

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

MALI

Joint Staff Advisory Note on the Second Poverty Reduction Strategy

Prepared by the Staffs of the International Monetary Fund (IMF)
and the International Development Association (IDA)

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I OVERVIEW

1. **This Joint Staff Advisory Note (JSAN) reviews the second Poverty Reduction Strategy Paper (known as the Growth and Poverty Reduction Strategy Framework, GPRSF) for the period 2007–11 prepared by the Government of Mali.** The GPRSF, which takes into account an assessment of implementation of the first PRSP, was prepared through a participatory process comprising intensive consultations with civil society, NGOs, elected officials and donors. The GPRSF was approved by the Government and submitted to the National Assembly in December 2006, in connection with consideration of the draft 2007 budget. In this regard, the GPRSF is aligned with Mali's key decision making process.

2. **The GPRSF is designed as the first phase of the ten-year action plan to achieve the MDGs and is embedded in the Government's long term vision "Mali 2025".** The GPRSF analyzes constraints to Mali's socio-economic development and builds upon the lessons learned from the first PRSP (PRSP I) for 2002-06¹ in laying out strategic priorities for accelerating growth and reducing poverty from 2007 to 2011. Compared to the PRSP I's focus on direct measures to improve social indicators, the GPRSF places more emphasis on accelerating economic growth for poverty reduction.²

3. **To attain its twin objectives of rapid private sector-led growth and stronger public sector performance, the GPRSF outlines three strategic orientations:** (i) development of infrastructure and economic sectors, to enhance productivity by improving the business environment; (ii) continuation and consolidation of public sector structural reforms, to increase public sector efficiency particularly through pursuing decentralization, strengthening the rule of law and fighting corruption; and (iii) strengthening of social sectors to improve the delivery of basic social services, including improved access for the poor. The GPRSF recognizes that achievement of its

¹ The PRSP I was discussed by the Boards of IDA and the IMF in March 2003.

² The rates of economic growth and poverty reduction fell short of the PRSP I's targets, prompting this shift.

objectives requires a stable macroeconomic framework and sound management of public resources, which depends on good governance and transparency. The GPRSF also recognizes the need for policy measures to enhance the use of social services in tandem with the increased supply of such services. The staffs welcome this focus on private sector-led growth, improved efficiency of the public sector and increased use of social services.

4. **The staffs support the GPRSF's orientation on supporting private sector-led growth and on directing public spending to support productive sectors, but believe that the strategy needs a more ambitious action plan for structural reform to realize its targeted higher growth rate.** In the following sections, the staffs review Mali's poverty trends and macroeconomic framework, discuss the three strategic orientations of the GPRSF, assess the monitoring and evaluation system and donor engagement, and provide conclusions.

II. POVERTY TRENDS, CHARACTERISTICS AND DETERMINANTS

5. **The PRSP I's impact on poverty fell short of the Government's objectives, despite the implementation of most elements of the poverty reduction strategy.** In the GPRSF, the Government indicates that the poverty estimate fell from 68.3 percent in 2001 to 64.4 percent in 2006,³ but that the objective to reduce poverty to 47.5 percent over the 2001-2006 period was not achieved. The poverty diagnostic shows a wide gap in poverty between rural and urban areas, and that while the incidence of poverty in urban areas declined, it remained virtually unchanged in the rural areas. In Mali, poverty remains overwhelmingly a rural phenomenon.

6. **Several MDGs remain out of immediate reach if current trends continue.** Mali will probably meet the drinking water and HIV/AIDS targets if it maintains the current momentum. With increased efforts by the authorities and donors, Mali might also be able to meet the targets on extreme poverty, primary school enrollment, gender equality in primary education, and donor coordination. A key issue, nonetheless, is access to basic services in remote rural areas, where the indicators are remarkably low. At the same time, Mali is unlikely to meet the MDG targets in the areas of health (particularly child and maternal mortality and nutrition) and gender equality and empowerment of women: this bodes ill for longer-term reduction of population growth that comes from investment in female health and education.

7. **The GPRSF notes that the small reduction in poverty during the PRSP I period was due to the poor control of population growth, unequal distribution of growth benefits, inadequate growth rate of the Malian economy, and limited access to basic services.** The staffs recommend that going forward, the government identify and

³ The poverty line used for these estimates are based on the food energy intake methodology adopted by the Government for the PRSP I. Use of a lower poverty line based on the basic needs methodology preferred by Bank staff results in a larger poverty decline, from 55.6 to 47.4 percent.

implement specific actions to address these factors, notably the inadequate growth of the Malian economy.

8. **The GPRSF recognizes the necessity to fine-tune the poverty analysis and monitoring system so as to better anchor the strategy’s objectives, particularly with respect to the level of access to basic social services.** The staffs encourage the authorities to refine the poverty measurement and analysis to better inform the definition of the objectives of the GPRSF, which relies on estimates based on the 2001 household survey. The results of the 2006 household survey (ELIM) will contribute to a better understanding of the poverty trends, its determinants and policy options.

III. MACROECONOMIC FRAMEWORK

9. **As highlighted in the GPRSF, growth fell far short of the authorities’ objective during the PRSP I period (2002-2006).** Growth during this period averaged 4.9 percent annually, compared to the PRSP I’s target of 6.7 percent. During this period, the economy experienced both some serious negative shocks—notably the repercussions of the crisis in Côte d’Ivoire, a fall in the terms of trade in 2004-2005 (especially rising oil prices and falling cotton prices), and drought and locust infestations in 2004—and some positive exogenous developments, including strong gold export revenues since late 2005, good rainfall in 2005 and 2006, and multilateral debt relief in 2006. Future analysis underpinning the poverty reduction strategy will need to better recognize the link between the slow pace of productivity-enhancing structural reform and the moderate growth performance.

10. **Macroeconomic stability and fiscal sustainability strengthened under PRSP I, thanks to prudent fiscal policies and positive external developments.** Despite a temporary drought-related price spike in 2005, inflation remained low over the last PRSP period (2002-2006) at an annual average of 1.7 percent, while the current account deficit fell to 4.7 percent of GDP in 2006 from an average of 6.1 percent for 2002-2006. External and public sector debt sustainability was greatly strengthened both by prudent fiscal policy—characterized by a positive basic fiscal balance⁴ on average—and by HIPC and MDRI debt relief, which together led to a reduction in external debt from 49 percent of GDP in 2002 to 20 percent in 2006. The composition of spending improved under the PRSP I, with the share of investment in total spending growing from 38 percent in 2002 to 43 percent in 2006 and poverty reducing spending⁵ reaching 60 percent in 2006. Despite unexpected spending needs, the objectives of the 2002-2006 medium-term expenditure framework were met in terms of allocation of resources to priority sectors.

⁴ WAEMU has set a convergence criterion of a zero or positive basic fiscal balance as a measure of fiscal sustainability. The Malian authorities apply the definition of the basic fiscal balance as revenue less grants minus total spending and net lending less both foreign financed capital spending and HIPC-financed spending.

⁵ Based on an analysis of the PRSP I and drawing on the existing functional classification of the budget, the Malian authorities designated specific functional budget lines as “poverty reducing spending”. This methodology enables regular tracking of spending directly aimed at reducing poverty.

11. **Although the GPRSF appropriately stresses faster growth as key to more rapid poverty reduction, its annual real GDP growth target of 7 percent can only be achieved if the authorities implement a more ambitious structural reform agenda** (see below). In this regard, achieving 7 percent growth for 2007-11 would require substantial increases not only in investment but also in productivity. Specifically, a number of reforms need to be implemented to accelerate linkages to international markets, as well as to improve the delivery and reduce costs of business services and factors of production. Based on current trends and reform plans, the staffs project annual real GDP growth of 5.1 percent over this period. The staffs recommend that the Malian authorities prepare an action plan to accompany the GPRSF, detailing prioritized and time bound reform actions to accelerate economic growth.

12. **While emphasizing faster growth, the GPRSF recognizes the central importance of continued macroeconomic stability and fiscal sustainability to achieve that goal.** Current spending is projected to remain stable as a proportion of GDP. Tax collections are projected to leap from 15 percent of GDP in 2007 to 17 percent in 2008 (the WAEMU target). The staffs support this ambitious objective, but note that revenue trends and additional measures presented to date do not yet appear adequate to achieve the objective. To ensure that the GPRSF's framework is operationally relevant, the staffs recommend that the authorities detail the specific revenue enhancing measures that would be necessary to achieve the targeted annual increase in total revenue. The GPRSF notes a projected financing gap, should revenue or external assistance fall short of projections. The strategy should commit to a readiness to take measures (to limit expenditures) to close any gap. Going forward, the staffs recommend that the Government incorporate an explicit medium-term debt strategy into the GPRSF to underpin fiscal sustainability. A prudent strategy is critical to sustainability, and in particular the average level of concessionality for financing is an important variable according to the staffs' debt sustainability analysis.

13. **The GPRSF's Medium-term Budgetary Framework (MTBF; in Annex II) provides reasonable and useful direction for future budgets, although it should be further strengthened with more details on how to increase the effectiveness of spending and levels of poverty reducing spending.** The MTBF appropriately stresses the need to improve the effectiveness of spending; however, more specificity to achieve this goal is needed, including an explicit strategy to enhance public sector labor productivity. In addition, further scope exists for increasing the share of poverty reducing spending, although data on its evolution is not presented in the GPRSF. The strategy identifies certain social sectors (health, education, social and rural development) as priorities for spending. The staffs recommend that the Government lay out plans to further increase the expenditure share of the social sectors, or protect it in the event spending increases have to be curtailed. The sectoral distribution of spending is fairly stable over the GPRSF period: the projected share of social sector spending is constant, while that of productive economic sectors rises by only 1 percent, at the expense of "other" spending. More structural fiscal reforms such as those for the civil service pension fund would support further shifts. The staffs recommend that the authorities take into account the recommendations of an ongoing Public Expenditure Management and Financial Accountability Review conducted by the World Bank to increase the impact of

public spending on growth and poverty reduction. Moreover, the staffs recommend a systematic annual updating of the MTBF to ensure ongoing consistency between the country's macroeconomic framework and the GPRSF priorities.

IV. STRUCTURAL REFORM AGENDA

14. **The GPRSF's emphasis on faster growth needs to be better supported by a productivity-enhancing structural reform agenda, as noted above.** Mali's strategy needs to provide more detail on how to foster private sector productivity growth, greater public sector efficiency and better delivery of public goods. The Bank's Country Economic Memorandum (CEM) and Diagnostic Trade Integration Study (DTIS) provide detailed analysis on Mali's growth performance and prospects, and identify measures in key policy areas required to accelerate growth. Based on Mali's product success stories, the CEM and DTIS recommended growth measures include adopting an integrated supply-chain approach for increasing agriculture sector output and productivity, adopting public-private partnership approaches to foster development of competitive agro-industrial product lines, fostering financial sector development (particularly access to long-term resources), strengthening management and efficiency of existing infrastructure so as to reduce transactions and factor costs faced by businesses (with particular attention to transport and transit facilitation, energy and water). The staffs encourage the authorities to use the forthcoming Annual Progress Report (APR) to develop an ambitious and prioritized strategy and action plan to accelerate growth consistent with the GPRSF's growth target, drawing *inter alia* on the CEM and the DTIS.

15. **The staffs welcome the emphasis in the GPRSF on the development of infrastructure and the productive sectors, particularly for investment plans.** The GPRSF identifies as the main sources to accelerate growth in Mali the rural production sub-sectors, mining, trade, tourism, handicraft and culture. In particular, increases in agricultural productivity are expected to play a critical role in the achievement of poverty reduction targets. The staffs encourage the authorities to integrate in the growth strategy and action plan, reforms to develop infrastructure and strengthen the productive sectors, including details on the ongoing cotton sector reforms, planned irrigation projects, and supply-chain approaches for the development of key agriculture sector product lines.

16. **Private sector growth needs to be enhanced for Mali to achieve higher growth rates over the next years.** In the staffs' view, the priorities for private sector growth include government efforts to: increase the private sector's role in public enterprises; promote financial sector development; improve access and reduce the cost of electricity by strengthening the management of the electricity company (*Energie du Mali*, EDM) and expanding electricity supply (with particular attention to accelerating the interconnection with the West Africa regional power network); implement measures (including updated tax regime) to foster formalization and competitiveness of the private sector activities (including particular attention to transport operations); accelerate transit facilitation reforms in line with the regional integration framework; and improve the investment climate (with particular attention to simplifying business regulations and strengthening property rights). The staffs recommend that the authorities also strengthen

the implementation capacity for the Presidential Investors' Council through support to the new investment promotion agency and its one-stop-shop unit.

17. **On developing the financial sector, the staffs recommend that implementation of the GPRSF be aligned with the more detailed actions in the updated Financial Sector Development Strategy (FSDS) that the authorities are developing.** In the context of Bank's Poverty Reduction Support Credit and the Fund's PRGF, the authorities have made progress in bank restructuring and public sector pension reform (CRM). They have strengthened the legal powers for bad loan recovery by the state-owned housing bank (BHM) and expect to submit in October relevant CRM draft legislation to parliament following ongoing discussions with the unions. Main envisaged FSDS actions include consolidation of bank restructuring and privatization, strengthening of microfinance supervision, reform of the social security system, and other measures to improve access to financial services. The staffs encourage the Government to adopt the FSDS as soon as possible and integrate it into the GPRSF action plan.

18. **On reforming the public sector, the GPRSF places the concerns of users at the core of institutional reforms to be implemented in the Institutional Development Program (IDP).** While some results were achieved in terms of institutional change and civil service reform, the authorities note that there were major constraints in ensuring consistency between the choices for reforms and their implications for the strategies and programs of the productive and social sectors. The staffs welcome the Government's decision to focus its public sector reforms on: (i) decentralization and de-concentration of administrative services to bring the administration closer to the people; (ii) judiciary reform to reinforce the rule of law; (iii) anti-corruption measures; and (iv) improvement and modernization of public finance management based on the comprehensive action plan adopted in 2005.

19. **With regards to the education sector, the staffs are in broad agreement with the thrust of the second phase of the ten-year education development program and the strategy on basic education outlined in the GPRSF.** The staffs agree with the GPRSF's view that efforts are needed under the second phase of the ten year education program (PISE II) to reduce regional and gender inequality and strengthen education quality. This would complement the significant progress made under PISE I in increasing access to education.⁶ The staffs also agree with the strategy's measures to increase education opportunities, meet the needs of the labor market, and manage priority actions for each of the PISE II components. At the same time, the staffs encourage the authorities to further decentralize education management (notably the hiring of teachers) and school administration in line with Mali's decentralization process. In addition, the staffs advise the authorities to strengthen aid coordination in the sector.

20. **With regards to the health sector, the staffs broadly support the strategy described in GPRSF, which identifies key constraints to improved health outcomes**

⁶ From 2002 and 2006, the gross primary enrollment ratio increased from 64.4 percent to 74 percent and the student to teacher ratio also improved from 57 in 2002 to 54 in 2005.

and outlines priority actions and progress indicators. The GPRSF's health sector challenges are those defined in the Ten-year Health and Social Development Plan and the ongoing second Five-year Health and Social Development Program (PRODESS II).⁷ These include: (i) improvement of geographic access to essential health services and availability of qualified human resources; (ii) continued availability of quality drugs, vaccines and consumables at low costs throughout the country; (iii) reduction of health expenses for the poor, particularly for vaccination, prenatal consultation, family planning and the price charged for Integrated Management of Children's Diseases (PCIME) services; (iv) reform of hospital and other research institutions; and (v) institutional capacity building of the Ministry of Health and all health structures. The staffs encourage the authorities to address these challenges and, in particular, to accelerate the decentralization process in the sector (through the transfer of resources to local authorities) and expand the role of local governments in the health sector decision making. The staffs also recommend that more efforts be undertaken in personnel reform, notably in assuring a significant presence of health specialists in rural areas to improve service quality.

21. **The GPRSF pays adequate attention to HIV/AIDS control.** The National Strategic Framework (CSN) for HIV/AIDS control adopted by the Government in July 2006 provides strategic guidelines for HIV/AIDS control in synergy with the GPRSF in aspects of sector reforms, as well as development and capacity building mechanisms for local authorities.

22. **Given the weak impact of policies so far on improvements in social sector indicators, the staffs encourage the Government to integrate the recommendations of the analysis of the Action Plan to achieve the MDGs (currently being finalized), in addition to the results of the 2006 survey analysis, into the implementation of the GPRSF.** These two analyses, together with lessons from expenditure tracking surveys in the social sectors, will enable Mali to improve social service delivery. The Government should identify sector-specific policy measures to improve expenditure efficiency, to complement the general measures already in the Government's action plan for public finance management, and ensure better impact on sector outcomes of increased donor and country resources to the sector.

V. MONITORING AND EVALUATION, AND DONOR ENGAGEMENT

23. **The GPRSF acknowledges weaknesses in the monitoring and evaluation (M&E) framework that were highlighted by the PRSP I experience, and stresses the importance of harmonizing existing monitoring systems** (notably the Three-year

⁷ The GPRSF acknowledges that health sector progress has been mixed. The share of the population within 5 kilometers of a health center increased during the period (from 44 percent in 2002 to 50 percent in 2005) reflecting the recent efforts to build health centers in the underserved regions. During the same period, indicators for women and children have also improved: DTCP3 vaccination coverage of children under 1 year old increased from 74 percent to 87 percent, and the share of assisted births rose from 40 percent to 52 percent. However, and as indicated above, health indicators remain remarkably low and Mali is not likely to meet the MDG targets on health.

Investment Plan and Special Investment Budget, as well as program budgets). M&E weaknesses included low capacity of the PRSP Unit and an inadequate information system to measure performance indicators. In particular, the reliability and consistency of the information and statistics obtained from various sources remain a serious problem. To address these weaknesses, the GPRSF selects a limited number of indicators to facilitate global monitoring of progress in implementing the strategy. At the sector level, a more detailed set of indicators is identified to be monitored. The staffs encourage the Government to implement the actions identified in the GPRSF to strengthen the National Statistics System, including those detailed in the Master Plan (SDS) adopted by the Government in January 2006.

24. **The GPRSF process has strengthened the Government's interaction with donors and donor engagement in Mali.** The donors were involved in the GPRSF in two ways: (i) technical feedback through the ad hoc working groups; and (ii) feedback on the poverty strategy and proposed policies, through meetings of the Joint Mali-Donor Commission. The Government made substantial progress in donor coordination during preparation of the GPRSF, prompting the donors to initiate a process to prepare a Joint Assistance Strategy to Mali in the next two years.⁸ A memorandum of understanding for joint budget support to the GPRSF, recently signed by seven donors, includes mechanisms to improve predictability of donor financing. The Government is preparing a GPRSF performance evaluation framework together with the donors, to underpin donor financing to implement the strategy. The staffs encourage the Government to pursue donor coordination and harmonization efforts, and recommend that these efforts be accompanied by strengthening of results-based management by the Government to enable improved performance monitoring.

VI. CONCLUSIONS AND ISSUES FOR DISCUSSION BY THE EXECUTIVE DIRECTORS

25. **The GPRSF provides a reasonable framework for implementing the Government's growth and poverty reduction agenda over the next five years.** The GPRSF improves on the previous strategy reviewed by Executive Directors in March 2003 in several dimensions, notably the increased emphasis on growth and the productive sectors, as well as drawing on the lessons from the weak use of social services despite significant improvements in increasing the supply of such services during the PRSP I period.

26. **Looking ahead, the staffs see several areas where the GPRSF could be strengthened.** First, since the achievement of the GPRSF's ambitious growth target will depend on the Government's implementation of a core set of policies and reforms to increase productivity and investment, particularly of the private sector, the staffs recommend that the authorities develop an action plan detailing prioritized and time bound reform actions in this regard, drawing *inter alia* on the CEM and the DTIS.

⁸ A draft preparation plan for the Joint Assistance Strategy will be available for discussion at the donors' Round Table meeting for the GPRSF that is planned for December 2007.

Second, the staffs recommend that the next annual GPRSF implementation progress report deepen the poverty analysis using the expenditure data from the 2006 household survey. Third, the staffs encourage the authorities to redouble efforts to strengthen public sector operations, by boosting public spending efficiency, improving spending composition, and increasing the effectiveness of service delivery, in particular by accelerating the decentralization process in the health and education sectors. Fourth, the staffs stress the importance of timely implementation of the actions envisioned in the Financial Sector Development Strategy, which the staffs commend the authorities for having recently prepared. Fifth, the staffs encourage the authorities to strengthen and harmonize existing monitoring systems, in addition to implementing the actions identified in the GPRSF to strengthen the monitoring and evaluation framework.

27. **The GPRSF faces significant implementation risks.** In addition to the risks identified in the strategy itself,⁹ the most important risks relate to issues noted above, namely the need to further detail the structural reform agenda for accelerating growth and to strengthen the monitoring and evaluation framework. The staffs note that accelerating economic growth would strengthen the country's resilience to exogenous shocks.

28. **In considering the authorities' GPRSF and associated JSAN, Executive Directors' views are sought** on whether they agree with the main areas identified by staffs as priorities for strengthening the strategy and its implementation and the areas identified as key implementation risks.

⁹ GPRSF-identified risks are: natural risks which influence agricultural output; volatility of commodity prices mainly cotton, oil and gold; uncertain external assistance; and social and political tensions, both internal and in the region.