

**Mali: Joint Staff Assessment of the Poverty Reduction Strategy Paper
Annual Progress Report**

The attached Joint Staff Assessment (JSA) of the Poverty Reduction Strategy Paper Annual Progress Report for **Mali**, prepared by the staffs of both the World Bank and IMF, was submitted with the member country's Poverty Reduction Strategy Paper (PRSP) Annual Progress Report to the Executive Boards of the two institutions. A JSA evaluates the strengths and weaknesses of a country's poverty reduction objectives and strategies, and considers whether the PRSP provides a sound basis for concessional assistance from the Bank and Fund, as well as for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative. The Boards then decide whether the poverty reduction strategy merits such support.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL DEVELOPMENT ASSOCIATION AND
THE INTERNATIONAL MONETARY FUND

REPUBLIC OF MALI

**Joint Staff Assessment of the Poverty Reduction Strategy Paper
Annual Progress Report**

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

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I. OVERVIEW

1. Mali's first annual Poverty Reduction Strategy Paper (PRSP) Progress Report presents a frank assessment of implementation of the PRSP. The Progress Report (hereafter the Report): (i) highlights Mali's macroeconomic and policy outcomes, strategies and sector-specific poverty reduction activities during 2002-03; (ii) reviews the overall context in which the strategy was being implemented; and (iii) provides recommendations based on an assessment of strengths and weaknesses noted during implementation of the strategy.
2. The Report was prepared through the same broad participatory approach adopted for preparing the PRSP itself. In particular, it draws on the work of 13 thematic working groups, each with broad-based representation, that address the implementation, monitoring and evaluation of the PRSP. The Report notes some difficulties, however, with the organization, operation, and motivation of these groups. It recommends, appropriately, that they be given clearer direction at national and regional levels by the PRSP Technical Secretariat and Coordination Department. Preparation of the Report also involved consultation with Mali's development partners on the first draft and dissemination of a revised report during the donors round table meeting in March 2004. Donors now consider the PRSP as providing the main basis for their support for Mali. Coordination among donors appears to be particularly effective in sectoral areas, including health and education. This coordination takes place on three levels—through a Mali-Partners Joint Committee (the decision-making body), a Technical Committee, and a Joint Secretariat.
3. The staffs consider that the first year implementation of the PRSP was broadly successful, and that overall achievements are encouraging. In the wake of the Côte d'Ivoire crisis, the authorities took measures to maintain economic stability, improve macroeconomic management and strengthen sector policies and poverty reducing programs. They also accorded a high priority to social sector programs (notably health and education), thereby making progress in extending basic social services to the population. The Report indicates that developments in the first year warrant no fundamental changes in the poverty reduction

strategy. Nonetheless, the Report acknowledges the need for some adjustments to increase the prospects of attaining the objectives set for 2006. The objectives requiring particular attention relate to growth, devolution of sector program activities, diversification of exports, and the monitoring and evaluation system.

4. The staffs agree with the authorities' points regarding major shortcomings and challenges of the PRSP implementation. These include the need to: (i) strengthen links between policies and budgetary resource allocations on the one hand, and the priorities of the PRSP on the other; (ii) target service delivery to the poorer segments of the population, who are to be identified using consumption data from the household survey; (iii) enhance absorptive capacity of the public and private sectors so as to improve implementation of poverty-reducing programs, particularly in rural areas; (iv) strengthen monitoring and evaluation frameworks and the statistical information system; and (v) further develop the strategy and action plan for high and sustainable pro-poor growth.

5. In broad terms, the Report takes into account recommendations of the February 2003 Joint Staff Assessment (JSA) of the PRSP. Yet some recommendations merit greater attention, in particular: (i) deepening the poverty analysis using the 2001 household survey data, and incorporating the findings of a poverty and social impact analysis (PSIA) of the cotton sector reforms; (ii) greater prioritizing among policies and programs, and formulating budget scenarios under alternative growth patterns; and (iii) further developing the governance and anti-corruption action plans.

6. The Report presents recommendations based on lessons learned during the first year. The recommendations pertain to implementation of sector policies and strategies (interventions targeting the poor, the decentralization process, structural reforms). They also pertain to the institutional framework, to methods, tools, and indicators for monitoring implementation of the PRSP, and to mobilization of additional financial resources. In addition to identifying weaknesses and constraints, the next progress report should specify the corrective measures to address the weaknesses, and provide information on implementation status of the measures.

II. MACROECONOMIC POLICY AND STRUCTURAL REFORMS

7. The staffs broadly agree with the authorities' assessment of Mali's macroeconomic performance under the PRSP since 2002, and prospects for the period 2004-06. With growth over 2002-03 averaging 4.7 percent under the old national accounts methodology, and 5.1 percent under the new one, Mali's recent performance has been short of the PRSP goal under either approach (6.7 percent). In part, this lower-than-targeted growth reflects the setting of very ambitious objectives, which were difficult to achieve given the constraints that Mali is facing (as indicated below). The crisis in Côte d'Ivoire also had a negative impact on growth over 2002-03, although the re-opening of the road link to Abidjan and improved transportation connections to other regional ports should support export growth in the period ahead. Taking into account the agreed projections for the period 2004-06, average growth for the entire period 2002-06 would be about 5.5 percent, about one percentage point below the initial PRSP objective.

8. The staffs agree with the authorities' assessment that consumer price inflation can be expected to remain at 2.5 percent or less in 2004-06, well within the PRSP objective (under 3 percent). The external current account deficit (excluding official transfers) is expected to be comfortably below the PRSP limit of 8.9 percent. Mali's overall fiscal performance has also been better than the PRSP objectives. Staffs are encouraged to note Mali's revenue performance, and welcome the authorities' prompt actions to absorb the impact of the crisis in Côte d'Ivoire, which led to a small reduction in revenues in 2002 and 2003. However, staffs recommend that the authorities pursue further improvements in tax administration, especially through staff training programs, combating tax evasion and fraud, and improving large taxpayers' compliance, and report on these in the next progress report. A recent HIPC-Assessment and Action Plan noted significant improvements in public expenditure management since 2001, particularly in budget formulation and reporting. It considered that further work was needed in applying modern tools for monitoring the effectiveness of internal controls, in improving capacities for internal and external control, and in collecting complete data on foreign-financed expenditures.

9. Although monetary and financial policies are not addressed directly in the Report, they have also supported the overall strength and stability of the macroeconomic framework. Monetary policy, conducted at a regional level by the West African Central Bank, has focused successfully on the maintenance of low inflation and the stability of the CFA franc to the euro. The financial condition of Mali's banking system improved slightly in 2003, and microfinance institutions have continued to experience robust growth. The Report should have noted further reforms that are planned at the national level to strengthen the performance and competitiveness of the financial system. These include completing the privatization of commercial banks; reinforcing bank surveillance; improving the legal and regulatory framework; promoting the development of the microfinance sector while enhancing its supervision; and strengthening the financial condition of the civil service pension fund and the social security agency.

10. Behind this broad picture, Mali's recent and projected economic performance reflects the relatively narrow and vulnerable base of economic activity, with the agriculture and gold sectors in particular continuing to have a significant impact on the rate and volatility of growth. Moreover, there appears to be only limited scope for either sector to make a strong, sustained contribution to raising the trend growth rate. Nevertheless, although risks remain, the staffs agree with the authorities that an easing of regional uncertainties, coupled with an ongoing recovery in the global economy more generally, should contribute to the stronger growth projected for Mali in the period ahead.

11. In view of the risks faced by the Malian economy, the next progress report should include an update of the sensitivity analysis in the PRSP, and strategies to address the range of adverse shocks to which the economy is exposed. A key requirement is to formulate a growth strategy and action plan, and vigorously implement the government's structural reform agenda. Reform of the cotton sector, which has experienced a number of delays and setbacks, is of critical importance in this regard. A fuller discussion of implementation of the planned reforms and anticipated future actions would be desirable, given the impact of this sector on the economy. The next report should also discuss measures to expand and diversify trade, as addressed in the recent Diagnostic Trade Integration Study.

12. Complementing the structural agenda would be continued pursuit of the sound macroeconomic policies noted above that have underpinned the general improvement in Mali's economic performance over the past decade.¹ Furthermore, while external financing provided significant support for implementation of the PRSP (with grants, for example, averaging over 4 percent of GDP in 2002-03), total external financial assistance (in CFA franc terms) fell short of the PRSP's overly optimistic projections. The Report indicates that this shortfall explains the weak implementation rate of investment programs in priority areas, and calls for reform of the process through which external support is handled in Mali. The next report should include an evaluation of the external financing outlook and its implications for long-term debt sustainability, areas that are not covered in the current Report. In a seminar on debt sustainability held in Bamako in August 2003, the authorities agreed on the need to increase the proportion of grants in external financing in order to keep external debt at a manageable level. While supporting Mali's initiatives to improve the efficiency and effectiveness of external assistance, staffs also encourage the authorities to identify and tackle problems encountered within line ministries in executing their budgets, and to strengthen governance in public expenditure management to international standards.

III. PROGRESS ACHIEVED IN PRIORITY SECTORS

Institutional development and improvement in governance and participation

13. The Report highlights significant progress in implementing measures to improve overall public sector performance. An Institutional Development Program and Action Plan has been prepared, aimed at capacity building in the public sector to effectively support development and poverty reduction efforts. Progress has also been made in implementing Mali's devolution/decentralization policy, notably the adoption of decrees to transfer competencies in health, education and water supply to local governments, the strengthening of capacities of key personnel involved in that process, and the operationalisation of technical and financial arrangements supporting the local government structures. In this regard, sectoral ministries have increased their presence at the regional level to assist local authorities in taking over increased responsibilities. The authorities should continue efforts to make effective transfer of competencies and resources from the central to the local governments, including revision of the ongoing health and education sector projects as needed to ensure their coherence with Mali's devolution law.

14. The staffs welcome the analysis of the rehabilitation of the judiciary system, and measures against corruption and fraud. Given the current context, the staffs recommend that such efforts be expanded to (i) highlight how recruitment and training processes affect the quality of Mali's judiciary system, (ii) review the impact of recent reforms in the financial audit departments, and (iii) assess whether controls are now more systematic, effective, and function satisfactorily. The Report could have indicated that the Accounts Section of the Supreme Court

¹ For more on Mali's economic performance during the period 1992-2002, see the IMF's Ex Post Assessment of Performance under the ESAF/PRGF-Supported Programs (Appendix I in the Staff Report for the 2003 Article IV Consultation with Mali, IMF Country Report No. 04/11, November 24, 2003).

has transmitted to the legislature the draft laws of execution based on the audited accounts for the years 1997-2001. Additional information would have been useful in the following areas: measures that the government intends to take to address corruption; progress in implementing the recommendations of the corruption report prepared by the World Bank at the request of the former President; and the place of the newly created General Auditor's Office in the current institutional framework. The next progress report should discuss these issues.

Sustainable human development and Improved access to basic social services

15. The Report indicates that important progress has been made toward the year 2002 objectives for improving access to basic social services. It also acknowledges, frankly, that results have fallen short of objectives in several areas, and notes some persistent, underlying weaknesses in social sectors. As regards health, the Report notes significant improvements in health system coverage and in the medical referral process. A medium-term expenditure framework (MTEF) was adopted to plan, manage and monitor health sector programs, and ensure greater focus on the poorest areas and population groups in the country. As regards education, targets for gross enrollment rates at primary school level and for gross enrollment of girls were achieved and even exceeded (64.3 percent and 53.7 percent, respectively), and budget allocations to education were increased. The availability of resources from the Heavily Indebted Poor Country (HIPC) Initiative contributed significantly to classroom construction (2467 built in 2001-02) and to recruitment of contractual teachers (1,854 recruited and trained in 2002, and 2,450 students-teachers recruited for the 2002-03 school year).

16. Staffs note that improvements in the composition of spending have been limited, and that the actual allocation of expenditures did not reflect fully the priorities set forth in the PRSP. Poverty reducing expenditures decreased by about 6.5 percent in 2003, compared with a projected increase of 21.7 percent, and the ratio of health sector expenditures both to current expenditures and to total outlays fell short of the PRSP objectives in 2002-03. Staffs encourage the authorities to rapidly improve budget execution in social ministries. In the JSA of the PRSP, staffs encouraged the authorities to further clarify in the progress report, the links between the allocation of public expenditures and the PRSP objectives. The MTEFs developed for health and education are a significant step in aligning the budget with the PRSP, and are proving helpful in strengthening coordination in the respective sector ministries. The authorities should develop additional sector MTEFs, and better link the sector MTEFs to the overall national MTEF.

17. Challenges remain in the social sectors despite the progress made. In the **health sector**, for example, little correlation is apparent between the increasing number of community health centers (CSCOM) and their usage by the population. This is paradoxical in view of the adequate participation of the population in financing the health system through user fees for rehabilitation and functioning of health facilities. Moreover, statistics reveal continued unmet health needs—child mortality, infant mortality rate, and maternal mortality rates are high; vaccination rates and maternal deliveries assisted by health sector attendants are virtually stagnant; and large disparities exist between regions with respect to prenatal consultations and deliveries assisted by health sector personnel. Challenges extend also to allocation of HIPC resources. As noted above, the share of health in the national recurrent budget has increased

more slowly than expected (10.5 percent in 2002 versus 10.7 percent targeted). This is due in part to a weak absorptive capacity, as evident in the low disbursement rates (about 27 percent for IDA-financed components of the sector in the first four- year implementation period).

18. The staffs recommend that further assessment of health sector outcomes be undertaken during the second year of implementation. The assessment should focus on quality of service delivery, availability of essential drugs, accessibility and affordability of health care, and on potential social and cultural barriers. Regional differences in some indicators should also be taken into account, to help government take corrective measures during this second year of implementation. The staffs look forward to measures to improve functioning of the CSCOMs, and to addressing the human resource needs in the sector, paying particular attention to linking the pipeline of health students with the dire need of nurses. The staffs suggest the Ministry of Health fully integrate the medium-term expenditure framework into its operations, so as to strengthen management and monitoring of sector programs. The next report should summarize the sector assessment, and discuss implementation progress on measures identified to address the sector constraints.

19. As regards **education and literacy**, the quality of Mali's education system remains poor, despite the accelerated implementation of the sector investment program (supported by the World Bank and other development partners) and improvements in student-teacher ratios, and wide regional disparities in access to schooling persist. Absence of a regional breakdown of the other sector indicators hinders a fuller appreciation of regional disparities, and hence implementation of specific measures targeted at the poorest areas and population groups. Challenges to meeting the education objectives include insufficient classrooms and teaching personnel in teachers training colleges, which largely explain why the objective of recruiting and training 2,500 teachers a year has not yet been achieved.

20. The staffs recommend that the government pay greater attention in the coming months to measures aimed at improving quality, decentralization of education management, and cross sector thematic issues. Such measures should be implemented quickly so as to ensure an impact by the start of the next school year. The next progress report should discuss the implementation status of these measures.

Development of basic infrastructure and Support to productive sectors

21. As regards **infrastructure** development and support to productive sectors, the Report indicates that measures were taken by the Government to improve the economic environment, including adjustments in institutional arrangements and structural measures, which would benefit roads, airports, and rail infrastructures. Private sector approaches in these and other infrastructure sub-sectors are yielding substantial gains, although in some cases the achievements are not as rapid as desired. In the power sector, coverage of electric power distribution has been steadily increasing in 2001 (9.3 percent) and 2002 (12 percent), including coverage by the private electricity supplier, although significant gains are yet to be seen in rural areas. In the telecommunications sector, however, despite the introduction of competition, telephone density remains below international norms and phone penetration in rural areas remains weak. Steady progress toward privatization of the state company in the next year will

be important for improving telecommunication indicators. The staffs encourage the authorities to continue the pursuit of, and where possible to accelerate, private sector approaches to infrastructure development and maintenance.

22. Given that poverty in Mali remains largely rural, and that a majority of the population derives its income from agriculture, the staffs would have liked to see a more comprehensive coverage of support services to the productive sectors, particularly in rural areas. The objectives and results achieved in key sub sectors, notably cotton (as discussed above), irrigation, and agriculture services, deserved a more in-depth assessment in light of future challenges. As regards irrigation, further discussion of the mechanisms needed to develop 50,000 hectares between 2003 and 2007 would have been useful. The next progress report should more fully discuss measures aimed at rural development, including implementation of the cotton sector reform program.

23. The staffs recommend improving the statistical information base for the rural sector, such as the number of hectares developed in the 50,000 hectare program, and the estimated 2003/04 harvest for rice and cotton. Since dry cereals are consumed by 80 percent of Mali's population, statistics on their production would also be useful to monitor food self-sufficiency. Similar attention should also be paid to statistics on livestock production, forestry, and the production of fruits and vegetables, given their significant impact on the livelihood of the poor.

IV. MONITORING IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY

24. Elaboration of Mali's poverty reduction strategy was on the basis of information relating to access to basic social services, since the monetary component of the household survey (the *Enquête malienne pour l'évaluation de la pauvreté*, EMEP) was not yet finalized. The full survey data, which became available in November 2003, augment the information base for analyzing poverty determinants in Mali. The staffs recommend that high priority be given during the second year implementation to undertaking poverty analysis using the full EMEP data. This would enable refining of the poverty reduction strategy and action plan. Subsequently, the PRSP should be augmented with policies formulated to address two key objectives: (i) targeting increases in access to basic social services to the poorest segments of the population, and (ii) enhancing their income-earning prospects. The next progress report should include the updated poverty strategy.

25. Overall, some progress has been made in monitoring the implementation of the strategy, in particular, the establishment of quantitative indicators for priority sectors (see Annex 6). The Report also highlights the prospects of reaching the MDGs (see Annex 9) given current trends. The institutional framework for preparing the Report has been defined, in line with the same approach adopted for preparation of the PRSP. The staffs welcome the strong participation of line ministries in preparation of the Report.

26. The Report is very frank in its assessment of difficulties faced with the PRSP's institutional framework for monitoring and evaluation (M&E). The staffs recommend the following two actions to improve the M&E system: first, streamline the number of institutions with M&E responsibilities and clarify their roles; and second, assess internal dysfunctions in

each institution and take corrective measures. In particular, the PRSP thematic groups should be revitalized and the functioning of the department in charge of poverty analysis improved. In addition, the authorities should strengthen the national statistical system and performance-based management mechanisms within the government, as both measures are essential to the gradual implementation of more integrated methods, tools and indicators.

27. The staffs note that the authorities should draw on the lessons learned during the first year of implementation to adjust priorities or revise targets for subsequent years. For instance, the poverty reduction target for 2006 remains linked to very ambitious economic growth projections, even though, as discussed above, the growth rate achieved in the first year was much less than targeted. The staffs recommend further work to identify policies and measures that would help Mali achieve the desired level of GDP growth, and to understand more fully the mechanisms linking growth and poverty outcomes. The next progress report should include updated PRSP targets.

V. CONCLUSIONS

28. The staffs agree that, on the whole, the Report provides a balanced and frank assessment of Mali's progress toward PRSP objectives, and of shortcomings and weaknesses that have been revealed or accentuated during the first year of the PRSP's implementation. On the positive side, the Report notes the improvement in Mali's macroeconomic performance in 2003, with inflation falling, fiscal and current account positions strengthening, and growth picking up—although remaining below the objective of 6.7 percent. Progress is also evident relative to the three principal axes of the PRSP. A range of measures have been implemented to strengthen institutions and governance, directed in particular at supporting the devolution and decentralization process, improving public expenditure management, and rehabilitating the judicial system. Access to health, education, and other social services has also improved, although, as the Report acknowledges, significant regional disparities, quality deficiencies, and other concerns remain. With private sector participation, there have been gains in infrastructure development, including extension of electric power distribution and institutional reforms to support rail, road, and airport development.

29. Despite these important areas of progress, however, Mali continues to face major challenges regarding growth and poverty reduction. The Report appropriately identifies a number of policy reforms and other measures that are needed to tackle these challenges, and this JSA offers further recommendations in this regard. Key areas include: (i) carrying out the poverty analysis with the new household data in order to fine tune the monitoring and evaluation system and help prioritize public policy actions; (ii) deepening the analysis of sources of growth and their distributional implications, which would also help with prioritization and with mainstreaming the poverty reduction strategy with sectoral programs; (iii) improving the integration of the PRSP with sectoral ministry budgets and policies, and with the overall budgetary process; (iv) strengthening the implementation of the decentralization program to ensure that it allows for concrete gains in service delivery and improved governance.

30. The staffs of the Bank and Fund consider that the country's efforts toward implementation of the strategy provide sufficient evidence for its continuing commitment to poverty reduction, and therefore the strategy continues to provide a sound basis for Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the IMF and World Bank reach the same conclusion.