

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

MALI

**Joint Staff Advisory Note on the Poverty Reduction Strategy
Implementation Report for 2003 and 2004**

Prepared by the Staffs of the International Monetary Fund
and the International Development Association

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I. OVERVIEW

- 1. The second annual progress report (APR) documents progress in implementing Mali's Poverty Reduction Strategy Framework (PRSF) during 2003–04.** The first APR and accompanying joint staff assessment (JSA) were discussed by the Bank and Fund Boards in June 2004. The PRSF, covering the period 2002-06 and discussed by the Bank and Fund Boards in March 2003, is Mali's second PRS building upon the country's 1997 National Poverty Reduction Strategy.
- 2. The second APR was adopted by the Government in August 2005 and formally delivered to the Bank and Fund staffs in November 2005** inclusive of final revisions requested by Mali's Council of Ministers. The delays in the production and circulation of the APR have reduced its impact on learning lessons for implementation, underscoring the need to integrate reporting more formally into the budget calendar. Mali has commenced preparation of its third PRS (PRSF 2007-2011), with the goal of making it available in June 2006 in full alignment with the 2007 budget preparation process. For the purpose of this JSAN, the staffs have utilized more recent data and policy developments as appropriate to provide an updated account of implementation.
- 3. The staffs of the IDA and the IMF concur with the APR's conclusion of substantial progress on implementation and performance in some areas and weak implementation in others.** To aid the Government as it prepares to conclude implementation of its current PRS in 2006 and draft the next PRS by June 2006, this JSAN

highlights those areas that, in the staffs' view, deserve greater attention for PRS implementation and for the next PRS. These areas are outlined in the conclusions.

II. PROGRESS WITH PRS IMPLEMENTATION

A. Macroeconomic and Growth Policies

4. **The APR provides a comprehensive analysis of macroeconomic developments against objectives defined in the PRSF and the regional growth and stability pact.** With real GDP growth averaging 5 percent over the period 2003-05, Mali's growth performance has improved over the preceding three years, although growth has fallen short of the PRSF goal (6.7 percent). The staffs agree that this underperformance can be explained both by adverse external and natural shocks and the authorities' "optimistic and voluntaristic" growth objectives that represent a best-case scenario. Average annual consumer price inflation during 2003-05 was well below the PRS target and the WAEMU convergence criteria ceiling of 3 percent, although high food price inflation resulting from supply shortfalls in 2005 pushed consumer price inflation above target for that year.

5. **The APR rightly points that Mali's economy remains highly vulnerable to exogenous shocks (external and natural) that affect its growth performance.** Export concentration is high (comprising gold, cotton, livestock); agriculture is largely un-mechanized and rain-fed, and thus dependent on varying annual rainfall; and all hydrocarbons are imported. As suggested in the previous JSA, the PRSF would benefit from a more in-depth analysis of growth potential in the Malian economy and a clearly articulated growth strategy, including stronger focus on the implementation of growth-enhancing structural reforms. In this regard, the next PRSF should include an action plan that incorporates reforms in the productive sectors, such as actions for: improving the business environment; diversifying exports (including the elements of the plan adopted by the authorities on the basis of the Diagnostic Trade Integration Study undertaken in 2004 as well as measures to offset any trend for declining gold production); enhancing productivity in the cotton and other rural sectors; and strengthening financial intermediation. On the last sector, the APR mentions only access to microfinance, despite the mixed results of the financial sector reform program (quick response to crises, yet slow progress on other reforms). The staffs stress that the Government should include an acceleration of the financial sector reform process in its growth strategy in view of the sector's critical role. Examination of productive sectors should also look at enhancing their poverty impact or inclusiveness.

6. **Prudent macroeconomic management and exchange rate appreciation during 2003-04 kept debt sustainability indicators below HIPC thresholds, as the APR notes.** Generally prudent budgetary policies helped Mali meet the WAEMU regional economic convergence criteria on the basic fiscal balance. However, the overall fiscal deficit exceeded the PRSF target of 6 percent of GDP (by ½ percent of GDP in 2004), and is expected to continue to do so as foreign-financed investment spending increases.

7. **Future APRs could elaborate further on the impact on the fiscal stance of delays in implementing key structural reforms endorsed by the PRSF** (particularly cotton sector reforms). In particular, the APR rightly notes a slight drop in external aid disbursements in 2004 that, in the view of the staff, is linked to delays in reform implementation. For the next PRSF, the authorities could consider including an analysis of the fiscal implications of meeting the growth and development targets (i.e., fiscal space created). Such an analysis would ideally link directly to the costing of achieving specific development objectives as part of medium-term expenditure frameworks. It is also important to align policy instruments such as the PRS and budget; historically, the PRS' fiscal and economic framework has not been updated in the APR in line with latest available budget data and maintains unrealistic assumptions (e.g. growth), leading to inconsistencies.

B. Sectoral Policies

8. This section follows the three main pillars detailed in the PRS: institutional development, delivery of social services, and enhancing production.

Institutional development and improvement in governance and participation

9. **The APR justifiably highlights progress in implementing measures to improve overall public sector performance.** In particular, progress has continued in implementing Mali's policy to devolve authority and decentralize service delivery in terms of accelerating the transfer of resources and competencies, coordinating and harmonizing functions and strengthening of the capacities of authorities in the local governments in resource mobilization. The report rightly notes the importance of further developing support mechanisms and capacity building for local governments. Financial management responsibilities require adequate capacities and effective oversight. Further analysis would be useful on the progress of deconcentration, i.e., transferring central government operations to the regional and local levels. In this regard, it would be helpful if future reports addressed more explicitly the remaining challenges to implementing the decentralization process, notably: (i) the slow transfer of the competencies and resources from the national to the local governments; (ii) the lack of articulation between the sector programs (health, education, rural infrastructure) at the national level and the programs developed by local governments; and (iii) gaps in the legal texts on decentralization resulting in weak coordination of planning and management of regional and local development. The staffs note that the amount and transparency of resource allocations to local administrations may be facilitated by the GIS-based poverty map under finalization by the national statistics department on the basis of census and household survey data.

10. **The staffs especially welcome the attention to and progress in strengthening the integrity of the public sector.** The Action Plan to strengthen public finance management is a comprehensive, sound and ambitious approach and has provided a framework for donor harmonization aimed at easing the burden on government institutions. Progress on strengthening revenue and public expenditure management has been impressive, especially computer systems integration. Mali performs well on public expenditure management

reviews compared to its peers. Continuing these reforms will be an essential element in assuring external partners of the effectiveness of Mali's budget system and facilitating the move to greater budget support flows. The main challenge is to strengthen budget control-related functions 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. In this regard, some delays in implementing the Action Plan have developed, particularly in strengthening the capacity of Finance Committee of the National Assembly, as well as the capacity and legal authority of the Audit Section of the Supreme Court. The latter may explain delays in completing audits of the budget. Implementation of sound procurement procedures also remains a weakness. The next progress report should discuss these issues and efforts in greater depth. The report's analysis of strengthening the judiciary is also very welcome.

Sustainable human development and improved access to basic social services

11. **The joint staffs concur with the APR's overall satisfactory rating of implementation of basic social service (health, education, potable water) and gender programs during 2003 and 2004.** In particular, the staffs note that budget resources to implement the annual tranches outlined in the ten year health and education sector programs (PRODESS and PRODEC, respectively) have been provided in recent years and, through use of the respective sector medium term expenditure frameworks, within-sector expenditure allocations are better aligned with objectives. The provision of free anti-retroviral treatment and free attended births is also laudable, notwithstanding the additional cost burden on government health expenditures. In terms of outcomes, the joint staffs note achievements in the partial extension of the geographical coverage of health services particularly in poor regions, improvements in school enrollment and in availability of sufficient numbers of student books.

12. **The joint staffs note the main challenges for the authorities now are service quality and equity, and recommend an increased focus in these areas.** In the health sector, this would entail increased training of health personnel in the rural areas, implementing actions to improve geographic equity in service access and gender equity in school enrollment. The staffs recommend building upon progress noted in the APR in transferring competency to the local authorities, by increasing transfer of resources to local authorities in the short term while implementing actions to consolidate local entities into the regular budget allocation process. To this end, the respective sector MTEF tools and processes should be decentralized to regional government departments and local administrations (*les collectivités*).

Development of basic infrastructure and support to productive sectors

13. **The staffs agree with the APR in that progress on infrastructure development and support to productive sectors has been mixed, with some achievements in some sectors and slow progress or setbacks in others.** The staffs concur with the APR that

important reforms have been made in promoting private sector approaches in all infrastructure sectors. The staffs note that where private sector approaches have been fully and successfully implemented such as in the railways sector or roads construction, they yielded gains to the economy and to the population's livelihood by improving access to markets. The staffs also agree that slow implementation in some sectors has delayed achievements. In the staffs view the approach has recently encountered setbacks in some cases (notably electricity and water where the main strategic investor pulled out of the concession agreement), amid questions about implementation and viability of sector operations. The staffs commend the government for its continued commitment to public-private partnership strategies, including plans to pursue concession contracts in the telecommunications, airport, energy and water sectors. The staffs note, however, that more rapid results would be achieved with a clear articulation of an overall infrastructure policy particularly for rural areas, to facilitate sustainable expansion of the rural road network as well as rural telecommunications, electricity and water. The staffs urge the authorities to hasten implementation of private sector approaches to infrastructure development and maintenance, as these are key measures for growth acceleration and poverty reduction.

14. **The staffs note the attention in the APR to support services for agriculture and rural development, which is appropriate given that large share of the population in the rural areas dependent on agriculture, and the high rural component of poverty in Mali.** The staffs believe that more attention should also be paid to performance of agriculture product sectors, through strengthening of the policy framework for agricultural development. The staffs agree with the APR that important reforms were implemented in the cotton sector, notably adoption (together with farmers and the ginning company) of a new producer price setting mechanism and preliminary actions to strengthen financial and technical management of the ginning company. The staffs note that subsequent to government adoption of the APR, the authorities (in consultation with sector stakeholders) reached agreement with the Bank and other donors on the cotton sector reform strategy. The staffs wish to emphasize the importance of implementing the agreed cotton reform program in a timely manner.

III. POVERTY DIAGNOSTIC, MONITORING AND EVALUATION

15. **The staffs welcome the APR discussion of trends in living standard indicators, based on comparison between the short-form 2003 household survey with the long-form 2001 household survey.** The staffs note that focus on the APR assessment on living standards indicators aimed to match the analytical underpinning of the current PRS so as to determine the extent of progress in the two years. This reflects the fact that the expenditure-based poverty measure from the 2001 household survey was not yet available for preparation of the current PRS, and that the 2003 survey lacked an expenditure module. The staffs view as promising the positive trend social indicators and access to basic services, but note that the trends based on subjective household responses are not a robust measure of welfare.

16. **The staffs applaud the establishment of quantitative indicators** (see Annex 8 of the APR), but note that its impact is limited by the large number of indicators and the

scarcity of data for many of them. The authorities are advised to adopt a limited set of indicators for which data are periodically available (such as indicators already tracked under the social sector strategies). For the next PRS, they should establish baseline values of those indicators to permit assessment of progress in the course of PRS implementation. In addition, the staffs advise the authorities to develop synergies between the PRS evaluation process and processes already established through the sector programs (particularly health and education).

17. **As recommended in the last JSA, the authorities have now undertaken poverty analysis** by computed poverty lines and poverty indicators at national and regional levels based on the 2001 household survey. However, the authorities opted not to discuss the findings in the APR due to absence of a second value point against which to assess progress. The staffs recommend that the authorities include an income and expenditure module in a subsequent household survey to enable analysis of trends in poverty since 2001. As time constraints preclude such a detailed survey in the near term, the staffs advise the authorities undertake a participatory poverty study as an input to formulation of the next PRS (under preparation for availability in draft in mid 2006).

18. **The staffs note that the delay in producing the APR greatly limits effectiveness of monitoring and evaluation.** The APR was available as an early draft in late 2004, but the authorities were not able to finalize it in time (i.e., by July 2005) for consideration in the preparation of the 2006 Budget Law. The staffs believe that the APR delays stem in part from capacity constraints (notably, insufficient number and skill mix of staff in the PRSP unit) in addition to a slow functioning institutional framework comprising participation of all stakeholders including the 13 thematic groups, donor-government steering committee, and Ministers' committee. Similar delays are likely to be experienced in the preparation of the APR for 2005, particularly since the authorities will be simultaneously preparing the next PRS. The Government's decision to restructure and strengthen the PRSP unit will ease the constraints in the medium term as new personnel are recruited. In the short term, the staffs recommend that the authorities clearly define the critical preparation steps required for analysis, strategy formulation, and consultation within the time frame available for drafting the PRS and APR consistent with the preparation cycle of the 2007 budget, and address any critical capacity constraints.

IV. CONCLUSIONS

19. **The staffs agree that the report generally provides a balanced and frank assessment of Mali's progress toward PRSF objectives, including weaknesses.** Implementation of prudent macroeconomic policies has yielded macroeconomic stability and sustained growth despite the significant exogenous shocks Mali faced during the period. Mixed progress on social and structural reforms including on public-private sector approaches in the productive sectors, will retard growth and poverty reduction prospects if not redressed in a timely manner. Absence of a clearly articulated growth strategy integrating macroeconomic and structural policies hinders Mali from reaching its growth potential. The monitoring and evaluation process is lengthy, preventing alignment of the APR process with

the budget preparation cycle and thereby undermining its usefulness. The staffs recommend the authorities focus on the following priority areas:

For strengthening PRS implementation in the near term:

- emphasis on quality and equity in the social sector programs, particularly education and health;
- more vigorous pursuit of public-private partnerships; and,
- implementation of cotton and agriculture sector performance-enhancing measures.

For elaboration of the next PRS taking into account the short preparation timeline:

- clear definition of the critical steps required for analysis, strategy formulation, and consultation leading to drafting of the PRS, particularly to enable formal alignment with the process for preparing the 2007 budget (and subsequent budgets);
- adoption of a limited set of indicators, determining their baseline levels, and establishing realistic target levels reflecting the PRS programs;
- clear articulation of a growth strategy, including an action plan of the key structural reforms needed to attain PRSF growth objectives, underpinned by a consumption based poverty assessment and an analysis of the sources of growth; and,
- assessment of implications of the PRS for the use of fiscal space over the medium term.