Board Meeting of May 26, 1998
Statement by Juan L. Cariaga

Mali - Country Assistance Strategy

The Mali Country Assistance Strategy (CAS) presents a number of interesting questions and useful lessons describing how well the Bank, IDA and IFC are addressing developmental concerns in one of the poorest countries in the world. Because of its size and the nature of the problems encountered, lessons learned in Mali might well be applicable elsewhere and we express our appreciation to Management and staff for a well-organized and clear CAS highlighting these issues.

In particular, we would like to note three elements in this CAS for strong approval. The first is the joint nature of this CAS, bringing IDA and IFC concerns together. Second, there is the clear ownership apparent through adoption of the "Propositions pour une Strategie de croissance acceleree et de developpement a l'horizon 2010" as the basis for this CAS. Third, the participatory preparation process described in Box 8 seems thorough and is welcome. Along the same lines, the IFC dialogue with the private sector provided some very interesting insights into its views and the identification of problems.

Mali is one of the region’s least developed countries, but is also a nascent democracy and this has provided it some unexpected strengths. Challenges include widespread poverty, weak institutions and poor social indicators. The country’s narrow economic base, and its exports, primarily gold, cotton and livestock, are subject to significant price, volume and other influences, increasing the vulnerability of the economy. Mali’s precarious situation is exacerbated by its landlocked status and the effects of droughts.

Despite these challenges, the country has been a generally good performer and has established a record of satisfactory and largely uninterrupted adjustment over the last decade. It qualified for the HIPC Initiative and has shown substantial progress in the macroeconomic field. Mali’s progress in addressing macroeconomic stabilization is commendable. Inflation stopped and growth has resumed in recent years based on a strong effort to reduce the fiscal deficit through increased tax collections as well as reducing public expenditures. IMF and the Bank have played a key role in this effort though joint support of a PPF and an ESAF program.

This CAS seeks further progress with the major goals of the previous CAS (macroeconomic stabilization, an enabling environment for private sector investment, reduction in

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in the size of the public sector, and improvement in social indicators). However, the lessons learned from that CAS, both positive and negative, are applied to produce more realistic expectations. This, combined with the apparent ownership through CAS support for the government's development agenda, has produced a document that proposes to focus on (a) sustainable human development and (b) stable economic growth.

While we have several more specific comments, we would first note our endorsement of the strategy proposed in this CAS and its overall priorities. We find this strategy to be appropriate for Mali and particularly welcome IDA support for the rural sector. In addition, we are pleased to see IFC support for the development of agro-business, as well as other indications of its more active presence. The projects that are proposed will contribute to Mali's food security and poverty alleviation.

Regarding the proposed priorities and mix of instruments, we note that there are fundamental structural reforms still to be started or which are not yet well advanced. While there have been a number of structural reforms accomplished (Box 4) since 1994, these had also slowed in recent years. Among these are trade and financial liberalization and continued privatization, including of the public utilities. We therefore suggest that pursuit of these reforms may need additional emphasis as the CAS is implemented.

There is also ample room for additional sector adjustment operations, particularly in agricultural, where the majority of the poor live. Fundamental structural reforms are not overly institution or capabilities intensive. Therefore, their implementation would not place excessive demands on the country's limited implementation capacity.

As is also evident, for these reforms to be undertaken and to avoid reversals, there is a need to convince the government and civil society at large that their full implementation is the only way of generating the medium term high rates of GDP growth needed to succeed.

The new programs proposed in this CAS are focussed, not complicated, and use a reduced number of instruments, drawing on lessons learned from the previous CAS. We agree with this general approach, but also would suggest it may be necessary to address the complexity and implementation constraints in the existing pipeline of projects. In particular, given the fact that project rating has been too optimistic in the past, we wonder if there might be room for further restructuring or simplification of existing projects which could ease management of the overall Bank portfolio. Does staff have any observations along these lines?

We find the base case scenario appears to be closer to a typical low case scenario for a country that has so many additional structural reforms pending implementation, but at the same time it is optimistic in its GDP growth projections. We would express a concern that project lending in a still distorted economy with severe structural weaknesses will bring moderate and sustained GDP growth like the 5 percent proposed for the base case scenario. In addition, the expected GDP growth rate for the high case scenario, 6 percent, clearly falls within the margin of error of the growth projections for the base case.

We would also suggest that the question of decentralization be approached with some caution, given the already weak institutions and capabilities at this point. Economies of scale
and scope should be taken into account in the planned decentralization. 700 political districts in a small country may be excessive to reach expected economies of scale.

The political economy analysis of the country is good at identifying some winners and losers in the reform process, but does not identify ways to effectively mitigate the risks of stopping or reversing the reforms. Even though the program is owned by Mali and has benefited from wide consultation if it does not address this issue there could be delays in implementation.

In closing, let me again note that we believe Management and staff have done a fine job with this CAS. We hope our comments provide value-added to this overall well designed strategy. We wish success for the authorities and people of Mali in their goals of reducing poverty and achieving a per-capita GDP of $500 by the year 2010.