budget cycle during 2007, possibly in the form of programmatic lending along the lines of a PRSC.

5. The CAS also includes non-lending activities. Recently completed activities include a Country Financial Accountability Assessment, Macroeconomic Growth and Water Variability study, first phase Poverty Assessment, Country Procurement Assessment Review, and an Integrated Framework Trade Diagnostic Study. A Poverty and Social Impact Analysis of the cotton sector is nearing completion. The Bank has also assisted with development of medium-term expenditure

frameworks (MTEF) for health, education, and transport, and MTEF support is envisioned for the agriculture-livestock-fisheries sector. Planned activities during FY06-07 include a Country Economic Memorandum on growth and a Public Expenditure Review.

C. IMF-World Bank collaboration

6. **Areas in which the Fund leads.** The Fund takes the lead in macroeconomic stabilization including macro-fiscal policy, monetary policy, exchange rate policy, and financial stability and risk management.

7. **Areas in which the Bank leads.** The Bank takes the lead in structural areas where both institutions have conditionality, including cotton sector reform, privatization and regulatory reform (telecommunications, banking, financial and energy sectors), and pension reform. The Bank also leads in other areas such as: agricultural competitiveness/diversification; rural development (irrigation, roads, support to producer organizations); private sector development (strengthening the investment climate, access to business services, support to small/medium enterprises); urban development (historic rehabilitation/ preservation, land/housing market development, water/road infrastructure); transportation policy/infrastructure; energy sector reforms; and social sectors (health, education and social protection, including HIV/AIDS). The Bank's work in structural areas includes analytical work and dialogue on trade and growth policies, which form part of the overall economic policy dialogue. The Bank collaborates with other donors whenever possible (notably in health, education, agriculture and cotton sectors), and is pursuing a harmonized approach for donor support to health and education reforms as well as on budget support more broadly.

8. **Areas of shared responsibility.** Both Bank and Fund collaborate in assessing performance of HIPC resource use. Both also monitor progress on budgetary and public expenditure management, yet emphasize different aspects of the government's reform program in the respective support operations. The Bank emphasis in this area is on strengthening all phases of the public expenditure system—budget preparation, budget execution, and budget controls—to support the government's objectives of progressive shifts toward result-based budgeting and improved effectiveness of expenditures. Bank support is at the national level in the finance ministry (global MTEF, integrated information technology system, audit capabilities, budget reporting) and sector ministries (selected sector MTEFs, inter- and intra-sectoral allocations), as well as at de-concentrated levels (budget nomenclature, IT system, capacity building). The Fund's emphasis is on fiscal management, expenditure management (including financing of transfers to parastatals), revenue enhancing measures, and audit capabilities. Table 1 summarizes the areas of Bank-Fund collaboration in Mali.

Table 1: Bank Fund Collaboration in Mali (ongoing or planned)

Area	Specialized Advice from Fund	Specialized Advice from Bank	Key Instruments
Economic Framework/Management	Fiscal/monetary policy, Economic statistics	Economic growth analysis.	*IMF*: PRGF performance criteria and benchmarks on fiscal and monetary targets; technical assistance. *Bank*: Analytical studies
Budgetary and Public Expenditure Reforms	Overall budget envelope, Expenditure management, Enhancement of tax and non-tax revenue, Pension reform	Sector MTEFs (Transport and Rural Sectors), Integrated information system, Improved reporting on budget execution, CFAA, CPAR, Public expenditure tracking survey (education sector).	*IMF*: PRGF performance criteria and benchmarks on overall fiscal balance and on pension system viability; technical assistance. *Bank*: Policy framework actions in successive development policy operations; Support to capacity building (MTEFs), Financial sector development project.
Agriculture and Rural Development (incl. Cotton)		Rural development strategy, Agricultural export promotion, Irrigation, Rural roads, Community driven development. Cotton: privatization strategy, liberalization of critical functions, capacity building of producer organizations.	*IMF*: PRGF performance criteria on cotton pricing and benchmarks on preparations on privatization. *Bank*: Policy framework actions for cotton and Office de Niger in successive development policy operations; Agricultural services and producer organizations project (for agriculture and rural sector development); Agriculture diversification and competitiveness project (for agriculture development and export promotion); National rural infrastructure project (for rural roads and irrigation).
Social Sector Reforms/Poverty Monitoring		Reforms in education and health, HIV/AIDS program, Poverty assessment, Cotton PSIA.	*Bank*: Integrated health sector investment project (ongoing and next phase); Education sector expenditure program (ongoing and next phase); HIV/AIDS MAP project.
Privatization and Private Sector Development		Privatization strategy (telecommunications, banking, energy), Pricing policy, Revenue management (mining), Business development services (incl. to SMEs).	*IMF*: PRGF benchmarks on bank and telecom privatization processes. *Bank*: The policy framework under successive development policy operations (actions on the financial and cotton sectors); Financial sector development project (policy framework condition on State ownership of banks); Sources of growth project (telecom, mining, investment climate, SMEs); Household energy project, and advice on electricity utility.
Infrastructure and Other Sectors		Strategy and investment program (transport, energy, water), Urban sector study.	*Bank*: Transport corridor project, Rural infrastructure project, Household energy and universal access project.

Prepared by World Bank staff. Questions may be referred to Ms. Gaye (Acting Country Director, (229) 21 30 17 44), Ms. Wood (Sr. Economist, 473-5829), or Ms. Hader (Sr. Operations Officer, 458-8414).

ANNEX 6: ECONOMIC INDICATORS

Indicator	Actual				Estimate		Projected		
	2000	2001	2002	2003	2004	2005	2006	2007	2008
National accounts (as of GDP)									
Total Consumption	88.0	86.0	88.7	86.8	89.3	89.6	79.5	80.6	80.0
Gross domestic fixed investment	24.6	31.0	18.6	24.2	19.0	23.8	24.7	21.4	21.8
Government investment	8.6	7.0	7.0	6.9	7.5	8.4	9.9	8.8	8.5
Private investment	15.9	24.0	11.6	17.3	11.5	15.4	14.9	12.6	13.3
Exports (GNFS)[b]	26.8	33.3	31.9	26.4	27.5	25.7	29.9	31.5	29.7
Imports (GNFS)	39.4	50.3	39.2	37.4	35.8	39.1	34.2	33.5	31.5
Gross domestic savings	12.0	14.0	11.3	13.2	10.7	10.4	20.5	19.4	20.0
Gross national savings[c]	5219.5	5175.6	4389.1	4769.8	3666.9	4064.2	3421.2	3281.8	2015.3
Real annual growth rates (%, calculated from 1987 prices)									
Gross domestic product at market price	3.2	12.1	4.2	7.4	2.2	5.4	5.4	5.7	5.2
Gross Domestic Income	3.7	11.8	-3.4	14.9	3.9	-0.1	11.3	8.0	6.5
Current account balance before capital grants	-9.3	-11.8	-3.0	-6.2	-4.7	-9.3	-8.5	-7.6	-8.3
Gross external reserves (months of imports)	4.5	3.2	4.9	6.0	6.4	5.3	6.1	6.6	6.6
Public finances (as of GDP at market prices)									
Current revenues	15.7	16.1	15.2	17.2	17.3	18.5	18.9	19.0	18.8
Current expenditures	11.6	14.5	13.2	12.5	13.6	14.1	15.0	15.6	15.4
Capital expenditure	10.7	9.2	8.6	8.5	9.0	11.4	10.5	11.4	11.1
Overall deficit (payment order basis, incl grants)	-2.9	-3.2	-3.7	-0.8	-2.4	-4.6	-5.5	-4.4	-4.4
Consumer price index (% growth rate)	-0.7	5.2	5.0	-1.3	-2.8	5.0	-1.5	2.5	2.5
GDP deflator (% growth rate)	5.6	-0.3	16.0	1.3	-0.5	-1.1	-1.5	2.2	6.0

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

ANNEX 7: SOCIAL INDICATORS

Mali Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1998-04	Sub-Saharan Africa	Low-income
POPULATION					
Total population, mid-year *(millions)*	6.6	8.5	11.8	719.0	2,338.1
Growth rate *(% annual average for period)*	2.2	2.7	2.3	2.2	1.8
Urban population *(% of population)*	18.5	23.8	32.2	36.7	30.7
Total fertility rate *(births per woman)*	7.1	6.9	6.1	5.2	3.6
POVERTY					
(% of population)					
National headcount index	..	..	64.0	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita *(US$)*	270	270	340	600	510
Consumer price index *(1995=100)*	..	75	114	..	..
Food price index *(1995=100)*	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	..	..	..
Lowest quintile *(% of income or consumption)*	..	..	..	..	..
Highest quintile *(% of income or consumption)*	..	..	..	..	..
SOCIAL INDICATORS					
Public expenditure					
Health *(% of GDP)*	..	1.6	1.2	2.6	1.5
Education *(% of GNI)*	..	..	..	3.4	3.2
Social security and welfare *(% of GDP)*	0.4	0.9	..	..	..
Net primary school enrollment rate					
(% of age group)					
Total	20	21	42	64	78
Male	..	27	49	68	82
Female	..	16	34	60	76
Access to an improved water source					
(% of population)					
Total	..	55	51	58	75
Urban	..	65	74	82	89
Rural	..	52	61	45	69
Immunization rate					
(% of children ages 12-23 months)					
Measles	..	43	57	61	66
DPT	..	42	71	59	67
Child malnutrition *(% under 5 years)*	..	31	25	..	44
Life expectancy at birth					
(years)					
Total	42	45	52	46	58
Male	41	44	41	45	57
Female	43	46	43	46	59
Mortality					
Infant *(per 1,000 live births)*	184	136	113	101	79
Under 5 *(per 1,000)*	315	268	229	171	122
Adult (15-59)					
Male *(per 1,000 population)*	454	434	550	519	317
Female *(per 1,000 population)*	362	351	513	461	266
Maternal *(per 100,000 live births)*	..	..	..	24	538
Births attended by skilled health staff *(%)*	..	32	37	39	38

CAS Annex B5. This table was produced from the CMU LDB system. 12/14/05

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

ANNEX 8: PROGRESS ON THE MDGs

Progress to date for various indicators suggest that Mali may not reach some of the MDG targets. *There are eight MDGs in the declaration adopted by the United Nations. The first seven MDGs can be grouped into four categories: a) eradicating extreme poverty; b) eradicating hunger; c) Achieving universal primary education and promoting gender equality; and d) improving health outcomes and ensuring environmental sustainability. The eighth MDG relates to the development of a global partnership for development. Data on the progress achieved so far for the indicators related to these goals are given in Table A8.1. A more detailed discussion (together with explanations on the data sources used for the estimation) is available as well as in the November 2004 report entitled* Rapport de suivi de la mise en oeuvre des Objectifs du Millénaire pour le Développement (OMD) *and prepared with the support of UNDP.*

- *Eradicating extreme poverty (Goal 1).* The first MDG includes two objectives, the first one of which is the eradication of extreme poverty understood as the inability for households to generate enough resources in order to meet their basic needs. To monitor progress, the target is to reduce extreme poverty by half between 1990 and 2015, and the main indicator is the share of the population living below a Purchasing Power Parity poverty line of US$1 per day. In practice, rather than using the US$1 poverty line, it is better to rely on a country-specific methodology for the estimation of poverty in order to track progress towards that goal. Estimates prepared by DNSI suggest relatively slow progress towards reducing poverty, with the share of the population in poverty declining from 72-73 percent in 1989 to 68.3 percent in 2001. Alternative estimates based on the cost of basic needs method suggest faster progress, with the poverty headcount reduced from 63.8 percent in 1989 to 56.5 percent in 2001. In fact, the reduction has been larger since the 1994 devaluation, and this is confirmed using data on assets owned by household in repeated demographic and health surveys. But even then, achieving a reduction by half of poverty by 2015 will require higher growth rates in the future as compared to the (already relatively good) performance observed in the 1990s.

- *Eradicating hunger (Goal 1).* The second objective in the first MDG is the eradication of hunger, with as target a reduction by half the share of the population which suffers from hunger. The indicators for this target are the prevalence of child malnutrition, as well as estimates of the share of the population without adequate dietary energy consumption. Data on child malnutrition are available from the nationally representative Demographic and Health Surveys. Child malnutrition as measured by stunting actually increased between 1991 and 2001, from 27.1 percent to 38.0 percent, but other indicators such as wasting showed an improvement, from 42.9 percent to 33.0 percent. Overall, despite progress in some indicators, it remains unclear whether a reduction in the various indicators of malnutrition and hunger by half in 2015 versus 1990 levels is likely.

- *Achieving universal primary education and promoting gender equality (Goals 2 and 3).* The next two MDGs are to achieve universal primary education and promote gender equality. The target for universal primary education is the completion of a full course of primary schooling by boys and girls alike. There are three indicators to measure progress: the net enrollment ratio in primary education, the proportion of pupils starting grade 1 who reach grade 5, and the illiteracy rate of 15-24 year-olds. The target for gender equality and the empowerment of women is the elimination of gender disparities in primary and secondary education by 2005, and for all levels of education by 2015. The four indicators suggested for monitoring progress over time are the ratio of girls to boys in primary, secondary and tertiary education, the ratio of literate females to males of 15-24 year-olds, the ratio of women to

men in wage employment in the non-agricultural sector, and the proportion of seats held by women in national parliament. The data in Table A8.1 suggests significant progress. For example, the gross enrollment rate in primary school increased from 26.0 percent in 1990 to 67.0 percent in 2003, and the ratio of girls to boys in primary schools increased from 0.62 to 0.73 over the same period. As for the literacy rate among the population aged 14 to 25, it has increased from 18.8 percent in 1991 to 41.5 percent in 2001. A continuation of this trend might enable Mali to reach the MDGs.

- *Improving health outcomes and ensuring environmental sustainability (Goals 4 to 7).* The fourth and fifth MDGs are essentially to reduce child and maternal mortality. The targets for child mortality are to reduce by two thirds, between 1990 and 2015, the under-five mortality rate (with three indicators: the under-five mortality rate, the infant mortality rate, and the proportion of one year old children immunized against measles). The targets for maternal mortality are to reduce by three quarters, between 1990 and 2015, the maternal mortality ratio (with two indicators: the maternal mortality ratio itself and the proportion of births attended by skilled health personnel). Unfortunately, as shown in Table A8.1, progress is fairly limited in the indicators for infant, child, and maternal mortality. Today, only a minority of women benefit from a medically assisted delivery. The sixth MDG is also related to health: it consists in combating and reversing the spread of HIV/AIDS, malaria, and other communicable diseases. There, some progress is achieved, in so far as Mali has been able to avoid high rates of HIV/AIDS infection. The seventh MDG is to ensure environmental sustainability. While there are many indicators here, an important one consists in halving by 2015 the proportion of people without sustainable access to safe drinking water. Strong progress has been achieved here, with the share of the population with such access increasing from 38.0 percent to 54.1 percent.

- *Building a global partnership for development*: Selected indicators related to this goal are also provided in Table A8.1. After the adoption of its PRSF, Mali became in March 2003 the 7th country to achieve the completion point for debt relief under the HIPC initiative, which has enabled the country to reduce key debt ratios, including the debt service to export ratio which has been reduced by more than half. In line with the priorities established in Mali's PRSF, resources from debt relief are being allocated to priority social sectors and poverty reduction activities. More generally, during the period 1993-2002, about 60 percent of development assistance was allocated to basic social services.

Table A8.1: Key goals, targets, and indicators related to the Millenium Development Goals

Objective	Goal	Indicator	Circa 1990	Circa 2001
1. Eradicate extreme poverty and hunger	Halve, between 1990 and 2015, the proportion of people whose income is below the poverty line	Proportion of the population living below the poverty line	DNSI 72-73% W.B. 63.8%	DNSI 68.3% W.B. 56.5%
	Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Percentage of children less than 5 years old who are undernourished (stunting)	Stunting 27.1% Wasting 42.9%	Stunting 38.0% Wasting 33.0%
2. Achieve universal primary education	Provide all children the means to complete primary education	Proportion of children who have completed primary school	Primary GER 26.0%	Primary GER 67.0%
3. Promote gender equality and the empower women	Eliminate gender disparities in primary education by 2005 and at all levels of education by 2015	Ratio of girls and boys In primary, secondary and tertiary	62% (primary)	73% (primary)
4. Reduce child Mortality	66% reduction in child mortality rate between 1990 and 2015	Share of children dying before 5 years of age	238‰	229‰
5. Improve maternal Health	75% reduction in maternal mortality between 1990 and 2015	Maternal mortality rate	+/- 6‰	+/- 6‰
6. Fight HIV/AIDS and other major diseases	Stop the spread of HIV/AIDS and reverse the current trend	Prevalence rate of HIV/AIDS	NA	1.7%
	Manage the spread of malaria and reverse the current trend	Malaria related mortality rate	NA	32%
7. Ensure environmental sustainability	Integrate the principles of sustainable development in the national development policy	Percentage of land devoted to forests	11.6%	10.8%
	50% reduction of proportion of the population without access to safe drinking water by 2015	Proportion of the population having access to safe drinking water	38.0%	54.1%
	Improve access, for as many people as possible, to decent and affordable housing	Proportion of the population having access to a better drainage system	NA	NA
		Proportion of the population having access to decent housing	NA	NA
8. Build a global partnership for development	Commitment to the needs of PMA	Proportion of ODA for social services and basic infrastructure	60% (1992-2003)	
	Viability of debt	Debt service/export ratio	36.8%	15.2%

Source: Compiled from UNDP and Republic of Mali (2004) and World Bank estimates.

ANNEX 9: MALI: EXTERNAL DEBT SUSTAINABILITY ANALYSIS (DSA)[1]

1. Since the 1994 CFA franc devaluation, which increased debt and debt service indicators substantially, Mali has benefited from a series of debt relief measures that have reduced debt service, including the Highly Indebted Poor Country (HIPC) Initiative. The HIPC Initiative reduced debt service to sustainable levels as defined by a specific threshold for the NPV of debt to exports (200 percent original HIPC Initiative and 150 percent for the enhanced HIPC Initiative). Despite the implementation of sound macroeconomic policies and prudent debt management, the capacity to repay debt remains subject to moderate risks from natural and commodity price shocks. Accordingly, lessening the exposure to such shocks through diversification and improving productivity remains key to lessening medium-term debt vulnerabilities.

2. This DSA applies the low income country template to the staff's baseline projections, and applies various robustness checks.[2] The analysis shows that external debt sustainability is broadly achieved under baseline projections in relation to the policy dependent debt burden thresholds. However, adverse external and internal shocks could result in breaching debt-to-exports and debt-to-GDP thresholds over the medium term. Accordingly Mali is assessed as a having a moderate risk of debt distress. Accelerating export growth and maintaining highly concessional loan assistance are important factors in maintaining debt sustainability. The multilateral debt reduction initiative (MDRI) expected to be implemented in 2006 is also projected to improve the debt ratios significantly over the medium term.

BASELINE PROJECTIONS

3. The DSA focuses on the external debt situation, since the existing domestic debt stock is negligible (less than 2 percent of GDP) while projected budgetary financing needs are likely to be covered by external grant and concessional loan assistance for the foreseeable future.

[1] Jointly prepared by the IMF and World Bank staffs.

[2] The low income debt sustainability framework compares debt burden indicators to indicative policy-based thresholds. The thresholds are based on the empirical finding that low-income countries with stronger policies and institutions tend to have a higher debt carrying capacity. See IDA and IMF, "Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations" (IDA/R2005-0056), April 2005.

Mali. Stock of Domestic Debt, 2002-2005

	2002	2003	2004	2005 September
	(billions of CFAF unless otherwise noted)			
Gross debt to the banking sector	49.8	44.9	34.0	28.7
Government Securities	18.3	8.0	7.5	7.5
Non-bank debt	39.0	25.3	12.4	17.5
Total domestic public debt	107.1	78.2	53.9	53.7
Total domestic public debt (percent of GDP)	4.6	3.0	2.1	1.9

Source: Malian authorities.

4. Mali's external debt ratios have improved compared to the projections made at the completion point (2003) mainly reflecting a CFA franc appreciation against the U.S. dollar that has lowered the ratio of external debt to GDP, and better-than-expected US dollar-denominated exports in 2004 that has improved the debt service ratio and the NPV of debt-to-exports ratio. The NPV of debt-to-GDP in 2004 has dropped from 33 percent at the completion point to 25 percent in the DSA. The NPV of debt-to-exports in 2005 is reduced from 118 percent to 106 percent while the debt service ratio is unchanged at 6 percent in both analyses.

5. Macroeconomic projections are based on 2004 actual data, 2005 estimates for debt and the principal macroeconomic indicators. Projections for key macroeconomic variables have not been substantively changed compared to enhanced HIPC Initiative completion point projections made in March 2003. Under the baseline scenario, projected GDP growth rises gradually compared to the ten-year average of 5.5 percent (1995-2004), from 5.6 percent during 2005-10 to 6 percent during 2011-25. The improvement in growth reflects an assumption that a gradually increasing role of the private sector leads to more efficient investment and production decisions, as well as gradual improvements in the quality of human capital. The key sector developments incorporated in this scenario are: (i) broad-based production growth—agriculture (reflecting both increased planted area and yield), cotton processing, energy, trade, and services; (ii) a projected decline in gold output after 2008, followed by an assumed leveling off of production from 2014 onward (at 50 tons per year equivalent to 2005 estimated production); and (iii) increased growth in non-mining exports over the longer term, helping to offset the substantial slowdown in export growth in 2010 and subsequent years as a result of the fall in gold production (Box 1). This improvement results from diversification engendered by removing impediments to trade and investment at the country and sub-regional level, and a gradual improvement of financial intermediation by the banking system.

Box 1. Mali: Debt Sustainability Analysis: Macroeconomic Assumptions, 2005-25

- Real GDP is projected to grow by 5.6 percent per annum 2005-10 and 6.0 percent on average during 2011-25.
- Inflation remains at about 2.5 percent during the projection period.
- Government revenue is stable at about 19 percent of GDP.
- The fiscal deficit, excluding grants, declines to 6.3 percent of GDP in 2010 and to less than 6 percent thereafter. Including grants, the deficit declines to less than 3.7 percent of GDP.
- The non-interest current account deficit averages 8.0 percent of GDP during 2005-10 then weakens to 9.3 percent of GDP during 2011-25.
- The volume of exports grows by about 9 percent during 2005-10; given the expected decline in gold exports, it averages 4 percent thereafter. The terms of trade and real exchange rate are projected to remain unchanged from 2010 onwards.
- The volume of imports is projected to grow in line with real GDP.
- Public sector external borrowing averages 4-5 percent of GDP a year; loans are assumed to have an average maturity of 28 years, a grace period of 7 years, an average interest rate of 0.7 percent, and a grant element of 50 percent. It is assumed that 65 percent of the new borrowings will come from multilateral sources and the remaining 35 percent from bilateral sources. IDA disbursements are assumed to be loans.
- Net private capital inflows are assumed to average 2½ percent of GDP a year (compared to 2.3 percent over the period 1995-2003).
- A uniform discount rate of 5 percent is used for NPV calculations.

6. **Mali's external debt ratios are projected to remain below, or close to, applicable debt thresholds over the period 2005-25** (Box 2, Figure 1, Table 1). Based on the 2004 World Bank Country Policy Institutional Assessment (CPIA) ratings, Mali is classified as a medium performer, which determines the relevant debt thresholds. In particular:

- the NPV of debt-to-GDP ratio is projected to fall from an average of 28 percent during 2005-10 to 22 percent in 2025, as a result of steady GDP growth;

- the NPV of the debt-to-exports ratio increases over the projection period, particularly after 2010 as export growth slows, and breaches the threshold level of 150 percent by a moderate amount at the end of the projection period; and,

- the debt service-to-export ratio is projected to decline marginally during the period 2005-2010, and is projected to stabilize from 2010 onwards;

Box 2: Policy-Based External Debt Burden Indicators				
	Thresholds[1/]	Mali: Baseline Scenario Ratios		
		2004	2005-10[2/]	2011-25[2/]
		(In percent)		
NPV of debt-to-exports	150	106	100	136
NPV of debt-to-GDP	40	25	28	28
Debt service-to-exports	20	6.4	6.5	5.5
1/ Shows policy indicative thresholds as used in the joint IMF-World Bank low-income country DSA framework for a medium policy performer.				
2/ Simple average.				

STANDARD AND BOUND TESTS FOR BASELINE

7. **The standard set of sensitivity checks on the evolution of debt ratios suggest that Mali continues to be vulnerable to external shocks over the period 2005–25** (Figure 2, Table 2). Under an alternative scenario which sets key parameters to their historical average values, debt to GDP and the NPV of debt to exports rise above the relevant threshold levels by 2010, although owing to a high degree of concessional loan assistance, the debt service ratio remains below the threshold. The key factor in the historical scenario is the high noninterest current account deficit (14.3 percent of GDP compared to projections of around 9 percent of GDP). In a second scenario, with public sector loans at less favorable terms, the external debt stock ratio indicates that Mali becomes at risk of debt distress by the end of the projection period, underscoring the importance of retaining high levels of concessional assistance (Tables 1 and 2, Figure 1).

8. **The *bound* sensitivity tests, assume adverse shocks to key parameters first separately, and in some cases jointly**. The main results of these sensitivity tests are that despite improved GDP growth and containment of inflation, Mali remains vulnerable to exogenous shocks, particularly:

- a one-time 30 percent nominal depreciation relative to the baseline would result in a sharp increase in the NPV of debt-to-GDP ratio in 2006, which would cross the threshold by 2007 placing Mali at risk of debt distress until 2022; and,

- a temporary shock on export growth of one standard deviation is significant in magnitude owing to the high standard deviation of exports. The NPV of debt-to-exports ratio reaches 153 percent in 2007.

9. **Based on these findings, this analysis suggests that Mali has a moderate risk of debt distress**. The baseline scenario indicates that the debt-to-exports ratio is marginally above the debt burden threshold toward the end of the projection period. Stress testing results in the debt-to-GDP and debt-to-exports indicators exceeding thresholds over the medium term (for export shocks, a 30 percent devaluation scenario and using historical averages of key data), though the debt service-to-exports indicator remains well below the 20 percent threshold in all cases. The low level of the debt service-to-exports indicator in both the baseline and the stress testing highlights the importance of maintaining a high degree of concessionality in future lending to Mali. Risks would clearly increase if, over the medium term, the level of concessionality were to decrease.

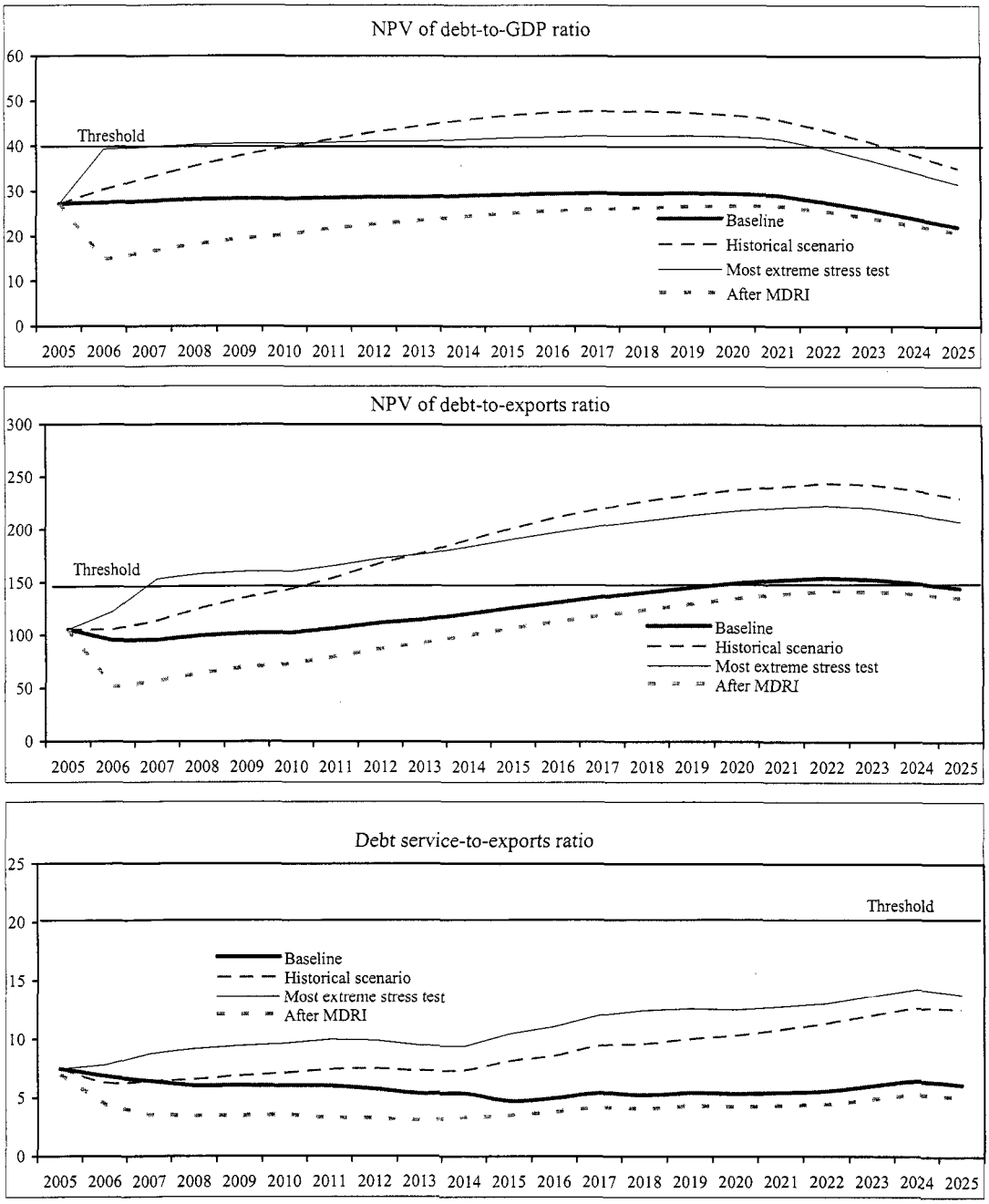
MULTILATERAL DEBT RELIEF INITIATIVE

10. **Debt sustainability was also assessed under a Multilateral Debt Relief Initiative (MDRI) scenario**. The MDRI scenario assumes a cut-off date of January 1, 2005 for IMF and African Development Fund debt, and January 1, 2004 for IDA (International Development Association) loans. The scenario assumes an implementation date of January 1, 2006 for IMF and AfDB and July 1, 2006 for IDA. The projected loan disbursements from multilaterals are assumed to be somewhat lowered relative to the baseline as a result of MDRI, reflecting the amount and distribution of compensatory financing for IDA and the AfDB relative to debt service relief. Nonetheless, net transfers from multilaterals would increase as a result of MDRI over the medium term. This scenario results in a halving of the debt-to-GDP ratio in 2006 and reduces the debt service ratio by half over the medium term to a range of 3-5 percent of exports. However, over the longer term (twenty years) the MDRI scenario debt indicators approach those in the baseline scenario (determined by new borrowing over the period 2005-25). The risk of debt distress in the MDRI scenario is low over the medium term, but in the long term would return towards the moderate risk level assessed in the baseline scenario. The scenario is based on current assumptions and may need to be revised when the institution-specific terms of MDRI are finalized.

CONCLUSION

11. The analysis indicates that external debt sustainability is broadly achieved under baseline projections in relation to the policy dependent debt burden thresholds. However, adverse external and internal shocks could result in breaching debt-to-exports and debt-to-GDP thresholds over the medium term. Accordingly Mali is assessed as a having a moderate risk of debt distress. Accelerating export growth and maintaining highly concessional loan assistance are important factors in maintaining debt sustainability. The multilateral debt reduction initiative (MDRI) expected to be implemented in 2006 is also projected to improve the debt ratios significantly over the medium term.

Figure 1. Mali: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2005-2025
(In percent)



Source: Staff projections and simulations.

Table 1. Mali: External Debt Sustainability Framework, Baseline Scenario, 2002-2025 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
External debt (nominal) 1/	**90.2**	**64.0**	**63.1**	91.1	16.6	**67.5**	**66.5**	**66.1**	**66.0**	**65.6**	**65.0**	**66.1**	**61.2**	**39.4**	**55.9**
Of which: public and publicly guaranteed (PPG)	90.2	64.0	63.1	90.3	16.3	67.5	66.5	66.1	66.0	65.6	65.0	66.1	61.2	39.4	55.9
Change in external debt	1.5	-26.3	-0.9	-5.3	10.8	4.4	-0.9	-0.4	-0.1	-0.3	-0.7	0.3	-0.8	-3.7	-1.7
Identified net debt-creating flows	-11.6	-16.2	-2.2	5.1	15.7	6.7	5.3	3.5	3.4	3.1	2.9	4.1	4.5	9.3	6.0
Non-interest current account deficit	**3.4**	**8.2**	**8.2**	**14.2**	**5.5**	**10.9**	**8.8**	**7.4**	**7.1**	**6.8**	**6.7**	**7.9**	**8.3**	**11.8**	**9.3**
Deficit in balance of goods and services	0.2	7.2	7.0	11.3	8.6	10.0	7.8	5.9	5.3	5.0	4.9	6.5	7.5	12.6	9.0
Exports	31.9	26.1	23.2	24.0	4.3	25.9	28.7	29.0	28.2	27.8	27.6	27.9	23.2	15.2	21.0
Imports	32.0	33.3	30.2	35.2	8.6	35.8	36.5	34.9	33.6	32.8	32.5	34.3	30.7	27.8	29.9
Net current transfers (negative = inflow)	-3.6	-3.6	-3.2	-5.2	1.6	-4.1	-3.3	-2.0	-1.9	-1.9	-1.8	-2.5	-1.6	-1.3	-1.5
Other current account flows (negative = net inflow)	6.8	4.6	4.4	8.1	6.9	5.0	4.3	3.5	3.7	3.7	3.6	4.0	2.4	0.4	1.9
Net FDI (negative = inflow)	**-7.2**	**-3.0**	**-1.1**	**-2.3**	**2.0**	**-1.2**	**-0.7**	**-0.8**	**-0.8**	**-0.8**	**-0.8**	**-0.9**	**-0.6**	**-0.2**	**-0.5**
Endogenous debt dynamics 2/	-7.7	**-21.4**	**-9.3**	-6.8	11.6	**-3.0**	**-2.8**	**-3.1**	**-2.8**	**-2.9**	**-3.0**	**-2.9**	**-3.2**	**-2.3**	**-2.9**
Contribution from nominal interest rate	0.9	0.5	0.7	0.6	0.3	0.6	0.7	0.6	0.5	0.5	0.5	0.6	0.3	0.1	0.3
Contribution from real GDP growth	-3.4	-4.9	-1.2	-4.8	4.0	-3.5	-3.5	-3.7	-3.3	-3.4	-3.5	-3.5	-3.5	-2.4	-3.2
Contribution from price and exchange rate changes	-5.2	-17.1	-8.8	-2.6	10.3	…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**13.1**	**-10.1**	**1.3**	-10.5	11.2	**-2.3**	**-6.3**	**-3.9**	**-3.6**	**-3.4**	**-3.5**	**-3.8**	**-5.3**	**-13.0**	-7.7
Of which: exceptional financing	-1.0	-0.8	-0.6	-2.3	3.7	-0.7	-0.6	-0.5	-0.5	-0.4	-0.4	-0.5	-0.3	-0.1	-0.2
NPV of external debt 4/	…	…	24.7	24.7		27.2	27.5	27.8	28.2	28.4	28.3	27.9	29.3	22.1	28.0
In percent of exports	…	…	106.4	106.4		105.2	95.6	95.8	99.9	102.3	102.8	100.3	126.3	144.9	136.0
NPV of PPG external debt	…	…	**24.7**	24.7		**27.2**	**27.5**	**27.8**	**28.2**	**28.4**	**28.3**	**27.9**	**29.3**	**22.1**	**28.0**
In percent of exports	…	…	106.4	106.4		105.2	95.6	95.8	99.9	102.3	102.8	100.3	126.3	144.9	136.0
Debt service-to-exports ratio (in percent)	6.3	5.8	6.4	14.2	8.9	7.4	6.8	6.4	6.0	6.1	6.0	6.5	4.7	6.1	5.5
PPG debt service-to-exports ratio (in percent)	6.3	5.8	6.4	13.7	9.1	7.4	6.8	6.4	6.0	6.1	6.0	6.5	4.7	6.1	5.5
Total gross financing need (billions of U.S. dollars)	-0.1	0.3	0.5	0.4	0.2	0.6	0.5	0.5	0.5	0.5	0.6	0.5	1.0	3.2	1.6
Non-interest current account deficit that stabilizes debt ratio	1.8	34.5	9.1	19.5	10.8	6.5	9.7	7.8	7.2	7.2	7.3	7.6	9.1	15.5	11.0
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.3	7.2	2.3	5.5	4.2	5.4	5.4	6.1	5.4	5.6	5.7	5.6	6.1	6.1	6.0
GDP deflator in US dollar terms (change in percent)	6.2	23.3	15.9	4.3	11.9	-7.7	-0.1	3.4	3.2	2.7	2.3	0.6	2.2	2.7	2.5
Effective interest rate (percent) 5/	1.2	0.8	1.3	0.7	0.4	0.9	1.1	1.0	0.8	0.8	0.8	0.9	0.5	0.3	0.5
Growth of exports of G&S (US dollar terms, in percent)	21.7	8.2	5.6	12.4	13.8	8.3	17.1	10.9	5.8	6.7	7.4	9.4	4.5	3.8	4.4
Growth of imports of G&S (US dollar terms, in percent)	-15.0	37.2	7.6	8.8	22.3	15.4	7.4	5.1	4.5	6.0	7.1	7.6	7.5	7.9	7.5
Grant element of new public sector borrowing (in percent)	…	…	…	…	…	52.1	52.1	52.2	52.3	52.3	52.3	52.2	52.3	58.2	53.1
Memorandym item:															
Nominal GDP (billions of US dollars)	3.3	4.4	5.2	3.3	0.9	5.1	5.4	5.9	6.4	7.0	7.5	6.2	11.2	25.9	15.4

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Mali: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005-25
(In percent)

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of debt-to-GDP ratio								
Baseline	27	27	28	28	28	28	29	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	27	30	33	36	38	40	**47**	35
A2. New public sector loans on less favorable terms in 2006-25 2/	27	28	29	30	31	31	**34**	28
A3. MDRI Relief from 2006	27	15	17	18	20	20	25	21
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	27	29	30	31	31	31	**32**	24
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	27	30	33	33	33	33	**33**	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	27	30	34	34	34	34	**35**	27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	27	28	28	28	28	28	**29**	22
B5. Combination of B1-B4 using one-half standard deviation shocks	27	29	33	34	34	34	**34**	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	27	39	40	40	41	41	**42**	32
NPV of debt-to-exports ratio								
Baseline	105	96	96	100	102	103	**126**	145
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	105	106	114	126	136	144	**202**	230
A2. New public sector loans on less favorable terms in 2006-25 2/	105	97	100	106	111	113	**147**	181
A3. MDRI Relief from 2006	105	51	57	64	70	73	107	136
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	105	96	96	100	102	103	**126**	145
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	105	122	153	158	161	161	**191**	208
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	105	96	96	100	102	103	**126**	145
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	105	96	95	99	101	102	**125**	144
B5. Combination of B1-B4 using one-half standard deviation shocks	105	110	120	124	127	127	**154**	173
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	105	96	96	100	102	103	**126**	145
Debt service ratio								
Baseline	7	7	6	6	6	6	5	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	7	6	6	7	7	7	**8**	13
A2. New public sector loans on less favorable terms in 2006-25 2/	7	7	6	7	7	8	**8**	12
A3. MDRI Relief from 2006	7	4	4	3	4	4	3	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	7	7	6	6	7	7	**8**	10
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	7	8	9	9	9	10	**10**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	7	7	6	6	7	7	**8**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	7	7	6	6	7	7	**7**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	8	8	8	8	**9**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	7	7	6	6	7	7	**8**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	53	53	53	53	53	53	**53**	53

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assumi an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

ANNEX 10: BANK VIEW ON MEDIUM TERM COTTON SECTOR REFORMS

The competitiveness of Mali's cotton. Competitiveness can be measured by comparing production cost structure with neighboring countries, as summarized in the table below. Even though some factors can explain the difference in cost price, like the price paid to farmers and the level of interest payments, CMDT's overheads are still high by industry standards (Table A10.1). Moreover, incentives are insufficient to push CMDT to permanently improve its efficiency and reduce its expenses and overheads.

Table A10.1: Production cost of cotton lint, 2004 (CFAF/Kg, FOB)

	Burkina SOFITEX	Mali CMDT	Cameroon SODECOTON	Chad COTONCHAD	Brazil
Cost price, in CFAF/Kg FOB	641	731	694	830	450

To date, Mali has expanded cotton production by expanding the amount of land under cultivation. However, as accessible and viable land becomes constrained, it is increasingly important for Mali to focus on increasing yields. Mali is lagging behind in research and technology for productivity improvements and quality management. This includes a need to focus on improved pest resistance, soil fertility, and seed de-linting. Many of Mali's competitors are using genetically modified cotton that is pest resistant and thus higher yielding, but Mali has not yet begun testing this new variety. At farm level, productivity and yields have been declining for 15 years. Incentives are absent for the various actors to take risks, innovate and invest in productivity improvements. Because of the CMDT's weak financial situation stemming from its weak commercial orientation and corporate governance—a contributing factor being the lack of private sector involvement in the sector—there is a backlog of needed capital investment in ginning equipment.

Proposed Bank Strategy. The World Bank is committed to continuing support to Mali's cotton sector reforms; however, conscious that there are competing priorities for investment in health, education and infrastructure, the Bank is reticent about supporting continued sector deficits in the absence of significant reforms. Whatever the level of aid provided, there is a high opportunity cost for the use of these funds to cover CMDT's deficits. Even though some of this funding also subsidized producers in Mali, it is not well-targeted assistance, since cotton producers do not in all cases represent Mali's poorest. As such, Mali's partners believe that in the coming year there is a need to work together to accomplish the following goals in the cotton sector:

- Re-establish a credible dialogue on reform in the cotton sector, including pursuing the new calendar for privatization, agreeing on an acceptable privatization scenario, and developing a plan for managing the sector until privatization can be achieved. This plan should minimize the risk of a large contingent liability on the Government's budget from CMDT's deficits between now and 2008.

- Discuss with all partners the need to increase Mali's competitiveness in the medium term. The Government will need a clear strategy and action plan that the donors can support. The Bank is moving ahead with its support to rural development in Mali

through two investment operations (PCDA and PACR) due to be effective at the end of FY06. These instruments are flexible and can be adjusted to help the cotton sector by, among other possibilities, building capacity among producer organizations and accelerating technology adaptation.

- The partners will also continue to work with the Government on risk and price management in the sector.

Strategic actions: As Mali is a price taker on the international market, strategic actions resulting from these proposals are the following:

In the short term:

- Close surveillance of CMDT management with a view to reducing national budget risks;
- Implementation of the new cotton producer price mechanism;
- Transparent information of sub-sector stakeholders and political authorities on the reform process through implementation of a coherent communication programme;
- Support to dialogue with WTO with a view to suppressing/modelling subsidies in the North.

In the medium term:

- Upstream, control production costs through resolution of farm-level technical problems related to improvement of cotton yields (less than 1 ton per hectare today), socio-economic analysis of farming units, and downstream, improvement of cotton quality;
- Building producers' capacity to position them as stakeholders recognized by the new economic environment;
- Treatment of critical functions of the sub-sector especially those as research, seed production, input funding, cotton tracks;
- CMDT privatisation in 3 or 4 blocs by 2008 and liberalisation of the sub-sector in the medium term period thereafter.

ANNEX 11: COTTON PRODUCTION, MALI'S ECONOMY AND POVERTY

(Preliminary findings)[1]

This annex provides estimations of the potential impact of different levels of cotton production and producer prices on Mali's economy, and on cotton producers. Following the agreement signed between the Government, producers, and CMDT on January 13, 2005, the baseline price level for the campaign 2005-06 was set at 160 CFAF/kg, a sharp drop versus the price of 210 CFAF/kg that had been provided to producers in 2004-2005. This reduction in price is not expected however to lead to an immediate reduction in production, as total production is expected to reach 600,000 tons in 2005-2006, an increase over the previous year. This annex provides some background to explain this apparently surprising outcome and documents what might happen if, under sustained lower prices, producers would decide to reduce production in the future.

1. Why do farmers continue to produce so much cotton despite lower prices? Five main reasons may explain the paradox. First, to produce cotton gives producers the certitude they will get a monetary income at a predetermined moment. This income helps them to face current and unexpected expenses (health, education). Cotton production offers them a certain security despite the price decrease, with the guarantee that CMDT will buy the whole production and that they will be paid relatively quickly (an advance of 80 percent of the production value as soon as the CMDT receives the production and 20 percent at the end of the season). Second, to produce cotton gives them access to credit. Producers need this credit to get access to inputs but also to improve their productive material or for consumption purposes. In the cotton areas, the banking system and the micro-finance institutions do not deliver credits to farmers who do not produce cotton. The access to credits usually goes through guarantees linked to cotton production. Third, to produce cotton gives farmers access to inputs. The CMDT no longer delivers inputs for cereals production. Farmers need those inputs for the cotton production but also for the cereals production. That is the reason why some farmers decide to produce small plots of cotton and use part of the CMDT-provided inputs for their cereals fields, which are the basis of food self-sufficiency. Fourth, to produce cotton gives farmers access to training and education concerning new varieties, technical improvements, etc. Finally, cotton production in any given year has positive "after effects" on cereal yields in the next year as the use of chemical and/or natural inputs needed for cotton cultivation improves soil fertility at crop rotation time. In other words, to belong to the "cotton club" brings many advantages to farmers, which may explain why most of them will continue to produce cotton at least for some time, despite the falling prices.

2. Is cotton production profitable at the existing lower prices? Few data are available to assess how profitable cotton production is to farmers. Preliminary analysis of a survey of cotton producers implemented in the summer of 2004 suggests that only those producers who are better equipped make substantial gains on their production. More precisely, while in the 2003-2004 crop season the nominal price paid to producers was 190 CFAF/kg, the net price received was of the order of 100 CFAF/kg. The main costs that explain the difference between the nominal and net prices are the costs of inputs (estimated at about 70 CFAF/kg in the survey, but other data suggest that this cost may reach up to 90 CFAF/kg, whish is fairly high), and the reimbursement of loans, most probably to CMDT at about 15 CFAF/kg. Other costs include cotton land maintenance costs, cotton harvest costs, and cotton transportation costs, as well as broader investment costs, production costs, and taxes and fees. The total "non-CMDT" costs vary from 43 CFAF/kg to 131 CFAF/kg depending on the method used for allocating part of these costs to the production of cotton, and depending on the type of producer considered. The key finding was that producers belonging to the better equipped groups (groups "A" and "B" in the CMDT typology) were the most profitable. For poorer households who do not have

[1] Based on a survey of cotton producers implemented in the summer of 2004.

good equipment, cotton production is less advantageous. This means that poorer households could very well be those who will stop producing cotton if prices remain low for extended periods of time. Now, one important feature of the new price mechanism is that producers will benefit from a higher share of the world price. This means that they will not have to suffer from the full impact of the drop in prices for the present season.

3. What may happen to the economy and poverty in case of a reduction in cotton production over time due to low prices? Two types of simulations were implemented using recent data for Mali.

- Using a Social Accounting Matrix, the impact of a hypothetical 25 percent drop in production and processing of cotton was analyzed. The extent of the impact on the economy and various household groups depends in large part on the extent to which areas cultivated under cotton would affect other crops. For example, if a 25 percent drop in the cotton sector were compensated by a 5 percent increase in production of food crops and livestock, the impact on aggregate output would be of the order of 2.1 percent of GDP. Aggregate household income/consumption would be reduced by 1.9 percent. Interestingly, apart from rural households in cotton producing areas, the most affected groups would be industrial households engaged in the ginning and value added process. This means that it is not necessarily the poorest households who would be affected the most.

- Additional work was conducted with an agricultural model for Mali. The simulations assess the impact of a decrease in producer prices up to 155 CFAF/kg. Under such pricing structure, the land area under cotton cultivation is reduced by about 30 percent, while the area for other crops is increased. The model makes it feasible to estimate the impact on the FAO measure of under-nutrition, by computing the amount of food available in the country from domestic production and imports. The total availability of food combined with household survey-based estimates of the inequality in food consumption provides estimates of the probability of under-nutrition which are of a similar order of magnitude as existing estimates of child malnutrition. Because food production would increase after a drop in cotton prices, and because this would help to reduce food prices, the net impact of the loss of income from cotton production and prices would be fairly small at the national level, but the situation of households in areas such as Sikasso would be threatened.

The conclusion from the above simulations is that the impact of the drop in producer prices on poverty and Mali's economy is not necessarily straightforward. On the one hand, the reduction in prices implies a loss in income and profitability of cotton production for producers, but so far these have not reduced their production for a number of different reasons. If prices were to remain low for some time, some producers may quit producing cotton, which would have a negative impact on GDP, poverty, and under-nutrition. Yet the magnitude of this negative impact need not be very large, as producers would probably shift to other crops or livestock production, which may have other potential benefits, for example in terms of food security. Perhaps the key message of the work is that close monitoring of the impact of changes in prices and production is required, so as to be able to provide compensatory measures for producers if and when needed.

ANNEX 12: ECONOMIC IMPACT OF OIL PRICE DEVELOPMENTS

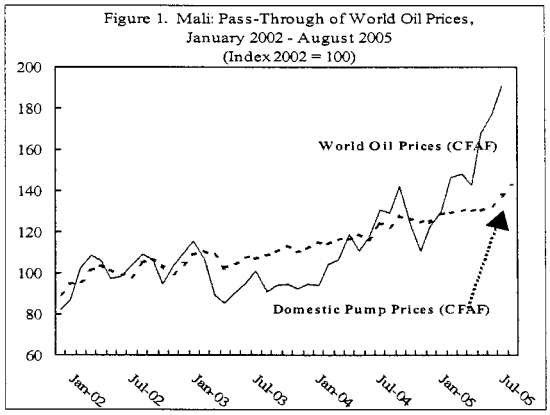
1. Inflationary impact

Up until August 2005, there has been virtually no inflationary impact of oil prices since oil is a small share of the CPI and the authorities have partially offset the petrol price increases by reducing the tax on petroleum products in the face of rising prices due to food shortages (see next paragraph). Pass-through was initially partial during end 2004 for some petroleum products (premium/regular gasoline and fuel oil), zero for other products (kerosene, gas-oil, diesel). In recent months, prices of all categories have been allowed to increase somewhat (Table A12.1) thereby allowing partial pass through of international prices to the pump (Figure 1).

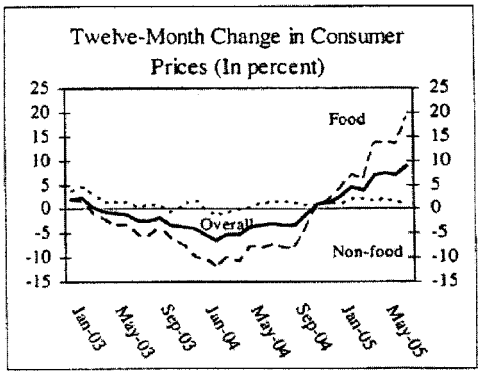
Table A12.1: Recent pump prices (CFAF/litre)

	Premium gas	Regular gas	Kerosene	Gas-oil	Diesel	Fuel oil	Butane
October 04	570	550	405	450	450	273	817
November 04	585	565	405	450	450	284	813
December 04	585	565	405	450	450	270	809
January 05	585	565	405	450	450	270	765
February 05	600	580	405	455	455	275	691
May 05	605	585	410	460	460	280	685

Note: The declining price of butane is due to low cost supplies from Ghana.
Source: National Office on Petroleum Products.



Oil price pass through in itself has had minimal impact on inflation, relative to the impact of the food price component of the CPI. Inflation in Mali is driven mainly by food product imbalances. Due mainly to the 2004 drought (and partly to the locust invasion) food is in short supply and food price inflation has risen 19 percent, including a 45 percent increase in cereal prices. Average nonfood inflation remains near zero, although fuel prices have increased by 14 percent (see graph). As a result of food price inflation, CPI inflation has increased significantly on month-to-month basis, and on annual basis is projected to increase from previous



estimate of 2.5 percent in 2005 to 5.5 percent. This follows an inflation rate of -3.1 percent in 2004 and a rate of -1.3 percent in 2003.

In view of its small share (as a component in the nonfood component) of CPI, high oil prices are unlikely to have major impact on inflation in 2005. As oil prices continue to rise however, we can anticipate a greater impact on inflation next year, at a time when food price inflation is expected to drop (due to relatively good rains this year).

2. Fiscal impact

There is no subsidy on petroleum products since importers (all private) purchase oil at international market prices.[1] However, pass through of international prices to the pump is regulated through adjustments in the petroleum tax, and thus results in foregone fiscal revenues. A systematic estimate of foregone revenues due to the petrol tax reductions is not currently available; however, available information points to foregone revenues in the order of 1 percent of GDP over the past year.

At the same time, Mali is currently facing rising shortfalls in tax revenue collections across all major tax categories (amounting to about 1 percent of GDP during January-July 2005), against a backdrop of increasing food security demands on the budget. As a result, budget execution at initial program rates is under strain. While there's no indication yet of expenditure tightening, some expenditure tightening measures (for non-poverty programs) may have to be made in the fourth quarter 2005.

3. BOP Impact

The terms of trade is projected to deteriorate in 2005 relative to initial projections (to 13 percent year-on-year from 10 percent), due to combined effect of rising oil prices and falling cotton prices. Rising oil prices have increased the petroleum share of imports by 5 percentage points in 2005 (an amount equivalent to US$78 million) relative to initial projections. This is only partially offset by an increase in exports—the decline in non-gold non-cotton exports relative to initial projections undercuts the expected increases in gold and cotton exports, which otherwise would have fully offset the increase in petrol imports. Together, these shifts contribute to an overall weakening of the current account balance by CFAF 43 billion (a worsening of 1.6 percentage points of GDP).

4. Growth prospects

The extent to which rising oil prices has impacted on GDP growth is unclear, relative to the negative GDP shock stemming from the fallout of the 2004 drought.

5. Government response to rising oil prices

As mentioned above, the Government has regulated the petroleum tax to limit the pass through of higher oil prices to the economy. This measure comprises a targeted component to the poor, to the extent that price increases on household oil have so far been avoided. However, whether overall the tax measure overall is regressive or progressive is yet to be determined. However due to other simultaneous shocks to the economy, in particular the drought impact on food prices mentioned above, oil on its own is not expected to be a major cause of social disruption.

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[1] Oil imports to Mali are entirely handled by private sector firms, at prices that reflect international market prices. A Commission to Monitor the Petroleum Tax Mechanism (comprised of representatives from the government, oil retailers, and consumers) meets monthly to, among other items, review price trends of the oil suppliers and determine the price for oil at the pump (by setting the petroleum tax) at levels that also ensure that oil retailers are able to cover their costs plus a small margin.

ANNEX 13: SIMULATING THE EFFECTS OF AN OIL PRICE SHOCK: A SOCIAL ACCOUNTING MATRIX FRAMEWORK

Rising fuel prices have not generated high levels of inflation in Mali, in part because of a reduction in the taxes imposed on a range of oil-related products. This annex provides an estimation of the impact that the increase in oil prices might have had on the Malian economy and on specific groups of households in the absence of such measures and other adjustments that may have taken place in the economy. As such, the results can be interpreted as a first very rough estimation of the impact and benefit incidence of the measures that have been taken in order to avoid large increases in prices.

Some previous studies of the impact of oil price changes on households have used models based on input-output (IO) tables in order to estimate price changes for commodities caused by a shock in the unit cost of oil. These studies have then relied on household expenditures information from household surveys to derive consumption shares of different commodities by expenditure percentiles. Combining these two pieces of information, for example, yields data on changes in expenditure of various household categories that can be used to assess impacts on poverty. The methodology used here is based instead on a SAM-multiplier model, which can be used as a price formation model. We use a SAM framework for two main reasons: (i) to fully exploit the interaction between sectors, factors, and institutions contained in the SAM; and (ii) to track and quantify the intensity of the most important paths through which the effect of a price change on household expenditure unfolds. Based on a 2001 Mali SAM constructed with support from the Belgian Poverty Reduction Partnership program, we simulated the effects on sectoral prices and the cost of living of households of a 34 percent increase in the price of petroleum in Mali. The results are presented in Tables A13.1 and A13.2.

Table A13.1 shows the impact of the oil shock on other production prices in the economy in the absence of policy response and adjustment in the economy. A 34 percent price increase in the petroleum sector leads to a 15 percent increase in the price of Utilities, an 11.5 percent increase in the price of Agricultural services, and 10 percent in the producer price of Other manufactures. The price effect of the shock on agriculture, except agro-services (i.e., Food crops, Export crops, Livestock, Forestry, and Fishery) ranges from 2.3 to 2.8 percent. This is not surprising since petroleum accounts for 0.0 percent to 12.8 percent of agriculture's intermediate inputs compared to 54 percent for Agricultural services. Meanwhile, the secondary (industry) experiences a price response ranging from 2.2-15 percent. Finally, the price effect on the tertiary (services) goes from 2.7 percent in Trade to 6.6 percent for Transport and communication. The so-called direct effects in Table A13.1 reflect the shares of petroleum as an intermediate input in various sectors. Besides Utilities, Agricultural services, and Other manufacturing, Transport and Communications, and Education exhibit a high direct effect as a proportion of the price change. A similar pattern is conveyed through the petroleum intensity of sectors. In fact, in general, sectors with heavy reliance on petroleum are mostly affected. Change in producer prices (weighted average of price responses, with shares of aggregate GDP as weights) is estimated at 3.48 percent which should be considered an upper bound given the fixed consumption shares assumption inherent in SAM modeling. Around 25 percent of the price change is explained by direct effects, the rest being due to other interactions between sectors.

Table A13.1: Impact of a 34 percent increase in oil prices on prices in other sectors, Mali

Sector	Aggregate Price change	Direct Effect	Direct / Total	Petroleum as share of intermediate inputs	Share of aggregate GDP
Food crop production	2.39	0.03	1.1	2.3	15.39
Export crop production	2.44	0.08	3.3	2.2	9.07
Livestock keeping & hunting	2.37	0.00	0.0	0.0	12.28
Providing ag.- livestock & related services	11.46	9.24	80.7	54.3	0.08
Forestry & related services	2.81	0.53	18.9	12.8	2.07
Fishery	2.31	0.00	0.0	0.0	3.18
Mining	3.63	0.88	24.2	43.5	0.40
Livestock & fish processing	2.45	0.00	0.0	0.0	0.07
Milling cereals, flour & rel. products	3.41	0.90	26.4	3.4	0.61
Other food processing	3.96	1.15	29.0	6.1	2.83
Beverage and tobacco production	4.18	1.25	29.8	13.3	0.46
Textiles and garments production	3.28	0.79	24.2	2.9	3.40
Leather & skin & related production	2.20	0.00	0.0	0.0	0.25
Wood- paper & printing	2.85	0.08	2.8	0.4	0.65
Petroleum	34.00	0.00	0.0	0.0	0.00
Other manufactures	10.00	7.87	78.7	45.4	4.00
Utilities	15.00	13.10	87.3	48.6	0.49
Building & real state services	3.96	1.24	31.2	6.8	6.88
Trade	2.74	0.13	4.9	2.0	13.38
Repairs	4.16	1.25	30.2	27.9	1.84
Lodging and restaurant services	4.28	1.77	41.3	8.1	0.54
Transport and communication	6.63	3.98	60.1	26.4	1.88
Financial services	3.85	0.64	16.7	2.8	0.62
Business services	3.54	0.64	18.2	4.4	1.65
Public administration	4.22	0.87	20.7	14.8	8.44
Education	6.57	3.51	53.4	51.8	2.18
Health and social services	4.70	1.50	31.8	46.6	1.58
Other personal and collective services	2.80	0.04	1.5	2.0	5.78
Change in PPI	**3.48**	**0.88**	**25.2**		

Source: World Bank staff estimates using SimSIP SAM.

Table A13.2 gives the price changes faced by households. The two household categories that are most affected are households whose head works in Public services in Bamako (4.92 percent increase in cost of living), and those in Urban – Other activities (3.93 percent). These households are also characterized by highest average per capita consumption levels and exhibit high shares of petroleum in total consumption (as is reflected in the higher direct effects). The impact on the rural (poorer) households is smaller and around 2.0 percent partly explained by lower shares of petroleum in final consumption. The total change in households' cost of living index (inflation) is 2.99 percent with roughly 25 percent explained by direct effects.

Two main conclusions can be learned from the analysis. In part thanks to policy measures such as reduced taxation, Mali has not suffered from higher inflation due to the increase in oil shocks, as would have been predicted on the basis of the SAM analysis. On the other hand, because those households who would have been most affected by the increase in oil prices tend to be better off, it can also be argued that the reduction in taxes of oil-related products have benefited disproportionately a segment of the population that was already better off. To the extent that the reduction in tax revenues may have at the margin an impact on the ability of the authorities to deliver in other areas, including the social sectors, this poses a difficult dilemma between protecting the population from price increases, but in so doing transferring a larger share of the reduction in taxes to groups of households who may not be poor. Other better targeted measures could potentially have been considered in order to ensure a more pro-poor distribution of the protection measures implemented.

Table A13.2. Impact of a 34 percent increase in oil prices on cost of living for households, Mali

Category	Change in cost of living	Direct Effect	Direct / Total	Average per capita consumption*	Share of petroleum in total consumption
Bamako in Industrial Sector	2.81	1.21	43.0	271.7	6.69
Bamako in Public Services	4.92	2.48	50.4	434.0	9.93
Bamako in Private Services	2.67	0.95	35.6	255.3	5.51
Other Urban Industrial Sector	2.83	0.56	19.7	201.3	2.15
Other Urban Public Services	3.93	1.27	32.4	290.7	4.55
Other Urban Private Services	3.12	0.89	28.7	240.1	3.79
Other Urban Activities	3.74	0.94	25.2	218.4	3.41
Rural Agriculture- Sahel & Sahara	2.00	0.10	4.8	154.3	0.01
Rural Agriculture- Soudano-Sahel & Delta	2.09	0.31	15.0	104.1	2.15
Rural Agriculture- Soudano Guinean	2.28	0.22	9.8	100.1	1.41
Other Rural Activities	3.24	0.59	18.2	119.4	3.11
Change in CPI	**2.99**	**0.74**	**24.9**		

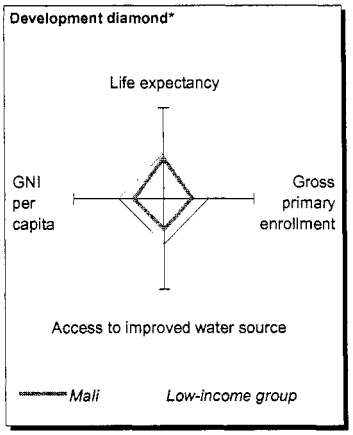
Source: World Bank staff estimates using SimSIP SAM. * In thousands of local currency.

ANNEX 14: COUNTRY AT A GLANCE (includes country map)

Mali at a glance

12/14/05

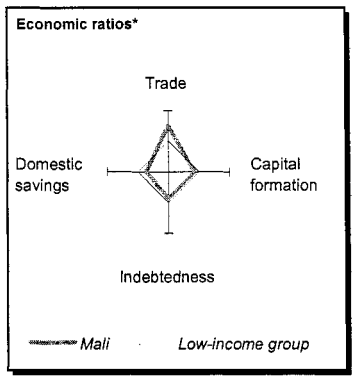
POVERTY and SOCIAL	Mali	Sub-Saharan Africa	Low-income
2004			
Population, mid-year *(millions)*	11.8	719	2,338
GNI per capita *(Atlas method, US$)*	340	600	510
GNI *(Atlas method, US$ billions)*	4.0	432	1,184
Average annual growth, 1998-04			
Population *(%)*	2.3	2.2	1.8
Labor force *(%)*	2.3	1.0	2.1
Most recent estimate (latest year available, 1998-04)			
Poverty *(% of population below national poverty line)*	64	..	..
Urban population *(% of total population)*	32	37	31
Life expectancy at birth *(years)*	52	46	58
Infant mortality *(per 1,000 live births)*	113	101	79
Child malnutrition *(% of children under 5)*	25	..	44
Access to an improved water source *(% of population)*	51	58	75
Literacy *(% of population age 15+)*	45	65	61
Gross primary enrollment *(% of school-age population)*	59	95	94
Male	68	102	101
Female	49	88	88



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

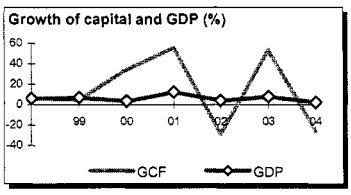
	1984	1994	2003	2004
GDP *(US$ billions)*	1.3	1.8	4.3	3.7
Gross capital formation/GDP	12.3	27.3	24.2	19.0
Exports of goods and services/GDP	17.8	23.0	26.4	27.5
Gross domestic savings/GDP	-2.7	7.5	19.8	14.3
Gross national savings/GDP	..	11.0	21.0	14.6
Current account balance/GDP	-9.9	-8.3	-7.0	-6.6
Interest payments/GDP	1.2	1.4	0.5	..
Total debt/GDP	94.4	152.9	75.0	..
Total debt service/exports	12.2	17.7	6.4	..
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..

	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	2.5	6.1	7.4	2.2	5.5
GDP per capita	-0.2	3.6	5.1	0.0	3.2
Exports of goods and services	5.5	11.7	-15.0	-0.2	6.3

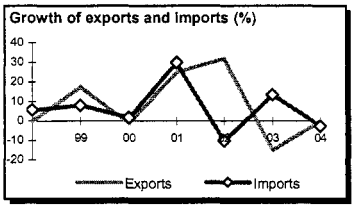


STRUCTURE of the ECONOMY

	1984	1994	2003	2004
(% of GDP)				
Agriculture	44.2	46.4	38.8	36.4
Industry	14.5	18.9	23.6	23.9
Manufacturing	6.8	7.7	2.8	3.4
Services	41.3	34.6	37.6	39.8
Household final consumption expenditure	92.1	81.2	78.3	79.3
General gov't final consumption expenditure	10.6	11.3	8.4	10.0
Imports of goods and services	32.8	42.9	37.4	35.8



	1984-94	1994-04	2003	2004
(average annual growth)				
Agriculture	5.2	3.0	17.7	-4.7
Industry	3.3	8.4	-9.4	-0.3
Manufacturing	5.2	-3.2	-5.5	20.9
Services	0.9	4.8	9.1	9.1
Household final consumption expenditure	1.5	3.2	-3.0	8.9
General gov't final consumption expenditure	3.7	7.4	133.8	16.6
Gross capital formation	3.7	9.9	53.3	-26.1
Imports of goods and services	2.6	7.2	13.5	-2.8

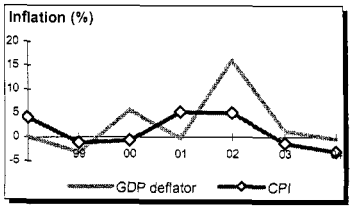


Note: 2004 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

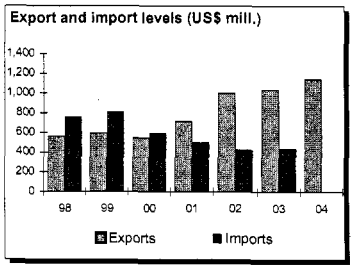
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
(% change)				
Consumer prices	..	24.8	-1.3	-3.1
Implicit GDP deflator	11.3	27.9	1.3	-0.5
Government finance				
(% of GDP, includes current grants)				
Current revenue	10.8	16.9	17.2	17.3
Current budget balance	-1.3	3.4	4.7	3.7
Overall surplus/deficit	-1.6	-10.4	-3.8	-5.3



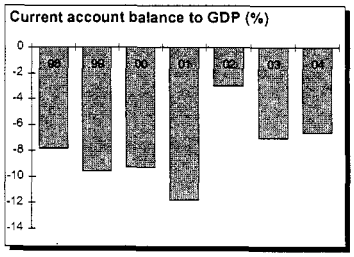
TRADE

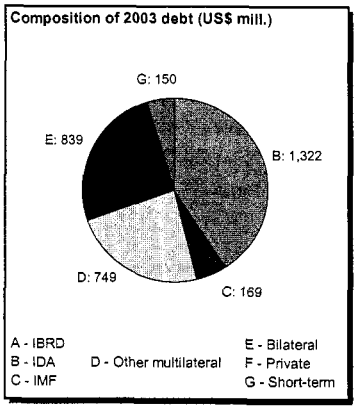
	1984	1994	2003	2004
(US$ millions)				
Total exports (fob)	192	337	1,039	1,146
Cotton	98	153	271	399
Gold	..	50	629	583
Manufactures	..	..	..	..
Total imports (cif)	368	629	438	..
Food	131	86	..	..
Fuel and energy	62	52	..	..
Capital goods	80	193	..	..
Export price index *(2000=100)*	95	102	109	113
Import price index *(2000=100)*	63	89	97	98
Terms of trade *(2000=100)*	150	114	112	114



BALANCE of PAYMENTS

	1984	1994	2003	2004
(US$ millions)				
Exports of goods and services	233	406	1,290	1,421
Imports of goods and services	430	756	1,645	1,674
Resource balance	-198	-350	-355	-253
Net income	0	-23	-179	-178
Net current transfers	68	228	232	189
Current account balance	-130	-145	-302	-241
Financing items (net)	164	232	247	456
Changes in net reserves	-34	-87	55	-215
Memo:				
Reserves including gold *(US$ millions)*	33	229	909	989
Conversion rate *(DEC, local/US$)*	437.0	555.2	589.1	706.4



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
(US$ millions)				
Total debt outstanding and disbursed	1,237	2,695	3,229	..
IBRD	0	0	0	..
IDA	191	770	1,322	..
Total debt service	31	88	83	..
IBRD	0	0	0	0
IDA	2	12	13	..
Composition of net resource flows				
Official grants	125	221	0	..
Official creditors	104	69	154	..
Private creditors	..	..	..	..
Foreign direct investment (net inflows)	10	17	0	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	..	120	..	..
Disbursements	21	93	95	76
Principal repayments	1	6	5	..
Net flows	21	87	90	..
Interest payments	1	6	8	10
Net transfers	19	82	82	..